



# First Quarter Fiscal 2025 Earnings Call

November 7, 2024

## Call Participants

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### **Affirm**

Max Levchin, Founder and Chief Executive Officer  
Michael Linford, Chief Operating Officer and Chief Financial Officer  
Rob O'Hare, SVP, Finance  
Zane Keller, Head of Investor Relations

### **Analysts**

Andrew Bauch, Wells Fargo  
Nathaniel Richam-Odoi, Bank of America  
John Hecht, Jefferies  
James Faucette, Morgan Stanley  
Vincent Caintic, BTIG  
Dan Dolev, Mizuho  
Rob Wildhack, Autonomous Research  
Reginald Smith, JP Morgan  
Jill Shea, UBS

## Presentation

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### **Operator**

Good day, ladies and gentlemen, and thank you for joining us for this Affirm Fiscal Holdings First Quarter 2025.

Getting started, all participants are in a listen-only mode, but later you will have the opportunity to ask questions during the question-and-answer session. You may register to ask a question at any time by pressing the star and one on your telephone keypad.

Please note this session is being recorded and I will be standing by should you need any assistance.

It is now my pleasure to turn the floor over to Mr. Zane Keller. Please go ahead, sir.

### **Zane Keller**

Thank you, Operator.

Before we begin, I would like to remind everyone listening that today's call may contain forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including those set forth in our filings with the SEC, which are available on our Investor Relations website. Actual results may differ materially from any forward-looking statements that we make today. These forward-looking statements speak only as of today and the Company does not assume any obligation or intent to update them except as required by law.

In addition, today's call may include non-GAAP financial measures. These measures should be considered as a supplement to and not a substitute for GAAP financial measures. For historical non-GAAP financial measures, reconciliations to the most directly comparable GAAP measures can be found in our earnings supplement slide deck, which is available on our Investor Relations website.

Hosting today's call with me are Max Levchin, Affirm's Founder and Chief Executive Officer; Michael Linford, Affirm's Chief Operating Officer; and Rob O'Hare, Affirm's Chief Financial Officer.

In line with our practice in prior quarters, we will begin with brief opening remarks from Max before proceeding immediately into Q&A. On that note, I will turn the call over to Max to begin.

**Max Levchin**

Thank you, Zane.

It was another killer quarter, as you all can see. I will stick to the tradition of having fewer comments so long as the results are good. We're firing on all pistons. We're getting ready for a really good holiday season. Everything looks very nice, revving the engines to fly across the Atlantic, et cetera, et cetera.

Back to you, Zane.

**Zane Keller**

Great. Thank you, Max. With that, we will now take your questions.

Operator, please open the line for our first question.

**Operator**

Ladies and gentlemen at this time if you would like to signal for a question, I remind you that it's star and one on your telephone keypad. To remove yourself from the queue if your question has been asked, it is simply star and two. We'll take our first question today from Andrew Bauch at Wells Fargo. Please go ahead.

**Andrew Bauch**

Hi, guys. Nice set of results here and thanks for the question. Could you unpack the uplift to revenue as a percentage of GMV for the full year, and then RLTC coming up nice from 10 to 20 basis points. What are the drivers of that?

**Michael Linford**

Yes. Thanks for the question. The business continues to have really strong unit economics. We're able to earn more through both the interest income from the pricing initiatives. I think that benefit has largely played through. We continue to enjoy benefits in the capital markets, so impacting things like gain on

sale. Of course, we have further upside with merchant fees in the form of improvements like with what you're seeing with Visa Flexible Credentials. Those all flow through to the bottom, so think about the revenue improvements flowing through to the margin as well.

**Andrew Bauch**

Yes, I understand. I would assume that you guys were planning on reinvesting some of the excess RLTC back in for growth. So, maybe if you just kind of expand upon the thought there?

**Michael Linford**

We still want to do that. I think we're still in a position where we've got a healthy amount of margin that we can invest in, and we will do that. We'll do that in the form of foregone revenue, 0% or APR incentive offers. We'll also do that in the form of operating expense investments we want to make down the P&L. But overall, there's still a healthy amount of benefit flowing through.

**Andrew Bauch**

Great. Thank you, Michael.

**Operator**

Next, we'll hear from Jason Kupferberg at Bank of America.

