



# Second Quarter Fiscal 2025 Earnings Call

February 6, 2025

## Call Participants

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### **Affirm**

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

### **Analysts**

Andrew Bauch, Wells Fargo  
Andrew Jeffrey, William Blair  
Dan Dolev, Mizuho  
James Faucette, Morgan Stanley  
Jamie Friedman, Susquehanna  
Jason Kupferberg, Bank of America  
John Hecht, Jefferies  
Kyle Peterson, Needham  
Matt O'Neill, FT Partners  
Ramsey El-Assal, Barclays  
Reginald Smith, J.P. Morgan  
Rob Wildhack, Autonomous Research  
Timothy Chiodo, UBS  
Vincent Caintic, BTIG  
Will Nance, Goldman Sachs

## Presentation

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### **Operator**

Good afternoon. Welcome to Affirm Holdings Inc.'s Second Quarter Fiscal 2025 Earnings Call.

Following the speakers' remarks we will open up the lines for your questions. As a reminder, this conference call is being recorded and a replay of the call will be available on our Investor Relations website for a reasonable period of time after the call.

I would now like to turn the call over to Zane Keller, Head of Investor Relations. 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; 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 questions and answers.

On that note, I will turn the call over to Max to begin.

**Max Levchin**

Thank you, Zane.

Another great quarter, so I do not feel a strong need to expound at any length on the numbers. They speak for themselves. I do want to take a moment to thank my frequent partner in crime and our president, Libor, whose name is not, in fact, pronounced LIBOR, though that would make for an epic joke. He's been here at Affirm for 10 years. He and I met over 30 years ago, both of us studying computer science at the University of Illinois at Urbana-Champaign, and Affirm isn't even our first rodeo together, but I would be remiss in not taking a moment to thank him for not only putting up with me for 10 years, but more importantly, keeping our engineering, product, operations, and perhaps most importantly, credit efforts humming along with his typical Eastern European grumpy calm. Thank you, Libor. Here's to many more years together.

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. If you would like to ask a question, please press star, one, on your telephone keypad. If you would like to remove your question from the queue, you may press star, two. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Ramsey El-Assal with Barclays. Please proceed.

## **Ramsey El-Assal**

Hi. Thanks for taking my questions this evening. Terrific results. I wanted to ask about the noticeable increase in 0% loans and just ask you about how you're deploying those. Are you opening new merchant doors with them? Are there particular verticals you're targeting? Is it for existing partners? Is there a sort of a strategy behind it, or is it just more broad-based?

## **Max Levchin**

The very short answer is all of the above, but it's a great question and thank you, Ramsey, for asking it.

First of all, these are programs where merchants and sometimes manufacturers donate, if you will, parts of their margin to our borrowers to give them essentially interest-free or sometimes reduced interest loans. It's very powerful for a good reason, not paying interest at all obviously is a compelling reason for someone to pull the trigger on buying.

When our merchants turn towards growth, like they frequently do in calendar fourth quarter, they look for ways to do promotions. There are a handful of well-understood ways of doing it. One such way is discounts, so your typical 10%, 20% off, which compromises pricing integrity and teaches consumers to wait for the next 10% sale. Channeling the same promotional dollars into reduced APRs or 0 APRs is very powerful because on one hand, allows them to say, "Hey, here's a reason to buy," while at the same time saying the price is the price, we're not discounting. Our long-term merchants know this really well. Some of the earliest merchants really pioneered this practice. We've since really industrialized this by creating tools where they can do this essentially with very little work on our part. And so that's what's on display. We've said in the last quarterly call that that's a thing we're going to lean into, and we've delivered on that very strongly.

The thing that's really worth highlighting here that maybe sort of doesn't meet the eye immediately, we now have a very sizable audience that is fueled direct-to-consumer in our app and with our card. And for a long time, these promotions were largely available on our merchants' point of sale online. We have now offered them an opportunity to bring these promotions, to essentially syndicate them across the entirety of Affirm's surfaces, which is to say they're available in our app, on our card, and across many of the wallets where we're integrated. So you can see the beginning of the Affirm network syndication strategy really play out, where the offers that we negotiate with merchants on our consumers' behalf are available across all the programs. You'll see this narrative repeat it in things like universal financing programs that I'm sure we'll talk about in a second. But it's really, really important to us.

The network is valuable because it is aware of the SKUs, aware of the transactions and delivers great, unique reasons for people to buy, for consumers to buy on every surface where we play. We'll see more of this. You'll see things that are not immediately visible to the naked eye as we lean into the strategy.

## **Ramsey El-Assal**

Thank you. Thank you for that. One follow-up for me. You came in above your 3% to 4% RLTC guide this quarter and I think you've indicated in the past, you'd move to reinvest that excess RLTC rather than just letting it flow through to profits. What does that look like right now? Does that mean opening up the credit box a bit more, or maybe subsidizing some of these 0% loans? Does that then flow through to higher volumes? What should we be looking out for in terms of the P&L impact of that reinvestment of the excess RLTC?

## **Rob O'Hare**

Yes. I think certainly leaning into 0% and in some cases subsidizing 0%. And even the 0% product is slightly lower margin for us than our interest-bearing products, so taking a program that historically has been interest-bearing and introducing some 0% into that program would be slightly margin dilutive, but we think a great thing for our network in terms of what it does for reaching a broader cross-section of consumers. So yes, I think the growth in 0% in a quarter where we had really, really strong RLTC margins, I mean that's not a coincidence. That's something that we're actively trying to do more of.

