First Quarter Fiscal 2027 Earnings Call

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Call Participants

Affirm

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

Analyst

Adam Frisch, Evercore ISI
Rob Wildhack, Autonomous Research
Timothy Chiodo, UBS
John Hecht, Jefferies
Bryan Keene, Citi
Harshita Rawat, Bernstein
Will Nance, Goldman Sachs
Andrew Jeffrey, William Blair
Nate Svensson, Deutsche Bank
Jason Kupferberg, Wells Fargo
Dan Dolev, Mizuho
Dan Perlin, RBC
Matt O'Neill, Bank of America
James Faucette, Morgan Stanley

Presentation

Operator

Good afternoon, welcome to the Affirm Holdings Inc. First Quarter Fiscal 2027 Earnings Call.

Following the speaker's remarks, we will open 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'd 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 IR website.

Hosting today's call with me are Max Levchin, Affirm's founder and Chief Executive Officer; Michael Linford, Affirm's President; 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 your questions.

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

Max Levchin

Thank you, Zane.

We had a blue tsunami on Tuesday and a red wedding today. We are not hanging up a white flag, though, so thank you for tuning into our call. Hopefully, we'll provide some balm for your minds and some mirth for humors.

Let's get to your questions. Over to you, Zane.

Zane Keller

Okay, thank you. Operator, let's go ahead and begin the Q&A session.

Operator

Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment while we poll for questions.

[Technical difficulties]

We do have a question coming from the line of Adam Frisch with Evercore ISI. You may proceed with your question.

Adam Frisch

Going to start off with a wise-ass comment, "Did I miss anything?" But I think we are okay. I want to talk about growth for a second, and that is the crux of my question. I actually have two, and follow me along here. If you took your business as it is today and did not discount any new growth opportunities or initiatives that you are working on, things like Edge and international and all the stuff that you are doing with your crew, how long do you think you could grow the existing business in the mid-30%s range? Then the follow-up, and then I have one more on agentic. If you take all the new and emerging initiatives and put them back into the algorithm, how much longer do you think you could maintain growth somewhere in mid-30%s range of higher?

Max Levchin

I think you are asking me to make a forward-looking statement. I am telling the team all day every day that we are not to grow less than a three handle. That does not necessarily mean that we are guaranteed to do it just because I will it so. But I think a key part of my job is finding a way to grow at 30% plus as far as I am concerned, for a very long time. We are less than 4% of e-commerce. We are a speck on the overall commerce and just in the U.S. We are live in four markets. We are going to be live in a few more. There is not really a reason why this cannot continue for a very long time. It is ours to screw up.

There are a lot of really interesting things we are working on that are not in the picture. Yeah, I think we have lots of outs in the game. There is a reason why we keep on counting the number of quarters we have been growing by 30% plus consecutively. Just trying to make a point.

Rob O'Hare

Adam, we have tried to reflect that in the full-year guide. We have set a floor for growth. That floor now starts with a three as well. We are signing up for at least 30% growth this year. We are doing what we can. We have seen really good momentum in the business. Even in the first month of Q2, the business is growing at a high 30%s rate today. Yeah, I think there is a lot to be bullish about from a growth perspective.

Adam Frisch

Okay, awesome. If I could just squeeze in one more on agentic. There is lots of speculation out there that certain forms of buy now, pay later, like Pay in X and Zeros, are, quote, unquote, "better" for consumers because they are, in essence, getting free money. Agents will favor that, and therefore there could be a shift in ad dollars over time to buy now, pay later platforms. Do you agree with this thesis, and is that one of the longer-term drivers that you are spending time on? Thanks a lot.

Max Levchin

We are definitely spending a lot of time in agentic, so that is certainly accurate. We are in really productive conversations with some folks, maybe more than that with others. Directionally, very important. We care a lot about it. The zero percent better than not zero percent is a slightly simplistic way of cutting it. If you are looking at someone who is on this call, the answer is an unequivocal yes, because you are getting free money, especially in the world of slightly rising interest rates. If you are a salaried employee and you are managing your cash flow month to month, you care a lot more about a monthly affordability metric versus a true interest number you are looking at.

There are plenty of consumers that we serve at lower income levels, who are perfectly great risks, by the way, they will gladly pay you back and do so time and time again, but they really care about longer terms. At some point, Zeros become uneconomical in longer terms, and they are completely okay with that. Of course, retailers are excited to subsidize to compel them to transact anyway, but they may not care about a zero percent loan as much as they care about less than $100 a month. If it becomes a 15% APR instead of a 25% APR, they are excited. But even at 25% APR, if it fits into their monthly budget, they are excited.