**Nate Richam-Odoi**

Hi. This is actually Nate on for Jason. But nice results here. I think, Max, you previously talked about RLTC margins above 4% means you're not approving enough people, and below 3%, it's not great enough leverage. Just looking at 2Q here, the guide implies a margin of about 3.8% on RLTC, and 2Q is typically a low point in terms of margins. So, just curious, can I get some more color on your current underwriting posture and where you expect RLTC margin specifically to trend?

**Max Levchin**

Great question. Thank you. Our posture is largely unchanged. We obviously monitor the results all the time. On any given week, we are tuning settings this and that way, but there's not been a major movement upwards or downward from the approval standpoint. You're exactly right. We were able to enjoy some very healthy consumer growth in the numbers in Q1, because we found ourselves with capital to put forward towards some incremental approvals. We'll continue tuning that as we go forward.

You're right, Q2 is typically a low point. We feel good about what we're seeing in front of us right now. But again, we always dance from the point-of-view of having really strong credit results and everything else falls out of that. We won't compromise on that. Everything else is driven by goals versus numbers.

**Michael Linford**

Look, we actually are pretty optimistic on the margin in the back half of the year as well. I don't want to skip that point. The results in Q2 are going to be strong, the 3.8% as you suggested. We're going to have good unit economics this quarter, we believe. We're also going to have strong performance in the back half of the year as well.

I just want to double click a little bit on the capital side. I do think there is a really constructive capital markets out there for us right now and that does cause certain quarters, including Q2, to maybe a little bit

outperform what we would consider to be more of a run rate quarter for Q2. Again, for the full year, this is where we want the business to be, in the higher end of the 3% to 4% range.

**Operator**

Thank you, sir. Our next question today will come from the line of John Hecht at Jefferies.

**John Hecht**

Afternoon, guys. Congratulations on another good quarter. One of the trends we're seeing out there now is a pretty big pickup in secondary market activity. That's tied to kind of interest rate movements and credit trends and so forth. How does that impact your thinking about balance sheet management, retention versus sale, and so forth, given those trends?

**Michael Linford**

Yes. The market for forward-flow for whole loan purchasers is really, really strong right now. The credit performance that we've delivered over the past year and a half, combined with the real understanding of the value of the short-duration asset and the disciplined managers that we have at Affirm, have put us in a really strong position, where we think at or near the top of the pack of producers of these assets. Alongside that, the dynamics on the supply side of that capital with trends like the private credit trend have created an environment that's very, very good for us. We will continue to benefit from that.

Whenever we have one funding channel that is in high demand, or we can maybe benefit from in the near-term, we're still very careful to make sure that we create a stable funding base across all of our channels. You've seen our ABS execution also be very consistent and that has served us very well. In fact, our ABS execution helps our forward flow execution. The two work together. I would not read the very constructive forward-flow market as a suggestion that we don't want to continue to grow our ABS business as well, which, of course, for our revolving deals are still consolidated onto the balance sheet.

What I do think is true is that the warehouse funding channel for us is a channel that we can continue to maintain, but not grow as a percentage of total platform portfolio given the robust forward flow and ABS market reception.

**John Hecht**

Perfect. Thanks.

**Operator**

James Faucette with Morgan Stanley. Please go ahead with your question.

**James Faucette**

Great. Thank you very much. I wanted to just quickly touch base on the outlook for 0% promotions as we go into the holiday season. Typically, this would be where we'd see some strength. I'm wondering, kind of tying that back to the RLTC commentary, a lot of times because of the MDR differences that can provide some RLTC benefit as well. Just help us think through that potential as a driver and promotion for the holiday season? Thanks.

**Max Levchin**

Sure. We're certainly no strangers to leveraging zeros, and we are seeing really great excitement from the merchants as we head into the holidays. I don't really want to give any numerical guidelines here, but suffice to say, feel very good about it, seeing a lot of demand. Let's see, what else can I share? Certainly, successfully using it as a way of enticing new consumers to give us a try. That's an important lever that we have been quite successful in.

Obviously, there's plenty of surfaces where merchants are excited to advertise that they have a gimmick-free, late fee-free promotion where you also pay no interest. We expect to draft behind our best merchant partners' advertising campaigns, which are always beneficial to our cause. Lots of goodness to come.