**Ramsey El-Assal**

Got it. Thanks so much.

**Operator**

Our next question is from Will Nance with Goldman Sachs. Please proceed.

**Will Nance**

Appreciate you taking the question. I wanted to kind of follow up sort of on the last two questions combined. I know you're talking about leaning into 0% loans. I'm wondering if you could talk a little bit about just the RLTC margin profile of some of that incremental growth. I know that's a lever that you guys have to manage the margin. I guess where are you in that strategy? And obviously, there was some kind of, I think you called out a couple of benefits to the margin from some of the loan sales this quarter, but just kind of where do you kind of see a tipping point from a margin perspective where you start to lean in a lot harder? And are you doing that, or was the ramp in 0% more a function of some of these kind of merchant-driven promotions this quarter?

**Michael Linford**

I'll start, and then Rob can pile on. I think we definitely think long term, we want to be in between 3% and 4%. That doesn't mean that we would do things that we don't think are good for the business. And so we think about investing dollars or trying to drive incremental growth; we still want to do it in a way that makes good financial sense. So when we think about the credit question that was asked earlier, it's important to us that we don't dilute our performance on credit overall as that's a thing that's allowed us to execute so well in the capital markets. We've learned how important that is over the past several years and really have come to value the capital markets appreciation for our execution there.

We're really thoughtful about things that we do want to do. The framework of 3% to 4% remains the long term. That doesn't mean a quarter might be above and the bar for investment inside of a quarter is still really high. We think it's really important that we're putting dollars to work in ways that make sense.

The reason we like for example, investing in expanding really compelling APR offers like 0% and fixed APR offers is because of the positive selection that we do get from credit. So as Rob mentioned, those are actually a lower—slightly lower profile overall, but with also a lower credit profile, lower credit loss profile, which is obviously attractive to the overall portfolio.

**Rob O'Hare**

Yes. Also I think we're still fine-grained in terms of where we can set cutoffs for 0%, that we don't need to make a huge or long-term bet. We can iterate on setting the right approval thresholds to make sure that we're attracting the sorts of consumers that we want to attract and that we're running these programs at the margin profile we want to run at.

**Will Nance**

Got it. Appreciate you taking the questions, guys.

**Operator**

Our next question is from Matt O'Neill with FT Partners. Please proceed.

**Matt O'Neill**

Thanks so much for the question. I was just curious, entering the quarter, I believe you were pointing to a 3.8% RLTC margin, and this quarter benefited from \$60 million collectively between the securitization and loan sales. Did those two amounts kind of come and contribute together as expected, or was that a bigger-than-expected benefit? I'm just trying to parse the expected versus realized impact to the margin in the quarter?

**Michael Linford**

Thanks for that question. I think it's really important to be really clear on this. When we gave the guidance, we talked in November, we talked about the capital markets pipeline as being a key part of our confidence in that guide, if you recall, and that was in reference to the deals that we were working on and had confidence we would execute. Not all of those deals were incremental to our outlook.

It is the case that the pricing we were able to execute at was better than we thought, but not all of the benefit that we had associated with those deals was unexpected. We planned on doing those transactions, and we had a certain meaningful portion of that already in the number. But it helps explain why we were ahead of our goals, which were already set we think on the high end of the range.

**Matt O'Neill**

Thanks so much. As a follow-up, I know it's always a delicate subject on wallet partners, but it was mentioned in the release, so I figured I would ask. Is there anything there that came in better than sort of expectation or plan, or any sort of revised outlook as we turn into calendar '25 here with respect to wallet partners? Thank you. And appreciate the movie quotes.

**Max Levchin**

Finally, someone who cares. Generally speaking, very pleased with the wallet integrations. They're shaping up to be a really meaningful part of the business. Across the board, the metrics on these integrated wallets are really strong. We see good repeats. They add to the transaction per user averages, they add to conversion metrics that we track internally. They are accretive on the credit quality side of the equation. So all in all, we're quite happy with what's happening there.

A really important piece of our work sort of echoing a little bit to the answer to Ramsey's question, we've been quietly busy making sure that our consumer offers are harmonized across wallets and not wallet integrations, and that's really been just driving quite a lot of nice engagement. The purpose of that, of course, is to make sure that consumers understand that whatever door they choose, if there's an Affirm logo on that door, they're going to get the same quality of service, they're going to get the same offers, same rates, etc. That's been a really important, although kind of somewhat behind the scenes effort that also contributed to the wallet efforts.

I don't think we are at liberty to offer any updates to the forecast or models related to this thing, but we're certainly quite pleased with what's happening so far.

**Matt O'Neill**

Thank you.

**Operator**

Our next question is from Dan Dolev with Mizuho. Please proceed.

**Dan Dolev**

Hey guys, amazing quarter as always. Can you maybe—Max and team, can you give us an update on the U.K. launch? Specifically, you're moving into a territory where your incumbent is a market leader, so given that your product is much more diverse than just paying for, how do you think the share, market share evolution can go there over time and how much share can you take from the incumbent over time in Europe? Thank you.

**Max Levchin**

I think it's a little early to prognosticate share taking. I will note that by all public sources, we took share in the U.S. from our various competitors here quite nicely, so at least past experience bodes well.