I think that the thing about this is agents are reliably going to pick the right instrument for that consumer. For a lot of people, it will be zeros better than not. For a lot of people, it is going to be the longest term possible is great, and there is plenty in between too. I think just in general, agentic shopping will optimize for the most rational transaction pricing. We are the only game in town,

broadly speaking, that knows how to price every transaction at an individual level in real time every time. We think we are going to benefit significantly in the world of agentic shopping.

Adam Frisch

Thank you. Very helpful.

Operator

Our next question comes from the line of Rob Wildhack with Autonomous Research. Please proceed with your question.

Rob Wildhack

First, a quick one for Rob. Just on funding costs, the letter called out that they're up 27 basis points quarter over quarter. I think the old rule of thumb had been 40 bps for every 100 bps in broader rates, but you're already at 27 here. Can you just talk about the drivers there, and then your ability to offset higher funding costs elsewhere in the P&L, since it didn't really have much of an impact on margin?

Rob O'Hare

Yeah, I mean, there's seasonality, right, in terms of how the balance sheet is composed from quarter-to-quarter. I guess I would point towards the year-on-year declines in funding cost as a percentage of loans on the balance sheet. We're pretty proud of that fact that we're down at 6%. I think that's a really, really healthy level for the business, and that's frankly showing up and helping us drive to the 4.3% RLTC take rate that we posted in Q1.

I think funding costs; they continue to be something that we feel like we have really good line of sight into. We did call out in the letter that of the on-balance sheet funding, more than 70% of that funding was fixed rate in nature. I wouldn't read too much into the sequential uptick in terms of that being a pure flow-through of rising benchmark rates. I don't think that's the right read here.

We've done a lot to, frankly, make sure that we take advantage of what has been a really compelling ABS environment for us. We've been in the market with several deals, and the good news about the ABS market is those deals are on the revolving side, on the on-balance sheet side, those are fixed-rate deals in nature. We've even gone out to three and now five-year deals recently here in the market.

I think the combination of all of that is that we feel like we have really good line of sight into funding costs, and that's being reflected in all the guidance that we set, obviously, both for Q2 and then probably more importantly for the full year.

Rob Wildhack

Great. Then maybe one for Max. In the letter you talk about the transformer-based architecture underwriting model, and I think I can understand what that's doing, but would just love to hear you talk more about how that works and what you think a new model like this might unlock in terms of accuracy, lower loss rates, faster growth, etc.

Max Levchin

There's actually an excellent, if you search Affirm technical blog, I think that's the headline, you'll get like a 2,000-word essay on the exact architecture design, almost exactly. We took care to remove

some trade secrets from it, but it's a pretty disclosive document describing both the process of building this thing and how it really works. If you want real details, they're all there.

The extremely shortened version is there's a bunch of information both in external data sources and our own that encodes really subtle patterns or that represents really subtle patterns, in particular in repayment, but also just other relative metrics. When you're designing features, like the thing that you actually use to predict off the model, up until recently, the only way is you have really smart humans and they sit around and they're like, "So, if we look at the patterns of when this person may have been paid, we don't really know exactly." You do a lot of hypothesizing, and then you say, "All right, we think we see a pattern, and we're going to try to encode it in a feature." Then you put it through a bunch of things, including things like, well, would this possibly correlate to prohibited bases? Is this too close to something that could correlate to race or where you live?" You do a lot of manual work, and that eventually ends up in a model that predicts risk and can be back-tested, et cetera.

We built this really cool transformer model that figures out how to learn these subtle patterns without any human involvement at all, and then produces essentially feature candidates and then trains on that all entirely in a single pipeline. One, you're picking up information value that may be just too subtle for a human to detect to begin with, but more importantly, you're just doing it a lot faster.

Again, I'm oversimplifying. If my AI people are listening, they're rolling their eyes and feeling like, "Oh my God, this guy's an idiot." But I promise you, we have much, much better people who actually designed this thing, and the net result is it improves our approvals roughly twice better than the next candidate in a traditional- so we have a family of models that we've been training for 15 years now, almost. Every time we launch a new model, we initially compare it in its ability to separate good risk from bad versus the prior candidate. When we looked at the traditional model and this new architecture, compared the performance of the future candidate and this new idea, the new idea performed twice as well.

Doesn't mean we're approving twice as many people at all. It means we're approving probably two, three points more people. But those are people who we are able to lend essentially with no incremental loss whatsoever. That is an enormous booster to how do we get to this 30% growth? One way, build new features, new products. The other way, find better risks without taking incremental loss or incremental delinquencies, and that's exactly what this model does, with a whole pipeline of more models in that family coming out. We are pretty excited about them.

Rob Wildhack

Very interesting. Thank you.

Max Levchin

Yeah. By the way, I strongly encourage you to read the blog post. It does a better job than I can in five minutes explaining this.

Operator

Thank you. Your next question comes from the line of Timothy Chiodo with UBS. Please proceed with your question.