I alluded to that in my letter. We are in a process of harmonizing our financial programs, which is the fancy term we use for various promos, both fixed APRs, reduced APRs, 0% APRs. You will see consistency across multiple channels, card and digital wallets included, which is going to be very exciting because those are higher frequency, at least some of them are. Card, obviously, a huge outlier there. With all those things combined, we just expect more of that volume.

**Michael Linfood**

I'll maybe add, the strong unit economics in the business right now combined with a pretty favorable outlook that we have on the next quarters to come puts us in a position where we get to be pretty aggressive. I do think we were constrained over the past couple of years where we had a little bit of catch up to do. We're very front-footed right now in our ability to meet those merchants where they are to price very competitively and to be very aggressive. That's a really good position to be in. We're obviously very mindful about the economics of these promotions, and so we're careful about them. We're in a very different spot than we were a couple of years ago where we actually feel like we can be pretty aggressive here right now.

**James Faucette**

Great. Thanks

**Operator**

Vincent Caintic at BTIG. Please go ahead with your question.

**Vincent Caintic**

Hi. Good afternoon. Thanks for taking my question. I wanted to go back to the discussion about margins. It was nice to see the guidance for the adjusted operating income margin now above 20%, and then the guidance for the fiscal second quarter of the 21% to 23%. I wonder if you could maybe discuss what are you expecting in terms of longer-term operating income margins where you think you can operate? It seems like the 21% to 23% is sort of in that mid to high 3% RLTC. Where do you think that can get and the run rate going forward? Thank you.

**Michael Linfood**

We're not updating our long-term outlook and certainly not going to touch the 3% to 4% framework that we've had out there forever. Just know that those are still as they were. It is obvious that we're running above the margin framework that we put out just about a year-ago at the Investor Forum and that's not lost on us. We think part of that's because the pace at which we were able to drive operating leverage in the business exceeded our own expectations. Part of that's because we now have our eyes set on achieving the next financial milestone, which is profitability down the P&L. We still feel like we're in a really

good position to do that. Once we do, we'll be in a position to update where we would expect the business to be longer term.

I would also reiterate a statement that we made last summer, and I think we again repeated it on the Q1 call, we expect to continue to grow margins from here. We think there's still more operating leverage in this business and believe that we can continue to grow margins from here.

**Vincent Caintic**

Okay, great. Very helpful. Thank you.

**Operator**

Our next question will come from Dan Dolev at Mizuho. Please go ahead, sir.

**Dan Dolev**

Hi, guys. Thanks for taking my question. Great results as always. Max, we noticed that active consumer growth accelerated again. Can you maybe touch a little bit on the factors behind the acceleration? Thank you.

**Max Levchin**

Hi, Dan. Thank you for the question. Consumers love Affirm, just more coming our way. Probably the most important lever, jokes aside, is we have the margin. Obviously, you saw the outsized print last quarter. This quarter is no slouch either. We feel great about the bottom-line economics and we're able to reinvest them in deeper approvals, more compelling new consumer deals. We're also just getting smarter and smarter about reengaging consumers that had one transaction a year to transact three times a year or you just saw we clipped five transactions a year, which is a new front digit for us on that one. Just many different efforts.

We focused very deliberately on active users this quarter, and sorry I keep repeating this, but every time the Affirm team decides to do something, it is rarely overnight, but it is never not successful. We have a very good track record of delivering on a goal we set in front of us. We're never the 0 to 60 in half a second, but once we get going, there's no stopping us. This quarter's explicit goal was we want more new users, we want more active users, we want a higher frequency, and all of that has happened. We're not stopping. We'll have a lot more of that in store.

**Dan Dolev**

Cool. Amazing. Thanks, Max.

**Operator**

Rob Wildhack at Autonomous Research. Please go ahead with your question.

**Robert Wildhack**

Hi, guys. Maybe just to start, I wanted to get your certainly early thoughts on the U.K. launch. How have the conversations there gone with merchants? I'm curious why you think or what you think is your right to win in that already pretty competitive market?