You're totally right, we do have a diverse array of term offerings and the ability to deliver these really sophisticated subsidized APRs, even for longer terms. There's definitely very real market pull. One of my meetings today was actually with a prospective merchant that's quite a meaningful player in the U.K., and it's very clear that the market is hungry for things like 24-month loans and 36-month loans because the incumbent banks who provide that sort of product are just not really willing to approve, from what I can tell, at all, but I'm sure some people get a loan, but most don't. Our pure play competitors are just not in that space in any kind of a meaningful way. We're coming in loaded for that effort and excited to deliver our value and it seems like the merchants are impatiently asking us, not will you, but how quickly and how much can we do together? So very excited about the opportunity.

I think last we talked, I joked that we have dozens and dozens of transactions. At this point, it's still dozens and dozens, but many, so that's better, and more than a handful of merchants now. So we're still in the testing phase, we're seeing all the metrics that we need to track to feel confident rolling it out widely. In our letter you'll note that I mentioned that Shopify is our first major enterprise scale integration that's going to be live in the U.K. relatively soon. We're definitely the right time to check in on uptake with a wide group of merchants as soon as that goes. I don't preannounce anything but I can speak to it freely now. Sorry.

**Dan Dolev**

Thank you, Max. Amazing results again. Appreciate it.

**Operator**

Our next question is from Kyle Peterson with Needham & Company. Please proceed.

**Kyle Peterson**

Great. Thanks for taking the question and nice results here. Wanted to ask on the funding mix moving forward. Are you guys looking to expand and add more of these deals, kind of like the Sixth Street partnership? It seems like a really good win. Are you guys looking at more deals kind of similar to this?

How should we think about the mix of funding moving forward between warehouse, ABS and some of these forward flow agreements?

**Michael Linford**

Yes. We are really proud of the progress that we've made in capital markets this quarter. Our team has really executed very well out there. The partnership with Sixth Street is really an incredible leap forward for our program. It's a big program though so I wouldn't expect us to do in the super near term, a bunch more like that and that size and scale. It's a pretty big partnership and we spent a lot of time thinking about who and how we were going to partner there.

With that being said, I think it is reflective of a very constructive market that really does value the asset that we create and so we're going to continue to take advantage of that.

We are very thoughtful around scaling our capital program. We think about where we'll be in 3 and 5 and maybe even 10 years and make decisions that are constructive towards enabling the kind of scale that we're building to. At the Investor Forum last November, a year and a half ago, we talked about getting to \$50 billion in GMV. And so the team is hard at work in enabling the capital program scale to allow us to deliver against that goal. That'll be here before we know it and when it is, we'll take an eye towards the next milestone and continue to scale the capital program.

To get to those kind of scale points, it's important that we are thoughtful that we aren't leaning towards the flavor of the year with respect to the capital markets and are designing a program that is durable and can survive multiple economic scenarios and conditions. What it means is, yes, the forward flow market, in particular partnerships with private credit and insurance companies are really attractive right now, and we're going to continue to take advantage of those as much as we can, but we're also thoughtful around making sure that we have a good reputation and good execution in the ABS markets consistently. The two really do work with one another.

About the only program for us that is less a piece of real scale enablement is our warehouse business, and that's mostly because of the attractive financing that we get in the ABS market combined with obviously the good economics we have in the forward flow world.

**Kyle Peterson**

Great. Thank you. Then I guess just a quick follow-up on Sixth Street, in particular. I saw in the shareholder letter, you guys mentioned that's expected to start ramping up in second half of '25. Is that like a phased launch that will start smaller and the volumes will ramp? Or once the volumes start, is that a fairly steady run rate? How should we think about the contribution and the ramp time with Sixth Street?

**Michael Linford**

Yes, it should ramp over the course of the next year. We're not planning on turning it up all the way to its maximum levels overnight. We'll be very, very thoughtful about scaling it carefully over the course of the next year.

**Kyle Peterson**

All right. Thank you very much for the color.

**Operator**

Our next question is from Rob Wildhack with Autonomous Research. Please proceed.

**Robert Wildhack**

Hey guys, active customers were up 23% year-over-year. I think you noted in the letter that's four quarters of accelerating growth. I wanted to ask, A, where that is coming from; B, how much it benefits from things like the 0% APR growth? And then C, I guess, how sustainable do you think that is in the 20%-plus range?

**Max Levchin**

I think the root causes of these accelerations are multiple quarters, maybe even multiple years in the making. We were actually quite focused on increasing our active consumers, and it's gratifying to see the results compound. Probably the most impactful project in that effort were our focus on direct-to-consumer, so the card, obviously, is a great product to increase engagement; re-awaken, if you will, dormant consumers that have transacted with us some time in the past but haven't used us in a while, so bringing them back is a really important effort.

It also does not hurt to continue expanding ecommerce coverage. The more counters, if you will, the more checkouts we're on, the better the probability that someone who has used Affirm before will say, "Hey, I remember that product. It was great. Better than my credit card. I should use them again." All of those things add up to just a little bit more conversion, just a little bit better reengagement. For the avoidance of doubt, it is not some sort of a dramatic credit machinations behind the scenes, which people always suspect, "Wait a second. You just opened up the box." It should be apparent in the credit results, but, for the avoidance of doubt, we have been very steady-handed on credit.

The best I can offer is it was a very deliberate prioritization on our part about a year ago to focus on active consumers and, like everything else we do here, when we focus on something, it typically takes a little while but the results compound.

**Robert Wildhack**

Okay. Thanks. Then on the non-GAAP operating expenses, sales and marketing in particular, it looks like that was up quite a bit sequentially. You've typically not done a lot of direct sales and marketing, so just wondering what the driver was there and if you expect non-GAAP sales and marketing to stay at that like \$30 million level going forward? Thanks.

