



Affirm Holdings, Inc.

Financial Year 2024 First Quarter Earnings Conference Call

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C O R P O R A T E P A R T I C I P A N T S

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C O N F E R E N C E C A L L P A R T I C I P A N T S

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Mike Ng, *Goldman Sachs*

Dan Dolev, *Mizuho Securities*

Andrew Bauch, *Wells Fargo Securities*

Jason Kupferberg, *Bank of America Merrill Lynch*

Rob Wildhack, *Autonomous Research*

Ramsey El-Assal, *Barclays*

James Faucette, *Morgan Stanley*

Andrew Jeffrey, *Truist Securities*

Reggie Smith, *JPMorgan Chase and Company*

P R E S E N T A T I O N

Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to Affirm Holdings Financial Year 2024 First Quarter Earnings Conference Call.

(Operator instructions)

As a reminder, this conference call is being recorded, and a replay of the call will be available on Affirm's Investor Relations website for a reasonable period of time after the call.

I'd now like to turn the call over to Zane Keller, Director, Investor Relations.

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Thank you. You may begin.

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; and Michael Linford, Affirm's Chief Financial Officer.

Before we begin today's call, we would like to remind investors that we will be holding an investor forum next Tuesday, November 14th, from 2 to 5 PM Eastern Time. Both the livecast of the forum as well as a replay are open to the public. Additional details about the forum, including registration information, are available on our Investor Relations website.

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

Max Levchin

Thank you, Zane. Thanks, everybody, for joining us today. I'll keep it very brief. We had a very strong fiscal Q1, exceeded our outlook across all metrics.

GMV growth accelerated sequentially. We significantly exceeded our own outlook for revenue less transaction costs. We continued to gain market share, kept our already strong economics quite good, drove positive credit outcomes, which matters to us the most, and added some funding capacity. Our plans now include continuing to invest in risk management, technology, and product development, and to turn our attention to growing Affirm faster.

Back to you, Zane.

Zane Keller

Thank you, Max. With that, we will now take your questions. Operator, please open the line for our first question.

Operator

Thank you very much, sir. (Operator instructions)

Our first question is from Bryan Keane of Deutsche Bank. Please go ahead.

Bryan Keane

Yes. Hi. Good afternoon. And congrats on the solid results.

Just thinking about—as we head into the second quarter here, given the outperformance in the first, especially in GMV and volume, what kind of led to the outperformance? And then, it looks like the growth rate will decelerate back a little bit in the second quarter after accelerating this quarter, maybe you can just help us with that? Thanks.

Max Levchin

I think I'll take the why the growth. I think we've just been executing really well. As you saw just the overall operating leverage, we are firing on all pistons of the Company, which feels very good. We were able to deliver a couple of really key initiatives on the product side.

Our friends in Ottawa, in particular, we had several really strong ideas that played out very well for us there. And so Shopify volume accelerated again, which sort of speaks to maybe the way we operate the business. It sometimes seems like you signed a great partner and that's the burst of volume. But in reality, it sometimes takes us years to fully realize the opportunity for us when partnerships are this rich and with this much potential.

So that's one example. Card grew quite well as well and so we're happy with those results. There's not one thing that I can stick a finger at and say that this is the core reason for the GMV growth. But the other thing is that the demand for the product remains strong.

We are still declining quite a number of applicants because we're trying to remain as thoughtful and productive in our credit outcomes, but the consumer demand for what we have to offer is continuing to pull it forward.

Michael Linfoord

The only thing I'd comment on for Q2 is, both that it's our largest quarter of the year, so we just have a lot more mass in the comparable period. And we do expect that some of our programs, our largest enterprise partner programs, are continuing to mature in a way that we just expect a little bit less growth this year than we had in the last quarter.

Bryan Keane

Got it. And then just as a quick follow-up, Michael, maybe you can talk a little bit about adjusted operating profit – came in quite a bit ahead of expectations. Is that mainly expense items that even out throughout the year, or anything to call out there for the margin in the first quarter versus for the quarters for the rest of the year? Thanks so much.

Michael Linfoord

Yes, thanks for the question. Yeah, the adjusted operating income did come in well ahead of where we thought it was going to be for the quarter. And I think it shows the power of us and our technology orientation. When we are able to control expenses and drive a little bit of extra growth, the growth and profitability is very, very strong.

And I think to put it in context, we have 28% GMV growth or 37% revenue growth and our non-transaction operating expenses reduced on an absolute basis by \$50 million year on year. When that happens, obviously, you can print pretty strong results. I think due to our outperformance, we did raise the adjusted operating margin outlook for the full year. We're now expecting closer to 5%.

And I think that we were driving leverage really across all three lines, G&A, sales and marketing, and tech data and analytics. And those lines are all very leverageable in our business. We've been saying this for quite some time. And yet that's also the area we invest in, primarily in human capital.