**Max Levchin**

Yes. It was actually, if I do say so myself, a little unbelievable. We've been pre-selling in the U.K. I'm now allowed to say that word. For a long time, we were on the fence with the right word to use. But we've been in the market initially quietly, and then less quietly talking to merchants. That includes the folks we know from the U.S. and Canada markets, sort of bringing them or bringing us really along for the right in the U.K. Of course, we've built a sales team in the U.K. We have an amazing leader in the U.K. market named Ruth, who has been with us for over a year now, leading the sales effort. She was just really, really instrumental to the initial reception we're getting, which is very strong.

The merchants that talked to us, both of those groups, basically bring out two key reasons why they can't wait for us to get very active in U.K. market. One, the longer-term monthly payment products, so six months on, not the pay-in-four 45-day product, but 3 months, 6 months, 12 months on and on and on, it's just not well served. It is not really a well addressed need in the U.K. and people there need their prams and their couches and their TVs just as much as they do in the U.S. Right now, the only competitor in that space really are banks, and no comment on how well-liked that is.

We're very excited to deliver. Also, doesn't hurt to be fee-free and not compounding interest and all that good stuff. So, we expect a lot of demand for our longer-term products. In fact, that's what we're really focusing on when we go to the U.K.

The other maybe slightly more subtle version of what's happening in the U.K. market, we are very clear about our business model. We're just trying to help folks buy things and not confuse them with other things. The market may be well developed, but there's a lot of innovation, the kind that merchants don't necessarily enjoy. We're coming in as a pure player that is just going to be helpful for more sales and merchants are unequivocally excited about that.

Very early, very excited. I just spent some time with our launch partner, Managing Director at a company called Alternative Airlines. We're crossing dozens and dozens of transactions, and they're quite pleased with what they're seeing. It hits exactly that need where it's longer-terms, higher tickets, people need a little bit more time to pay, et cetera.

We're quite excited about U.K., I'm a big anglophile, can't wait to ride my bike outside London. I'll be spending a lot more time in London.

**Robert Wildhack**

Okay. Thanks.

**Operator**

A reminder (multiple speakers).

**Robert Wildhack**

And then bigger...

**Operator**

Sorry, go ahead.

**Robert Wildhack**

Yes. Can I go? Bigger picture, Max. Relatedly, I wanted to ask about the competitive landscape, more broadly. I appreciate your thoughts on the U.K. At the same time, you have players from overseas who are showing up on Apple Pay and maybe drifting into some longer duration products. It seems like the competitive boundaries of the last couple of years might be shrinking. Would you agree with that characterization? How would you think about sustaining growth and expansion without igniting some kind of competitive race to the bottom?

### **Max Levchin**

I will needlessly remind you that in an extremely competitive U.S. market, we are over a third of the volume and more than half the revenue. There's a reason for that. What we do is really, really hard, and it also turns out to be really, really valuable. These longer terms aren't just what we should give people more time to pay, it would be great to do it without late fees. It's a huge competitive moat. Underwriting is a very difficult thing to do. You have to have massive infrastructure to mine the data that you get. It's not enough to have and store the data. You actually have to know what to do with it. You have a huge machine learning team. You have to have a compliance team to make sure the machine learning team uses the data in the ways that are permissible versus not, and so on and so forth.

Our moat has been our willingness to do the hard, difficult thing without compromise and we're bringing that to other markets. The battle has been brought to us in the U.S., so we've held off the onslaught better than I think anybody expected and continue to do so. We're bringing the battle to them in Europe and in the U.K., not the other way around. I can't wait to ride my bike or at least watch some quality Tour de France racing there. Sorry, the bike memes are a little—I'll stop.

### **Operator**

A reminder to our phone audience today that it is star and one if you would like to ask a question.

We'll hear from Reggie Smith at J.P. Morgan.

### **Reginald Smith**

Hi, guys. Congrats on the quarter. I have two questions. One is super quick. I wanted to make sure—your issuer processor talked about increased scrutiny on sponsored banks. I wanted to make sure that that would not impact the growth of the Affirm Card. That should be a quick answer. But then, I think bigger picture, I'm curious if there are any nuances in terms of underwriting consumers in the U.K. versus the U.S? And how you guys go about building out your underwriting knowledge there as you enter that new market?