**Rob O'Hare**

We did make some investments in the quarter to support some new program launches, but the marketing spend that we had, to Max's earlier point, it really wasn't focused on direct user acquisition. We continue to see most of the user acquisition coming from point-of-sale, as Max alluded to. So really not a change in strategy.

In terms of the go-forward spend, we haven't broken out the OpEx into the various cost centers, but you can see from the guide, we do expect OpEx to be roughly in line with Q2 in both Q3 and Q4. So it's going to be a pretty similar OpEx envelope as we look ahead to the next two quarters.

**Robert Wildhack**

Okay. Thank you.

**Operator**

Our next question is from Reginald Smith with J.P. Morgan. Please proceed.

## **Reginald Smith**

Hey guys, congrats on the quarter.

Was hoping to dig in a little bit on some AI. You mentioned, I guess, the chatbot in the shareholder letter. I was curious how you guys are thinking about AI and whether it can be used for more commercial purposes, I don't know, products that face off against consumers? Then the second piece of that question is how AI has changed your thinking on headcount and what you can get done with your current size of your staff and if that's changed over the last 12 months? Thank you.

## **Max Levchin**

Thank you, Reggie. Good questions both. We're all contrarians here, so when the industry zigs, we zag. We don't talk that much about AI, but we've been using machine learning and artificial intelligence since inception, all of our underwriting and fraud finding is all built on what is now called AI. We have a lot of really cool stuff that doesn't meet the eye that we just don't brag about too much, but for what it's worth, a lot of the most modern transformer architecture approaches to model building is something we're actively investing in internally for all the same things we accomplish with more traditional machine learning and even some sort of really innovative stuff. This is the kind of thing where I'd love to dig into it and probably half the call would get very bored of my rants, but I literally spent part of my morning looking at a completely novel transformer architectural design that we think we're going to pick up some really interesting results from in fighting fraud. That's internally in terms of—actually, the underwriting and anti-fraud type stuff.

We are engaged in deploying AI tools for productivity purposes, which is absolutely a productivity or operating leverage enhancer across the team, thereby giving us choices in hiring and allowing us to focus on hiring specialists, sort of, of higher caliber versus more entry-level jobs, not just in customer service, but in things like engineering, etc., etc. Pretty excited about that.

A fine example, which I think I may have given before, but one of my favorite ones. We have 300 and something thousand active merchants. The total number of merchant contracts we have signed is in the hundreds of thousands. Anytime we're asking ourselves, can we launch this new product? Do our merchant contracts allow us to do this? Some human somewhere is going to open up 300,000 documents and that's not going to be easy. If you ask an equivalent of a well-trained LLM, you can answer that question in seconds. That's a fine example of where our legal team benefits from generative AI without the need to expand the headcount.

We're doing that in Legal. We're doing that in Compliance. We're doing it in Accounting, Marketing, etc. All of that is exciting and happening.

Then on the consumer side, I'm going to bite my tongue and not preannounce anything but obviously, the tools that—the opportunities that come out of Gen-AI are pretty awesome, and we'll have our say and products to show for it when we're ready.

## **Reginald Smith**

Got it. I guess if I could just kind of follow up and get a finer point on it, you guys gave some operating leverage targets this year. I guess how much—and even at your Analyst Day. How much AI is kind of baked into that leverage? Did you contemplate that fully? How should we think about that? Do you follow my question?

## **Max Levchin**

I think so. Rob, do you want to opine?

**Rob O'Hare**

Yes, again, I think what we're doing with AI has sort of been an inherent part of how we've operated the business as Max said, since inception. We really did take a hard look at driving efficiency in the business—that was over two years ago now. We've asked and demanded for operating leverage in every operating plan that we've built. I think finding ways to do more with less is just part of how we've been operating. It's hard to really quantify, Reggie, but we're always looking to sort of be as efficient as we can and to scale the business without adding tons of employees.

**Reginald Smith**

Perfect. That sounds great. Great quarter. Appreciate you taking the questions.

**Operator**

Our next question is from Andrew Bauch with Wells Fargo. Please proceed.

**Andrew Bauch**

Hey, thanks for taking the question and nice set of results here.

In the shareholder letter you talk about the redesign of the Affirm app and focusing on the utility. Maybe if you can just give us a little bit more color on what you've learned about the redesign and how Affirm is becoming more of a marketplace? What kind of other opportunities that's kind of leading to, and when we think about the Affirm Card longer term, getting to that level of everyday use and scale that you talked about in the past?

**Max Levchin**

Sure. It got edited a little bit in the final hours of the letter writing but many of the changes we built last quarter, which is what the letter is referring to, have only rolled out now for this one, and are still rolling out. We don't change UX willy nilly, so you'll see a few more—like the app will look different, for example. It still looks almost the same today, but some bits are different, more obvious changes will happen on the UX front.

If you sort of follow the app carefully, you'll see that we're leaning in more and more into this notion that the Affirm network is this really rich collection of merchants that at any given time are offering these staggering 0% deals, either funded by the retailer or the manufacturer or both, and our consumers have come to expect that the Affirm app is a place where they can find these deals. For a while it was kind of an organic thing that we sort of put together because people asked. I used to go on Reddit and read people asking the question, "Hey, where can I find an Affirm 0% deal?" At that point, it gave me the idea you should be able to find Affirm 0% deals maybe in the Affirm app, that would be good place. So we started there with a catalog and our deals tab in the app is a little bit of that, and we're now fielding close to hundreds of thousands of searches per week and rising rapidly in the app looking for these 0% deals. Obviously, it naturally leads to an opportunity to say, "Hey, someone would want to be featured there." We're very careful not to, God forbid, pit our merchants against each other. It's not a comparison shopping engine or anything like that. It's really a place to showcase the exciting offers that our retailers are bringing out to Affirm shoppers.