We want to make sure we maintain the ability to invest in the back half of the year, which is why we wouldn't expect to run at this level. But no, there really wasn't any sort of timing benefit. We will expect sales and marketing to creep up a little bit in Q2 as we invest into the holiday season. But other than that, we feel like Q1 was very close to run rate before we again maintain some room to make some investments in the back half of the year.

Bryan Keane

Okay. Great. Thanks so much.

Operator

Thank you. The next question is from Michael Ng of Goldman Sachs. Please go ahead.

Mike Ng

Hey. Good afternoon. I just have two. First, as a follow-up to the first question around Shop Pay Installments GMV growth acceleration, I was just wondering if you could talk a little bit about what functionally changes or ramps up over time that allows you to drive this acceleration in GMV over two years since the initial partnership? And what can that tell us about how you approach some of these enterprise partnerships? And then, I have a quick follow-up.

Max Levchin

I'm known to give long winded answers, so I'll actually try to keep this one shorter. The very short hand answer is optimization. Both companies are very numerically driven. We spend an incredible amount of energy just A/B testing various forms of presentation of the products we offer to consumers, try to simplify things, try to fine-tune everything from how do we explain interest if there's interest to pay, how do we make sure people understand that there is no interest in products like Pay in 4. Just all of that.

And if you have a—one of the sort of obvious truisms, if you will, is if you have a significant amount of volume already, even 1% or 2% increase in end-to-end conversion just creates millions or tens of millions of dollars of incremental GMV. So it's never a—sometimes it is sort of a brilliant unlock where we say, oh, we forgot this thing we can try and it works, but 9 out of 10 times it's really just optimizing existing consumer experience, finding ways of presenting the offer a little bit more up funnel so consumer understands there is a budget perhaps more than the budget they realize because we can tell them here's what we are willing to approve you for, etc.

And then, just doing that over and over again has compounding effects. So, there's not a—the secret sauce is in the work, not in secret.

Mike Ng

Thanks Max, that's really helpful. And then maybe just a quick one on Affirm Card, \$224 million of GMV, accelerating from the \$130 million last quarter. Could you just talk a little bit about how you're approaching driving growth there? The user growth seemed like it was steady at 75,000 per month. And anything you could tell us around the mix of Affirm Card GMV and how that may have changed relative to last quarter? Thanks.

Max Levchin

So, I don't want to steal too much of Libor's show next week, to quote my favorite movie, "I'd love all of you to come and give me notes" when we do investor forum a week from now. But the shorthand is, the mix remained largely in line with what we said last quarter. It's still more split pay—or split transactions versus Pay in Full. We'll talk a lot about things like cohort retention and usage over time and a little bit about lifetime value next week. So, there's a lot to share, and I don't want spoil the party too much.

The growth is quite strong. It is managed to the number that we want. We have internal goals that we are driving card numbers to.

We won't run out of opportunities there for some time. We also want to make sure that we don't paint ourselves into a corner in the following sense. The product is a new idea. This is not something that existed before.

We have lots of intellectual property protection around some of the stuff that we invented, both kind of what meets the eye and what's under the hood there. And every time you launch a new product, even if it has exceptional uptake, which we think this one does, you are educating a consumer. You have to look for long-term effects. Like, one of my many nighttime jobs is to read consumer feedback that comes to me directly from the card and it's now a very steady stream of content.

And a lot of it is about sort of getting in touch with our PMs and saying, hey, there's this wrinkle on the card that people still don't fully understand, how do we fix this? Again, so in service of that, let's get 3% more conversion, let's get 5% more conversion. The card is so new, every time we find some major comprehension unlock, we find ourselves in another 10% gain. So, it's gratifying to unblock—fix a mistake we made or unblock a comprehension detail and suddenly lot more volume. So, we'll continue growing users quite deliberately.

We'll be very, very focused on unblocking all the quirks of user interfacing, doing all the educating that we have to do before we start sending a card to everybody as they sign up. But over the long period of time, I fully expect to get to a place that is, hey, welcome to Affirm, the card's in the mail. That's not going to happen anytime in the immediate or even foreseeable future. But the long-term point of the card is, it is the best way of experiencing Affirm.

We will build all of our product roadmaps on this idea of you should have this card, it is the best thing ever and you should just have one of these, even if you've transacted with Affirm for the first time yesterday.

Mike Ng

Great. That's all very clear. Thank you, Max.

Operator

Thank you very much. The next question is from Dan Dolev of Mizuho. Please go ahead.

Dan Dolev

Hey, guys. Great results. So proud. Max, the B2B initiative in the Amazon partnership, I think it was last week, got a lot of excitement and a lot of press. Can you maybe tell us what makes you so excited about this, kind of the opportunity, sizing it and maybe talking whether or not there'll be other B2B partners? And then, I have a very quick follow-up. Thank you.

Max Levchin

Thank you, Dan. We are very proud too, but I really appreciate hearing that. The team works very hard. I know a bunch of Affirm folks are listening. You nailed it this quarter. Thank you for your hard work.

The B2B thing that we started showing is certainly not a one-off. In fact, when we start reviewing the opportunity, my ask to the team was please come back to me with a plan of what this looks like in a market, sort of what's the true opportunity across many, many possible platforms, not just one.