### **Max Levchin**

Great. The short answer to your question is, no, it will not. We're very excited about rolling out of the card and are accelerating it of all things. I think regulatory scrutiny increasing is a thing you experience if you're small and unknown to the regulators. We've been big and getting much bigger quarter-after-quarter. We're very familiar with all of our regulators. We engage with them regularly. We have invested in compliance appropriately. The regulatory scrutiny on us is what it is, and they will continue doing. Frankly, we're proud to have the engagement that we have. That part, we're going to be just fine. We're not dependent on any one provider incidentally. We're quite careful to ensure that no matter what sort of ups and downs, regulatory or otherwise, appear on the horizon for our providers, we have ways to make sure that we're unaffected.

On the U.K. underwriting, it's going to be great. We have the infrastructure, we have the people, we have the knowledge, and we have a decade of building an underwriting engine from nothing to something



very, very powerful. We're coming in very prepared with a lot of experience. Our machine learning team, I think the tenure of the folks in it is the longest at Affirm. The guy who runs our underwriting and machine learning, Nitesh, has been with the Company almost as long as I have and he has seen the build out of the baby little Affirm ITACS 1.0 and is now sitting on POS v12 launch, if I remember correctly, and so he's just had an enormous amount of experience and the folks around him are trained by him, and it's a brilliant team.

U.K. is a little bit different. It's not enormously different. We spent a lot of time consulting with the local equivalents of the credit reporting agencies. We know a lot of people who have lent money in the market to get the knowledge primed. But ultimately, we will build the engine the same way we did it in the U.S. by scaling our loan book, looking at the results, and fine tuning and gathering proprietary data that we can continue squeezing incremental value under the curve from.

### **Reginald Smith**

Thank you. Is there anything you can talk about in terms of the nuance in that market that anecdotally—like consumers are different from American consumers in any way, payback spending, anything you can share?

### **Max Levchin**

Empirically not yet. It's been like, I don't know, eight days of transactional data live or something along those lines. The first payment defaults haven't hit yet. We'll speak to that probably towards next quarter. As always, we measure seven times cut once. We'll be deliberate. We'll be very careful. We very cautiously rolled out—our merchant rollout timeline/pipeline is not accidental. We know exactly what we'll do next. So far so good. Obviously, we have a lot of early signals that we monitor. Most importantly, in fraud and abuse. We feel good about that.

Again, it's exactly the sort of thing that prognosticating now is pointless, but in 34 days from the first loan, we'll tell you exactly how the very first cohort is doing, and we'll certainly be watching it like hawks and continue tracking all these metrics.

### **Reginald Smith**

Of course you will. Perfect. Thank you.

### **Operator**

Jill Shea with UBS. Please go ahead. Your line is open. Jill Shea, your line is open. You may have us on mute.

### **Jill Shea**

Sorry about that. Thanks for taking the question. You've noted in the shareholder letter that as it relates to funding that declining benchmark rates will be a tailwind to RLTC. Can you just touch on your view on the path of funding costs in light of the current interest rate outlook? And maybe help us think about the magnitude and pacing of the benefit as we move through the year?

### **Michael Linford**

Yes. The way to think about rate impacts on our business on the way down was really the same way on the way up. The kind of full benefit or full impact on the P&L is about 40 basis points for every 100 basis points of rate movement. But that takes about a year to a year-and-a-half to play through. We were really

experiencing still the impact of rising rates through the first part of this calendar year, even though rates had stopped moving well before that. We would expect the declining rates to be tailwinds, but to be tailwinds marginally and take a little bit of time to flow through the P&L. But a good rule of thumb is 40 basis points of benefit in terms of cost for every 100 basis points of rate movement.

That being said, we do think because we're able to operate at the higher end of our margin structure right now, we would not anticipate flowing that through to margin. We would anticipate that to be part of what we're able to reinvest back in really compelling consumer and merchant offers.

**Jill Shea**

Very helpful. Thank you.

**Operator**

That was our final question from our audience.

Gentlemen, I'll turn it back to you for any additional or closing remarks that you have.

**Zane Keller**

Thank you all for joining today. We appreciate your time and look forward to speaking with you again next quarter.

**Operator**

This does conclude today's teleconference and we thank you all for your participation. You may now disconnect your lines.