We keep on leaning to that. We keep on seeing better conversion. I think a quarter or two ago, I rattled off that the search to transaction initiation rate is like 25%. Last I looked it's clipped 30%, so people are using this really effectively to find reasons to say yes to buying. And so we'll keep doing that.

There are a couple more things coming into the app that are probably better experienced than described by me so I'll stop myself from revealing too much, but it's entirely about just making the card a more convenient thing.

I've talked about in the past that as much as I love my favorite child, the card, there's still so much to do in terms of user interface improvements. We just updated a little bit of the transaction planning flow so you can really quickly figure out what your purchasing power is and what will happen if you swipe the card without asking for a loan upfront, etc. So all of that—it's a long list of features that we're building, but all of it is all about just finding one, two, three more points of growth for the card. It's already obviously growing really well, but we're not going to be—I won't be happy if it slows down so we just have to keep working on it.

**Andrew Bauch**

Really exciting stuff, and congrats on the GAAP EPS.

**Max Levchin**

Thank you.

**Operator**

Our next question is from Jason Kupferberg with Bank of America. Please proceed.

**Jason Kupferberg**

Thank you, guys. I know, Max, you said at the outset the numbers kind of speak for themselves, which they do. So I'm curious, when things are going well on credit and funding and volume growth and profitability, really, what are the one or two biggest items that you're spending the bulk of your time focusing on driving improvement in?

**Max Levchin**

That list is long.

**Jason Kupferberg**

You can give me more than one or two then.

**Max Levchin**

I was trying to prioritize. Let's see.

We're ultimately live and die by conversion and uptake. And up to a point, you can do this by having blanket sort of great terms and more 0%, etc. At some point, you have to personalize where it's not enough to say to someone, your purchasing power increased. You have to speak to your purchasing power at a particular merchant is waiting for you, etc. There's always opportunity to find that efficient frontier of offering someone access to credit without overextending them.

Like one thing that—again, I'm sure I'm repeating myself at this point, but we're not in the business of making consumers spend more money. In fact, we're in a business of hopefully helping consumers pay less for access to credit, but we are more than excited to take over more of our consumers' spend. In the last letter, I think I said that we want to get the card to 20 million cardholders averaging \$7,500 per year of spend. Those are somewhat arbitrary numbers. They're just—they multiply out to a big number, and we're hoping to get bigger and bigger. Anything we can do to personalize the experience to give people a chance to feel like this is the best alternative they have to their debit or their credit card is what we're busy with. That's in the U.S.

Internationally, obviously, there's more than a little to do. In the U.K. we are doing well there, and there's lots to do, but the initial results are really—I'm pleased but not satisfied I think is the internal terminology I used, and etc. I think those are kind of the maybe things that are top of mind.

At any given time, there's always something exciting going on here. There's definitely some pretty fascinating things happening. I just answered Reggie's question—it was Gen-AI—that I spend a little bit of my time on. Again, not in the service of anything, but what we have set out to do, to build good financial products. There's just a lot to build in new product categories.

### **Jason Kupferberg**

Right. Maybe just a follow-up on card. I mean now it's up to 8% or just over 8% of total GMV. I'm wondering if you've seen any change in consumer behavior with the product in terms of pay now versus pay later, or any newer merchant categories that you're seeing increased traction in terms of usage of the card?

### **Max Levchin**

No, we have not, but we're very actively working on expanding it. The card is really great for some of the transactions that it covers today, and it's not optimal at all or not as good as it should be anyway for other kinds. I spend a meaningful amount of my time trying to answer the question of how do we get to that \$7,500 per user. Obviously, there's only so many couches and bicycles you're going to buy per year. There's a lot of other kinds of transactions, and so everything we do here is in the service, for the card in particular, of answering the question, "How else can we be useful to you? Where else can we have an honest financial product that doesn't charge you late fees? It doesn't compound, all the good things we do. It doesn't charge you any interest at all if the merchant's interested in getting you to say yes." One way to answer this question is, "How can we be useful to you in groceries? How can we be useful to you when you're buying medicine?" We just launched with GoodRx—it's in the letter, I think. That's a category that we really think is very important, helping people buy what is a progressively more expensive part of their life—medication—is something that we're quite proud about and excited to do more.

Each one of these categories is something that you have to think through and the modalities of purchase can be different. You can sort of imagine easily what it looks like to use Affirm Card at a restaurant versus a general merchandise store versus a specialty electronics store. Those are the areas of possible impact.

We are seeing—at this point, the card is big enough where we can observe usage, find areas where conversion is not as high as it is in other and ask ourselves what can we do to improve the experience. But that's actually probably one of the areas that I'm most excited about and spend a lot of my time on, trying to anticipate how can we improve conversion, improve uptake in places where it's not as high as it can be.

### **Jason Kupferberg**

Good stuff. Thanks, Max.

### **Operator**

Our next question is from Vincent Caintic with BTIG. Please proceed.