So yes, you should expect us to do more. Obviously, we will speak to it when we're good and ready. The current product as you see it today is for sole proprietorships. And it's this interesting space where the efficiency of the lending market to that user is really, really poor.

And so as a result, the consumer typically borrows money either on their personal financial devices, which is just for a variety of reasons a bad idea, or through all kinds of just unoptimized old school sort of 19th-century lending platforms. And there's no reason why that should be this way, given our expertise and underwriting, in particular underwriting consumers. So, expanding our models to small, very small full proprietorship type business underwriting was not a huge challenge. The actual work began something like more than a year ago where we primarily just tested will our underwriting work as well as it does in consumer if we expanded it to very small businesses.

And obviously, we feel confident enough to start rolling it out with the largest e-commerce player. So, feel very positive about it. We'll be very deliberate. It's a new business for us.

Nothing is—we will not do anything that damages our stellar credit performance. That's certainly, that's always job number one, but exciting. There's lots of merchants that have very sizable side hustles, if you will, where they sell their goods or goods on their platform to sole props that either use them or resell them and they too need some honest financial services and here we are for that.

Dan Dolev

That's super helpful. And maybe as a quick follow-up for you or for Michael. I mean, I was—what caught my eye in the shareholder letter was the ability to sustain 3% to 4% revenue less transaction costs. We all know that with the key pushback from clients that we were talking to.

It sounds like you guys have figured out a way to—for this not to be a problem anymore. So maybe just kind of walk us a little bit through sort of the path to making sure that this 3% to 4% is sustainable even in a higher for longer environment. Thank you, again.

Michael Linford

Yes. We're really proud that we were toward the high end of our long-term range in a quarter when we were obviously up against substantially lower rate environment, and we feel like we're settling into the higher for longer. I think there's maybe two things to call out. The first is that we've done a really good job of making sure our assets have the right economic content in them.

In our letter, we do plot what the yield of our asset is and also where our funding costs have gone. And you can see that, certainly, you'll see a pretty big inflection toward the end on the Affirm asset yield, and that's a reflection of our pricing initiatives but also the really strong credit controls that we've had place over the past year. And it always starts there, you got to get the asset yield right, but then the second piece that's really important is we've been executing really well in the capital markets. We have added forward flow partners to the mix, which of course helps the in-period earning power as you can sell loans and earn the gain on sale, which is really important for us to do.

And maybe notably is that the percentage of loans sold in our first quarter was more in line with the historical averages than we had been in the prior quarter, which was a pretty depressed level. And so what you're seeing is the benefit of the improvement to the asset yield and the benefit of the capital markets execution, which in turn is a benefit of the discipline that we've had on the asset yield, right? Those two things are very much linked. And you're seeing it really shine right now where our engagement with capital markets partners is really positive. Max mentioned that we went and saw many folks over the past couple of months, and the discipline that we've had is really giving us credit there.

And so that's what gives us confidence that this rate environment is one that we can operate well in. We've done the work to get the asset yields where they need to be. We're getting credit for it in the capital market. And our focus is really around, at this point, continuing to scale the network, we've earned the right to do that.

Dan Dolev

Amazing results. Thank you so much.

Operator

Thank you. The next question is from Andrew Bauch of Wells Fargo. Please go ahead.

Andrew Bauch

Hey, guys. Thanks for taking my question. Just wanted to ask a general state of the consumer kind of question. I know that the student loan forgiveness or forbearance is coming due. And so, any kind of updated thoughts on how you think that impacts overall demand? And then, maybe like a higher-level question. As macro is deteriorating, I mean has deteriorated, and in the past, you've said that there is a reasonable possibility that BNPL becomes a more preferred payment method, in more challenging economic times. Just trying to get a sense of have things kind of played out the way that you had anticipated in both of those opportunities.

Max Levchin

Lots to go there. So, on the student loan, that's an easy one. So, we said it for two quarters in a row before this one, we took that very seriously. Obviously, nobody had sort of real sense for exactly what it would look like.

I gave Dan props last quarter because he really predicted something pretty precisely what we thought would happen to student loan repayment, impact on our ability to approve people. And the point is we've been looking at it for months and months and months and incorporated underwriting changes to make sure we are prepared for the student loan repayment resumption. At this point, they've been effectively back, the obligations for a month and a little bit. We feel that we've handled it really well.

We can see it in our credit prints that it had no material impact on us. In fact, the slight increase that we saw was seasonality exactly as we predicted. So we did a really good job preparing for that and largely think it's behind us.

I think just more broadly, that has been our strength as a company. We take underwriting as the single most important thing we cannot make a mistake on. And we obsess over it. We look at all the metrics all the time. We call five alarm fires every time, some metric is ever so slightly off to make sure that we know exactly why it is.

And that's what has allowed us to maintain this level of performance in credit. I'm not sure I agree that the economy has deteriorated. That's a very broad statement. There are definitely signs of stress going back as far as April of '22.