### **Vincent Caintic**

Hey, good afternoon. Thanks for taking my questions. Max, you spoke earlier about taking share in the U.S. this quarter. I think it's interesting when I contrast Affirm's strong growth and your RLTC margin versus some of the credit cards, for instance, that I cover providing maybe weaker 2025 guidance in GMV and calling for tighter credit underwriting. I'm wondering what you're seeing in terms of being able to capture maybe even more share through the course of 2025. Are you seeing opportunities with merchants and maybe different behaviors from customers as these other lenders pull back? What are you expecting? How will this play out over the course of calendar 2025? Thanks.

### **Max Levchin**

Definitely not the easiest thing in a world to predict, right? These things are a little bit—they're both slow-moving and quite dynamic, especially as seen through the lens of things like credit reporting. Obviously, any time lenders pull back in a credit card space it at least is often related to their forward-looking view as it is about them dealing with mistakes of their past. So any time somebody offers a conservative guidance on credit issuance, they may be speaking about their overall view of the consumer, thinking that people are going to spend less money or they're may be overextended, but as often as not, they're also speaking to the fact that they overextended that consumer in their portfolio and are now dealing with having to average into reasonable yield and loss rates.

Because of how our product works, we have much less of a concern in that vantage. We underwrite every transaction. The typical term is much shorter. We get to assess the consumers' financial health in the moment and do our best to help them, but if we think that they're overextending themselves, the answer can't be, "Sure, just put it all that into the big bucket and revolve away." So because we have this discipline and we try to extend it to our borrower, it's a lot easier for us to feel good about the state of the consumer, given our numbers. We're not apologizing for the mistakes of the past because the past is looking [audio dropout].

So I do think that if the reports and the forecasts are to be believed, some of these lenders will go back and we'll be there to help these customers because we should be. It's our job.

Again, if I sound like I'm hesitating, it's not that I don't have the confidence in our ability; it's just always very difficult to figure out what's going to happen next and we picked this business and this structure of our product specifically so that we can react very quickly to whatever macroeconomic winds might bring.

Right now, U.S. consumer is really healthy. They're shopping. They are paying their loans back. The economy is basically fully employed, which is really solid. We're not afraid of higher for longer because we've been able to operate at these rates quite successfully. Everything looks good. We'll continue lending because it seems like a really good business decision for us. Should things change, we will be there to pull back smartly. We don't grow based on credit. We issue credit based on our needs to print healthy credit results for our capital partners.

### **Vincent Caintic**

Okay. Great. That's very helpful. Thank you. Actually, a follow-up on that. You said, for instance, you're not afraid of higher for longer. It seems like every day we get some new macro or political news to think about, whether it's the CFPB director departure or tariffs or interest rates for higher for longer. Wanted to get your thoughts on maybe what's important and impactful to Affirm from what's coming out of Washington. Thank you.

**Max Levchin**

I think we are sufficiently self-aware to know that we are on the receiving end of what's coming out of Washington. Our job is to help consumers buy and merchants sell and we're pretty good at that job.

The rates don't phase us, and again, I think we've shown that we will thrive in just about any rate environment we've seen so far.

Regulatorily, we have not held back nor do we expect to do something new and unnatural based on the administration because we are guided by a mission and a sense of right and wrong that's internal to who we are versus to what's on the latest headlines, and we'll continue lending, we'll continue not charging late fees and not compounding interest and raging against deferred interest and things like that. None of that is going to change and there's absolutely no need for us to reexamine any of our core values.

Things like tariffs are super hard to predict, but they tend to have inflationary impact on the economy. When inflation was raging, we were there to help our customers afford things that they needed to buy and we'll continue to be there for them, etc.

I don't mean to sound overly sanguine because every day is a new day and we keep our eyes on the dials and hands firmly on the steering wheel, but we lend in Democratic and Republican administrations in red and blue states all the time and certainly have no plans to change any of that.

**Vincent Caintic**

Okay. Very helpful. Thanks very much.

**Operator**

Our next question is from John Hecht with Jefferies. Please proceed.

**John Hecht**

Good afternoon, guys. Congratulations and thanks for taking my questions.

You did talk about some of the goals within the card segment, but I guess what I'm wondering is what have you learned so far when it comes to customer interactions and kind of overall RevPAR per customer when it comes to that product layered upon the buy now pay later products that might have brought them into the network?

**Max Levchin**

I think I've said it before, and it bears repeating. Card is not in and of itself a booster to our usage. It's a filter in a sense that people that will eventually become our best consumers, people that really buy into the value proposition of Affirm, the 0% deals, the discounted APRs, the no fees, everything we stand for, if you opt into the card you're leaning into Affirm and choosing to become essentially what we think is going to be a lifetime relationship. The card is this: Do you want to embrace Affirm fully? Here it is. Please go for it.

I don't think it's for everyone, but it is our best customers choosing to do more with us. The good news is that we see no shortage of those, and maybe eventually it will be just all of our customers, or consumers, but that's an important thing.

As we look at the card stats, they're all staggeringly strong. It's our best economics. It's our best margin. It's our best engagement. It's our best transactions per year. All of that is really strong, but it's also not a surprise. It's not like, "Oh, we discovered that these card people are amazing." They were already on track to be our best customers; now they're just becoming our best customers that much faster. I think that's an important background to understand about that consumer.

We are leaning in very heavily into making sure that they never regret their choice, so there will be more and more things to like about the card program. We have other variants of the products that are available in a card in mind. We think we have another type of program to offer, types of program to offer to folks that are slightly different than today's consumer that takes up the card. The journey is just beginning. There's many more things to build. But generally speaking, these are the best consumers we didn't necessarily know we have, and as soon as they take up the card we know they're here for a long time and we're excited to serve them.

**John Hecht**

Okay. That's very good context and helpful. Second question is related to expense. I mean you scaled a ton on expenses in the past year, especially the tech side and the G&A side, and now margins are better than I think anybody would have expected. How do we think about that trajectory scaling in the next few quarters given the fact that margins are better, so you have an opportunity to reinvest maybe in some longer-term growth initiatives? I guess just the question is how do we think about the trajectory of that scale?

**Rob O'Hare**

Yes. Thanks for the question, John. We have made investments, of course, to support launches like the U.K., for example. Typically, what you'll find with Affirm is that the work that goes into getting a product or a program live happens several quarters before that product reaches public availability. That was definitely the case with the U.K. I feel like we've done a really good job of investing ahead of these programs to make sure that we maintain really healthy growth rates in the medium and long term.

I would also just say, I'll point you to a couple of things. The guide that we gave, both for Q3 and Q4, you can see the implied non-GAAP operating expenses. They're pretty consistent with the level of spend that we had in the second quarter. So in terms of the trajectory going forward, we do expect it to be relatively flat from the Q2 levels. There is a portion of our fixed operating expenses that is variable with transactions and/or GMV, just sort of general activity in the business. I think it does make sense that some of the operating expenses will scale a bit with GMV growth. Those are good spend; we're happy to spend a bit more as the business grows to support customers and to make sure all of our infrastructure for the sites and for our merchants is up and running. That's how we're thinking about it.

**John Hecht**

Okay. Thanks very much.

**Operator**

Our next question is from Andrew Jeffrey with William Blair. Please proceed.

**Andrew Jeffrey**

Good afternoon. Appreciate you taking all the good questions.

I wanted to ask a little bit about durability of the funding cost improvements you're seeing. Obviously, it's a good environment and you've made comments and demonstrated Affirm's ability to improve loan sale execution and overall funding costs. How much do you think what we're seeing today is structural? In other words, what would carry through, through the next consumer recession or economic recession. How much is sort of cyclical, a sort of a sign of where we are currently in the economy?

### **Michael Linford**

Yes. I think humbly, we're definitely the beneficiaries of the market conditions. Definitely can't—we can't ignore that the environment is very favorable for what we do. But we do think we're differentiated. We think that the performance that we've been able to demonstrate on credit has really changed both the tone and depth of conversations with all stripes of capital partners, and we think that's very durable. The commitment we've made to our investors, both debt and equity around our focused execution on credit and our commitment to deliver against those commitments, and job number one as Max always says, that commitment and the results that it generates that's who we are. It's how we're going to operate through any cycle and any macro volatility. What you're seeing right now is that kind of credit for the results that we're delivering combined with the favorable market conditions resulting in just really excellent conditions for us execution-wise. It is the case that we're beneficiaries, but I don't want to be dismissive of the advantages that we get because of the good work, and we think that's pretty durable.

For what it's worth I will note specifically in our fiscal Q2, we do benefit a little bit in terms of the average funding cost numbers that we show in our materials just from the timing of some originations and so I wouldn't expect the calculation as we do it there to be the same in the future quarters. But really, the fundamental trends—ignoring just kind of the math in the quarter—the fundamental trends are very real, and we think we can continue to sustain those.

We get a question a lot about how much is actually just truly rate driven, and I think we're not seeing any of the impact of rates right now in the business. I think it's much more about spreads and credit execution and the overall favorability of the asset.

### **Andrew Jeffrey**

Great. That's super helpful.

Max, if I could ask one on your baby, on the Affirm Card, which is performing very well. I appreciate the comments on efforts to expand use cases. Can you talk about, sort of as a percentage—I know it's still early, but as a percentage of those 1.7 million cardholders or so, how many of those are sort of primary banking relationships for Affirm, I guess, as measured by direct deposit? I'm trying to get a sense of kind of what the lift is potentially there, too.

### **Max Levchin**

Not many right now. It's a, I guess, good news, bad news, I'm not sure which one you're looking for, but there's plenty of room to add to the services we offer to the consumer because majority of them do not really have a depository relationship with us. We're not a bank. We're not particularly busy or engaged in gathering deposits from these consumers. That said, the ones that are willing to trust us with some of their money, especially in a form of direct deposit, benefit from us understanding their total financial state that much better and their ability to borrow goes up. So it's a natural thing we do where—we'll take your money if you'd like to deposit it with us and we'll understand you that much better, and we'll be able to expand your access to credit with that understanding.

There's definitely more to do there, and we're a little bit remiss in updating the Street on the progress we're doing there, but that's going to change in the next few quarters.

**Andrew Jeffrey**

Okay. Appreciate it. Thank you.

**Operator**

Our next question is from Timothy Chiodo with UBS. Please proceed.

**Timothy Chiodo**

Great. Thank you for taking the question. Often, investors look at the list of really, really strong partners that you have. Obviously, Apple, Amazon, Shopify, Walmart, Expedia. It really doesn't get much better than that, and there's this question of who could be next. Often, the answer is it's more the international opportunity with many of those large enterprise partners and customers. I realize you're likely not able to discuss your constructive discussions that you might be having with some of them, but if you could maybe just put some context around that opportunity in terms of if there are any limiting factors, if there's any maybe exclusive agreements or anything else that would preclude you from longer term being able to go outside the U.S. with many of those, in addition to the start you already have with Shopify?