It's, generally speaking, for our consumer not been a dramatic change in their ability to pay their bills back because the consumer remains effectively fully employed. Obviously, the most recent unemployment numbers start to show some very modest cracks in the full employment number, but still very, very strong relative to what we would consider to be serious area of concern. And we tune our models to both internally source data of actual repayments and the macroeconomic inputs such as job prints is what we consider as we try to forecast the not very distant future. The reason we don't need to forecast the very distant future is because the terms of our loans are really, really short.

So we have to be right about what's going to happen to our consumer in the near-term much more than we have to predict the world economic future. As far as the BNPL popularity, we're certainly seeing a stronger demand as we had seen in quite some time. It does help that we are the only player of scale that is willing to write monthly installment loans. The Pay in 4 was a pretty cool idea when it was all fun and games and zero interest rates to underwrite people for 6 months loans and 12 months loans, you have to be quite a bit more detail oriented and thoughtful in our modeling and that is our strength and the source of our overall superiority.

We feel very good about our ability to continue performing in those loans as well as the shorter term stuff. It seems that offering the full spectra of products really does drive consumer preference, but obviously still a very, very competitive market and we're not going to declare victory just yet. But it does seem that the BNPL has remained a consumer favorite. Certainly, the Affirm version of BNPL remained a consumer favorite, given as the economic party may have gotten a little bit cooler.

Andrew Bauch

No. Understood and thanks for all the color and look forward to seeing you guys next week. Thank you.

Operator

Thank you. The next question is from Jason Kupferberg of Bank of America. Please go ahead.

Jason Kupferberg

Thanks, guys. I know the shareholder letter mentioned that you've seen some disparate GMV trends among some of the various categories that you serve. So I'm wondering just as you look at the guide—the updated guide for fiscal '24, are you assuming any material change in the more discretionary categories?

Michael Linfoord

No. We're really not. So as per the usual, we try to hold what we're seeing right now when we provide our guidance. And we don't really assume things are going to get materially better or worse because we really don't try to prognosticate too much about where the economy is going.

We do see some positive trends right now. You're seeing categories that were real decliners over the past couple of quarters returned to something that looks more like flat, or certainly less decline. And we think that's a good healthy sign. And obviously, we still have exposure to some of the largest platforms in e-commerce, and that breadth of exposure allows us to get pretty wide category coverage.

And so the more operative question for us is, are consumers going to be out spending, and we certainly feel like the evidence is right now that they are.

Jason Kupferberg

Max, you touched briefly on decline rates. And I'm just wondering if you've seen any notable change in those decline rates, not just in terms of this year, percent of loan requests that you're declining. But just how that might vary across different slices of your demographic, or are you seeing certain consumers coming back with more loan requests more frequently?

Max Levchin

I'll start by reminding that decline for us is kind of the point of last resort. So for a huge percentage of underwriting decisions, what we try to do and do pretty well is say, yes and, and is we need you to make a down payment. We think that you should borrow, not \$800 for example, but \$600. And if you have \$200 to make a down payment, that would be wonderful.

And so that's just an important thing to keep in mind. So when sort of—we look at our approval rates, they've largely remained broadly the same. Obviously between sort of groups of consumers if you stratify them by credit, they generally remain the same, by definition. The credit mix, the input mix has not really changed all that much.

So very broadly, the answer is no, we're not seeing anything dramatic. The one thing that's really—that we have to mention, so we said it last quarter that we're on track to broaden our EPR range from 0% to 36%. Obviously, before we were between 0% and 30%, as we broadened it to 36% the natural consequence of that is we're able to approve a little bit more books.

And that is a great tool to have. Obviously, the number one job that we have vis-à-vis consumers is to offer them access to credit in a transparent fairly priced way. Having a wider range of prices available to us does allow us to say yes to more people. So all things kept equal—you'll see us probably on the margin be slightly more approving, if that's a new word.

I made that up. I realize that's not a word. But, being able to price the risk in allows us to say yes more often.

Jason Kupferberg

Okay. Thank you.

Operator

Thank you very much. The next question is from Rob Wildhack of Autonomous Research. Please go ahead.

Rob Wildhack

Hey, guys. I wanted to ask about the higher allowance quarter over quarter, maybe follow-on from that last question. Can you speak to the drivers there? And then, given the short duration that you're emphasizing, I'm curious the degree to which you think of changes in the allowance as proactive, i.e., we receive credit versus reactive, i.e., things kind of started looking worse than we expected?

Michael Linford

It's definitely not reactive, meaning things look worse. It's very mathematical for us. So we make an estimate of the losses for all loans we have on the balance sheet at any point in time and we make sure that we have an allowance appropriate to support that. As you change the mix of on- and off-balance sheet quarter over quarter, so the increase in sold loans does drive the math to be higher this period, given the fact that you're selling more early stage loans.

And so you naturally have a little bit of shift there. But we don't view that as a bad thing. It's certainly not a reflection of underlying credit performance. We think the underlying credit performance remains exactly where we'd like it to be.

And when we have the kind of unit economics that we have this quarter, which is really strong, at the high end of our 3% to 4% range, obviously, we're very comfortable with the amount of provision needed to support the growth in allowance.

Rob Wildhack

Okay, thanks. And then, maybe one on the regulatory front. The CFPB has been pretty active with respect to buy now, pay later and even fintech more broadly. So what are your latest thoughts on their role? And then how do you see that evolving going forward? Thanks.

Max Levchin

Yes. So we've always viewed them as one of our key regulators. I've spent a fair amount of time on their advisory board a few years ago, so on. So obviously being subject to supervision from our point of view is a formalization of the relationship between Affirm and the bureau.

We think, we may be somewhat unique in this, but we think it's a positive step for the industry, most importantly, sort of normalizes the engagement with the regulatory bodies. It's also good for consumers for obvious reasons and good for us because we think it levels the playing field in quite a number of senses. We've been in contact with the bureau for a long, long time and certainly expect to continue being engaged with them. Our priorities remain exactly what they have been.

We are everything, if not transparent and clear with the end borrower and that certainly aligns very well with the mission of the bureau. So I feel—generally speaking, feel quite good about the regulatory engagement.

Operator

Thank you very much. The next question is from Ramsey El-Assal of Barclays. Please go ahead.

Ramsey El-Assal

Hi. Thanks for taking my question this evening. I wanted to ask about the competitive landscape in general. It seems like the stability and the merchant fee rates that you guys lay out in the slide presentation points to a pretty rational environment there, but you mentioned taking some market share.

How are your conversations with merchants going—merchant partners going and how is this sales pipeline kind of progressing in that context?

Max Levchin

It's more rational now than it was before. I wouldn't call it fully rational just yet. I think it's harder—with every passing moment, so long as we agree that the overall economic reality is not on a positive direction. And as I said in a previous question, we have not seen sort of a dramatic turn for the worse, but we are very, very active in managing credit.

It is a competitive advantage for us and I think, if I'm completely honest, it's a bit of a soft spot for some of the competition. And so what this does to merchants, if our competitors are rational, is they have to tighten approval dramatically. They can't separate risk as well as we can. The only way to not have losses is just decline indiscriminately a lot more.

Our strength is ability to separate good and bad risk and therefore we can maintain high approvals. That has served us really, really well over the years. And I have lots of stories to tell from the earliest days of Affirm where some extremely valuable logo merchant would come to us and say well, the competitor of yours just showed up and they offered us half the price, so we're going to clue (phon) you and go there. And during those times, I would sort of stress and worry that this means everything is broken about this company, and we always maintained with much urging and occasional head slapping from Michael. We maintained a discipline of saying, look, if this is an irrational deal, we will not sign it. And most often those merchants would come back to us and say, actually the weirdest thing happened, we are paying a much lower price, but the approvals suck. And it's not an accident. If you are good at managing risk, you know how to price it, and if you know how to price it, you can then deliver it at a fair price to both the consumer and the merchant.

And so as it becomes a little bit harder or for some folks obviously a lot harder to underwrite, it's a little bit easier to prove to our partners that being rational on the pricing side is really important. So this conversation will become a little bit easier. To sort of break it down even more and I promise I'll stop in a second, but it's an obviously super important topic that I spent a fair amount of time on. The thing that really becomes interesting is you talk to folks that run these merchant companies and some of them are still very, very focused on bottom line, others are on top line, and sometimes it's a function of having inventory, sometimes it's a function of trying to meet growth targets for investing purposes.

Depending on that, their goals change. And the thing that we're really, really good at is tuning financial offers for consumers to meet merchants' financial targets. If they are, if the merchant is very focused on driving inventory out of the warehouse or off their virtual shelves, we're very good at creating consumer offers at no APR, fixed low APR, that we can dynamically price for the merchant and the consumer and make those transactions happen. If the merchant is very focused on their own bottom line, we're very comfortable working with them to reduce or to drive their MDRs down to make sure that their costs are under to a degree of control and passing the cost on to the consumer.

Because we are so transparent with pricing to both sides, it's never a mystery and never this sort of a black box negotiation where everybody feels like they've been somehow hurt by this whole process. We're very, very clear with our merchants. Here's exactly what you can get in the current environment with the current approvals. And over the years, that's built a reputation for us that just worked time and time again.

And so the conversations have always been rational with the merchants that we have and that's why you see our MDRs quite stable and our merchant base quite well retained.

Michael Linford

A couple of things just to add. The market will continue to be competitive. This is a growing category for a reason. Consumers are seeking out alternatives.

And so we expect the market to continue to be competitive. We expect to continue to be rational in the face of competitors who want to be less rational, but we expect competition. And then, to specifically answer your question around the pipeline, we don't disclose any pipeline stats, but we feel good about the level of commercial activity right now. There's lots of great conversations happening and we remain--in conversations today that we probably couldn't have had a few years ago given some of the irrationality.