**Max Levchin**

I am sure I cannot speak to exact contracts and such, just because these things are understandably frequently confidential.

The short answer is I don't think this is—sorry, to flip it around, it is currently a target-rich environment, to use a military term. I think we have lots of opportunity internationally, but also domestically. We're still not at 100% of ecommerce, and we aspire to get to dangerously close to that number. We are on precious few offline checkouts, and we certainly aspire to be a meaningful player in both. Obviously, the card consumers benefit from Affirm online and offline because the card works just about anywhere Visa is accepted, but there's more we can do there, and we will. But internationally, the pipelines of our sales team are currently quite well filled, and we feel very good about a lot of the conversations we have.

**Michael Linford**

Yes. Maybe I'd add a small thing. I don't think we think there's anything that limits our ability to go get those relationships except we have to go get them. As much as we have really good relationships and do something really unique for those partners, the reality is we're today really only live and just barely so in the U.K., and there's lots of other geographies that our partners are talking to us about going into.

We have to get there. We have to get live. We have to prove that we can deliver the same experience we do in the U.S., but I would answer your question directly that there is no limiting factor in our ability to scale with those kind of partners everywhere.

**Timothy Chiodo**

Perfect. Thank you for both of those. Appreciate it.

**Operator**

Our next question is from Jamie Friedman with Susquehanna. Please proceed.

**Jamie Friedman**

Hi. Did you share what percentage of the GMV is now made up offline, like face-to-face?

**Max Levchin**

I don't think we break that out.

**Jamie Friedman**

Okay. Maybe we'll wait for that for a future time. I wanted to ask about market share. Periodically, though, you do, Max, share your own observations about market share. I think you shared one about six months ago. Do you have that number now? If not, maybe qualitatively, if you could talk to how you saw a market share shift in the quarter?

**Michael Linford**

Yes. Why don't I grab that one. We did not break it out quantitatively. We do share our estimates from time to time. As you probably know, it's a bit of a difficult number to pin down. That being said, we do believe we're taking share in this market. We think we are the fastest growing of all of our large competitors. We think that we had real traction versus the competitors who break out their North American businesses, where we were able to grow much more quickly with them. I think it's a function of a number of factors, but not the least of which is something I think Tim alluded to, which is when you partner with the best who have good holiday periods, you are the beneficiary of that in terms of market share. Our distribution really did help us quite a bit last quarter and I think stand out versus our competition in North America.

**Operator**

Our next question is from James Faucette with Morgan Stanley. Please proceed.

**James Faucette**

Great. Thank you so much. I wanted to ask quickly—and I appreciate you guys have answered a lot already, owing to your approach to these calls, so I appreciate that.

Looking at the delinquency improvement in December, that seems to be seasonal and you expect to get some continued benefit through the tax return season or at least that would also be typical. You've also been clear that you intend to increase risk exposure at least some. How should we be thinking about your target high watermark for like a KPI like delinquency rate, and how much incremental GMV do you think you can unlock along the way to whatever that target is?

**Max Levchin**

It probably bears to start by saying the targets we look at internally for delinquencies, etc., are more than anything about our capital relationships. We understand what our partners require of us to feel good. There are always two numbers, right? There's yield, either for us or for them, it doesn't matter, and then there's delinquencies and defaults that kind of is a signal of safety and certainty. Both of those numbers are fundamentally determined by us and our partners in concert and in constant conversation. So we don't really think ever in terms of, "Hey, let's take a little bit more risk and grow a little bit more." The risk we take is determined by those conversations. The settings are very clear. The conversations are entirely in the context of credit, frankly, because our capital partners just don't care how fast we grow. They are here for the yield and for the safety of our returns and the stability of the numbers, full stop. They don't care if

we grew 35% or 25% so long as they're able to deploy capital successfully; they feel great about our stewardship of their money. That's that entirely independently of our growth.

It's exactly how it should be. I think many a company got in trouble in the past by saying, "All we need to do to grow is just be a little bit looser with our credit standards." That's the first step down into the proverbial hell of bad credit management, and we won't let that ever happen here.

You're totally right that there's a seasonality to credit improvements and you can see it in the typical supplement chart that we show as sort of the DQs fluctuate up and down as the year goes. We keep our hands on the wheel and we move that number up and down, approvals up and down based on what we're seeing in the numbers, how we feel the seasonality is going. Sometimes seasonality can be delayed, which is sort of this last year was a little bit weird in that sense. But again, like the two are separate conversations.

Our growth internally is a major topic and it's entirely in the context of what merchants can we do a great 0% program with? Where can we get into checkouts where we aren't? Who can launch sooner? Who wants to run a program in our app? Who wants to extend a 0% deal? They ran through the holidays, all the way through January. Those are growth initiatives that we really love and enjoy doing and pushing and selling and all that. It is never ever in the conversation that, "Oh, by the way, shouldn't we get a little bit looser with credit because that will help our growth?" Like the day that happens, I am failing at my job, Libor is failing at his. It just does not happen. I strongly encourage everyone to not contemplate the two in concert just because it creates a false correlation where there isn't one.

**Operator**

We have reached the end of our question-and-answer session. I would like to turn the conference back over to Zane for closing remarks.

**Zane Keller**

Thank you all for joining the call today. We look forward to speaking with you all again next quarter. Talk to you then.

**Operator**

Thank you. This will conclude today's conference. You may disconnect your lines at this time and thank you for your participation.