So we think that's a good thing, but those are conversations in pipeline, so there's certainly nothing concrete there.

Ramsey El-Assal

Fantastic. And then, a quick follow-up for me. In the shareholder letter, you mentioned some improvements at checkout with Affirm at brick and mortar, big box partner and also I think expanding the partnership with Verifone. How should we think about that physical opportunity, the brick and mortar opportunity? And does that kind of change now with Affirm Card in terms of how you're thinking about monetizing sort of the physical transaction, or are there still—is there still another leg potentially that you can develop here by perfecting that physical Affirm at checkout experience?

Max Levchin

You must have been spying on our conversation with Michael yesterday. Jokes aside. Yes, the short answer is absolutely, we've been caged in this e-commerce cage for a very long time and feel very good about our—breaking out into the bigger wide open commerce space writ large. Affirm works pretty well in store if the merchant is cooperating.

So depending on where you go you'll find us in a kiosk, you will find us on your phone, but speaking to the phone of a store associate. There's a bunch of modalities that we've developed over the years. And they all work fairly well for existing users. And if the merchant helps, they can even help us with user acquisition.

The card just supercharges this thing to like a totally different level. Again, I'm going to bite my tongue on some of the cool stats, that Libor's going to show off next week, but we'll talk a little bit about the success we're seeing offline with the card. But even beyond that, we do think that there's work to be done, ideas to be tried offline, even before the consumer gets the card, and that's a pretty exciting thing. At this point, as Michael put it yesterday, Wi-Fi or cell coverage in a store next to a store to solve a problem.

And we do have a 80-ish percent app download for existing users and a very, very high propensity to download our app just because the brand and the app reviews have been so strong. So feel very good about what we'll do offline. It is brick and mortar, which means that it moves a little bit slower, but the price is worth the effort.

Ramsey El-Assal

Fantastic. Thank you very much.

Operator

Thank you very much. The next question is from James Faucette of Morgan Stanley. Please go ahead.

James Faucette

Great. Thank you so much. A couple of follow-up questions on things you've already talked about, Max and Michael. First, in terms of like the engagement with the merchants and that kind of thing. I'm wondering how active your conversations are beyond just kind of making available to them what they're—what they could do from a promotional perspective on interest rates, etc.? And the reason I ask is because in the period of rising interest rates and kind of normalizing retail activity, I would have thought we would have seen a bit more 0% promotional activity on the part of merchant partners to date and maybe I'm just missing it, etc., or its impact on your financials so far, but just wondering what that process looks like.

Max Levchin

That's certainly a major part of the conversation. I think I sort of started answering this and Michael has a lot of opinion on this one, so I'll call him in a second. But the shorthand is it really depends on the merchant margin structure. If your overall world view is 12 points of margin, lots of turns of inventory, you just don't have the margin capacity to drive these 0% deals unless the manufacturer is willing to contribute.

And we've sort of dropped the breadcrumbs of that idea for quite some time and obviously it's a massive sales and engineering effort where you're trying to tie more than just the consumer and the seller, but also consumer and the seller and a manufacturer or brand or some other third-party that wants to subsidize the interest. So that's a fun design and engineering challenge, but we've been making very, very steady progress. There's a sort of a point in my letter about what we internally call mixed carts, which I think I referenced as the ability to combine multiple financing programs. If you have a manufacturer or brand that's sponsoring a 0% deal, let's say it's a TV manufacturer and you're buying that TV and a bag of cookies and the cookies are not 0% sponsored, you have to be able to provide correct accounting for both sides of the transaction, but consumers think of it as a single basket.

And so before we got to full distribution of the brand sponsor promotions as we call them, we have to deploy robust implementation of mixed cart accounting and sort of downstream transactional and capital markets work. So that took us a fair amount of time and effort – just a sign as to how complex some of this stuff can be. Now that we have that live, we have a variety of really rich conversations around, hey, let's have a 0% promotion and no, you don't have to directly fund the APR discount, Mr. Merchant.

So that's one side of it. If your margin structure is, I got 60% gross margin and maybe a subscription to support future revenue streams, of course, you want to do 0% deals and that becomes a much, much easier conversation. So we have merchants of both kinds and everything in between. We work pretty closely with them.

As the holidays roll along, people start becoming very concerned with driving inventory off the shelves, sometimes into the holidays, sometimes right after, depending on sort of what they think will happen to them or what does happen to them around five days of sales around Thanksgiving. And so we'll certainly support all those, but a big part of who we are is we're fundamentally an engineering company, and so building these tools is what we enjoy the most. As we ship new tools, we immediately bring them to

market to our merchant partners, offering them new ways of driving more sales. And so we have quite a lot of fun stuff that we shipped in the last 60, 90 days and all of that will get deployed into the holidays.

Michael Linfood

The only thing I'd add is, we have been intentional around introducing fixed APR offers. This is low APRs, I think 5% and 10% APR offers into the merchant base. And those serve, the same—the promotional role that a 0% served in a 0% rate environment. And I think those have been well received and have consumed a lot.

And then lastly, there's a merchant mix here that matters a lot in this conversation. The merchant platforms that are stealing the most right now have the most interest bearing mix. And I think that probably distorts the trend I think you're pulling on, which is a little bit below the surface and overwhelmed by just the mix across our merchant base. So as you sell less exercise bikes and you sell more general merchandise that those trends tend to play out that way.

James Faucette

That's great. That's really helpful. And then separately on Debit+ and the like, how are you seeing—clearly like you're seeing a pickup in GMV and frequency of use, etc. How is that use tracking versus your expectation of people using it for debit-type transactions versus some sort of credit generating transaction? Thanks.

Max Levchin

That's definitely the star of the show next week. So I'll give you a light preview versus the very fulsome presentation, which you should expect next week. Generally speaking, it's tracking two expectations. What you'll hear a bunch about next week is it's becoming a very clear journey where we are teaching consumers about a new product.

When they just sign up for the cards—so these are all repeat consumers. They're not—we've never spent a penny marketing the card. There's no big billboards over 101 or anything like that. It's just the card that you get if you like Affirm and we offer it to you and we haven't pushed it particularly hard just yet.

When you do get it, the first sort of comprehension hurdle is, hey, this is just like Affirm where I ask for a loan and I get approved and it works. But now it works, I can consummate the transaction with a card. So your first intellectual hurdle is, it's Affirm on a piece of plastic, that's cool. So you can't expect that to become your daily spending instrument because Affirm today is for everything from dresses to fancy workout equipment, but it's not in your mind just yet for a cup of coffee.

Over time you see folks slowly recognize that actually it's pretty cool. It provides some buyer protection, unlike your debit card. It has a bunch of really neat features like you can say, oh, this transaction is actually a little bit more than I wanted to spend. I can go back in time and split it, if that's appropriate.

And so as people understand all the functionality of the card, which is not something that they pick up in a day or two, it actually—we have a whole bunch of work that we put in. This quarter, if you have used the card before, you kind of missed out on a whole bunch of really neat things that we shipped as a first time user experience, sort of a whole pile of features helping people understand all the various things that it's capable of. We started graduating people to more and more transactions and I'll bite my tongue on some of the really cool reveals. But we have—so the tip of the spear, the consumers that really get at how it works are tracking better than expectations.

I'm very, very excited about that group. And our job is really now taking the customer through, hey, this is Affirm card to—this is actually something I could use instead of my debit card. It's good for everything and that's going really well. The card team will tell you that I occasionally message them in the middle of the night and mostly to find out that they're already working on the idea that I just had and I literally—my last message in the Slack channel to the card team, Okay, I'll get out of your hair, you have thought of everything.

So I'm very excited about how well we're going. Lots of work to do though. Definitely very, very far from done.

James Faucette

That's great. Thank you for that.

Operator

Thank you. The next question is from Andrew Jeffrey of Truist Securities. Please go ahead.

Andrew Jeffrey

I appreciate you guys taking the question. Very thorough discussion of the business, so that's helpful. Max, could you talk a little bit about trends in Affirm's tender with your enterprise customers versus across the entire business and whether you're sort of closing that gap, we've seen on big days like Amazon Prime Day where apparently BNPL oversamples. What I think you've talked about as being your total tender share, and maybe just an update there on how much runway there is in closing that and whether or not ultimately you can grow that beyond the total company?

Max Levchin

Certainly don't think it's appropriate for me to comment on any one particular partner, although obviously, we feel we've done really well there. But if you look at share of cart, as we call it, in our largest partners, we're far from done. I refer you back to one of my bragging points. Shopify partnership has been around for three years, and I think several folks in the analyst community have written that off as well.

It's now stable and will grow some sort of a single digits slow grower because they're fully integrated now and yet the volume there keeps accelerating because both companies are excited to build new things and try to deliver more value to both merchants and consumers. So we certainly have a lot more room to grow in all of our very large partnerships. Frankly, I think we have a lot of room to grow in small ones as well. The larger ones obviously pay off better because when you unlock something to the tune of 1%, you're playing with billions instead of millions.

So feel very good about that. These companies are enormous. They have lots of conflicting priorities. And so it will absolutely take longer than our average efforts, especially because—the reason these companies chose us is because we are technologists and we build software really, really well.

That means that majority of integrations are complex. If you're a tiny little company and you take our standard API and implement it and we bring you live. Literally, it can be done at this point in a self-service environment for small companies. That's pretty awesome, and I bragged about that in the letter as well.

For a much larger partner, this is a real effort and it takes quarters to get it right and make sure all the plumbing works and scales and handles things like Prime Days, which are enormous spikes of volume. And so once that's there, deploying optimizations and changes and new initiatives is not a thing you can

sort of flip a switch and see what happens. You have to follow the thoroughness and deliberate nature of such efforts, but when they do work, they are dramatic leaps. And so we certainly have many more leaps to take.

Obviously, I'm extremely biased, so sort of discount that appropriately, but I do think the product we offer works better than credit cards, and credit cards are the dominant way to pay across all these merchants. We feel like we have lots more share to grab.

Andrew Jeffrey

Okay, helpful. I've asked you this question before. The 91% of transactions from existing customers, that KPI or that stat, does that number over time for you to achieve your goals need to come down a lot, just as far as greater acceptance and use across the base? And does Affirm Card help you get there or am I just barking up the wrong tree?

Max Levchin

I certainly don't think you're barking up the wrong tree. It's something that I look at a lot. The way I think about it is every consumer has a certain amount of spend that they're doing today, some of it on credit, some of it from cash, we are competing for that. We are not trying to create new debts where there wasn't some because we are—obviously we don't charge late fees, we don't compound interest, so we don't benefit from delinquency, we don't benefit from overspending.

We are very careful not to overextend our consumers. Part of the mission is to create healthier financial realities for our customers, not to push them into unsustainable spending. And so we are trying to shift spending onto our instruments. Depending on kind of how far you cast your eye in the future of Affirm, obviously, first-time transactions that number you're talking about will come down.

As we get to more and more customers underwritten, by definition that number will start trending up. So I don't know if I have a— “the right number is 78.37; that's the perfect one,” —not at all, I look at it as a indicator of where we are. The reality of new versus repeating users for us kind of a two sided coin if you will.

New users are the highest-risk loans we will write. When you have never transacted with Affirm before, by definition we don't know you as well as we do someone who has transacted already. So wherever we take a more careful risk stance and we have been in a relatively conservative one for quite some time, you can expect us to be deliberately careful with approving new consumers. On the other hand, we are very excited to take more and more share from our friends in the credit card world.

And so we are delighted when the frequency goes up, which is in fact reflected in the percentage of transactions from repeat users. So there are multiple vectors on this metric, not too obsessed with it. I care a lot more about overall GMV growth. Credit metrics obviously are absolutely paramount.

Frequency of consumer is something that I look quite a lot about, although it's worth saying that at this point we see very clear stratifications of consumers. People have chosen that Affirm is their primary spending device and those numbers are very different from the average that we post. And at some point, I'm sure we'll start breaking that out, but not right this second.

Operator

Thank you very much. Our last question is from Reggie Smith of J.P. Morgan. Please go ahead.

Reggie Smith

Congrats on the quarter, and thanks for squeezing me in. I guess the biggest variance this quarter to my estimate was the interest income line. And I noticed or I've seen over the past few quarters that your mix of interest bearing transactions of volume has been growing. My question for you, how common are prepayments in your business? And I ask that because I'm trying to, I guess, get to the durability of that interest income.

I know I think in quarters past, Mike has suggested that it took a while for the rates to kind of bleed in. It looks like we're seeing that now. So I'm just trying to figure out the durability there.

Michael Linfoord

Yes. Prepayments in our business are common. They're understood, priced into all of our capital deals. And for the record, we think a good thing.

Max mentioned it before. We think about consumer exposure as a real limiter. And if a consumer prepays that's an opportunity for us to transact with them again and that's a good thing for us. It's a really healthy sign. Said differently, the prepayment risk for us is not really a risk versus the credit risk in the business. And so we don't view prepayments as really a problem at all.

I think a thing to remember about the product is just how short the duration is. And so prepayment risk in other asset classes is a real important thing, especially in a declining rate environment, given the long-term nature of those loans, but the way they are realized here is so fast that it's really difficult for us to have a meaningful amount of the economics eroding or the interest income going away, so long as the originations are still there, right? So that's the more important variable in terms of what we can generate, it's not just the back book for us.

Reggie Smith

So I guess the punch line is that that yield is pretty durable going forward as long as you continue to originate. Is that the right way to think about it?

Michael Linfoord

You got it. Yes.

Max Levchin

Lots of little loans spitting off pretty nice rates, but not—we don't suffer from, “oh my God, we just lost 29 years of interest,” like nothing of that sort is applicable here.

Michael Linfoord

Yeah. And yes, I think it's worth pointing out that, I think what you saw in the past year was this rate shock hitting the business and there being a few quarters of depressed asset yield and you've seen us recover from it. So the business model isn't one that is completely impervious in the short-term to these kinds of shocks. But over the medium term, we're able to really get the yield back in the asset, get the execution of the capital markets to a level to where we can continue to scale the business, like we want.

Reggie Smith

Perfect. We've gone an hour, so I'm not going to hold you guys any longer. I guess we can catch up on the callback. Thanks for taking my questions.

Michael Linford

Thanks, Reggie.

Max Levchin

Thank you.

Operator

Thank you. We have no further questions in the question queue. And I would like to turn the call back to Zane Keller for some closing remarks.

Zane Keller

Well, thank you, everybody, for joining the call today. And we look forward to speaking with you again next week at our investor forum. See you there. Thank you.

Operator

Thank you very much. Ladies and gentlemen, that then concludes today's event. You may now disconnect your lines.