Timothy Chiodo

Great. Thanks a lot. I'm hoping we could talk a little bit about some of the progress being made with the adjacent verticals. The TAM that you gave at the Investor Day, it's multiples of e-commerce. You've had, I know, a lot of progress with Intuit, ServiceTitan, and many others. I was hoping we could just touch on that for a little bit. Thank you.

Max Levchin

Yeah. You can see in the supplements that by far the outperforming growth segments of the ones that we break out, other than the nondescriptive other segments, the best one is services. That's exactly what the brands are saying. That's going really well. It's still super early. That is a major, every time we launch a new vertical, it takes us a bunch of quarters to figure out the perfect product market fit. You have to do it carefully. You can't just show up with a please borrow money from me sign and see what happens. But that's one way to irresponsibly land and we don't do that.

We're still learning, but we're very excited about the progress. We're seeing really good uptake. It unlocks things like home improvement, which we were never really a player in. It unlocks access to offline services, which is really just a hard thing to access unless you have these platform partnerships, which we now do. Doing really well there. We are always looking for more. I learned not to pre-announce, but this is not the last segment we're going to go into in a big way.

Timothy Chiodo

Thank you.

Operator

Your next question comes from the line of John Hecht with Jefferies. Please proceed with your question.

John Hecht

Afternoon, and thanks for taking my questions. Really big progress, ongoing progress with more direct-to-consumer activity. But it also looked like the merchant revenues relative to GMV were lower as a percent. Is there some tie in there? Do the merchant discount rates vary from D2C versus directly at the merchant?

Rob O'Hare

The short answer, this is Rob, the short answer is yes, it does. Most of our D2C program runs on either a physical card or a virtual card. In most cases, we're collecting interchange, and that interchange is going to be a function of the merchant where the transaction occurs, and in some cases, the industry for the transaction as well. On average, the interchange that we collect is probably lower than the average merchant discount rate that we would have through an integrated merchant. There is a little bit of downward pressure on that network revenue line.

The good news is our direct-to-consumer business is very interest-bearing heavy. Affirm card, for example, has historically run north of 80% interest-bearing loans. The all-in compensation to Affirm is on average much higher than the business at large, but it's that mix of merchant revenue or network revenue in this case that is going to be a bit lower. But we think that that product still works really, really well for us, and we're really proud of the growth and the profitability that it's thrown off.

Max Levchin

I'll add a little bit to this just because I think it's important to kind of see the long-term version of this as well. As we integrate with more and more merchants, we're able to do what we call the universal financing programs, where the financing programs we offer to consumers at the point of sale, which sometimes is 0% financing, sometimes longer terms, but inevitably subsidized by the merchant or the brand they're selling, is also available to consumers on the card.

We can always think of the card and really all of our direct-to-consumer products as a little bit of a trailblazing device. We go to a merchant. I mean, this is a very, very true story. I personally and our sales team goes to retailers and says, "Hey, we have already driven a couple of hundred million dollars of volume for you using Affirm card. But this is just half the story. We can do amazing things for you. We can double your volume if you start participating in these 0% deals that we have and all the other tools that we've built, like Boost.ai, etc., that allow you to optimize your basically marketing dollars." The way to do that is a direct integration. As soon as the direct integration happens, you will see those 0% deals show up, not just at a point of sale, but also on the card. We're investing in the card even more, making exclusive card deals happen. You'll see a bunch of that in this quarter that we're in now.

Today, what Rob described is exactly how it goes. Over time, each merchant where a card gets a lot of use will get a call from one of us saying, "Hey, you really should integrate directly. You will get the other half of our product that's amazing." We are more than successful at doing those sales.

John Hecht

Absolutely. That all makes total sense. I'm wondering what you've learned so far in terms of the card usage.

I guess the in-store component of usage, does that change the transaction type? How are people making payment decisions? Are they paying in full or are they migrating into a loan more commonly? Maybe just any insight on what you're observing at the transaction level with the card product.

Max Levchin

Sure. The fraction of in-store transactions, I think, remained pretty stable around 30%. The frequency is a lot higher, but you will know that. It remains quite high. The pre-plan, so you create a payment plan before you swipe, before you tap, is still the dominant use case. Consumers are using us with a card similar to the way they use us at the point of sale. There is definitely a non-zero element of post-transactional splitting, where you first transact with a card using it as a debit card, which is what it is underneath, and then choosing to turn it into a loan ex post facto, which we support as well. It is a little bit more, let us call it, diverse usage pattern, but fundamentally, it is access to Affirm products and Affirm programs with a piece of plastic.

John Hecht

Great. Thanks, guys.

Operator

Your next question comes from the line of Bryan Keene with Citi. Please proceed with your question.

Bryan Keene

Yeah. Hey, guys. Just wanted to ask Rob a little bit about provision expenses as a percentage of GMV went up. Delinquencies went up a touch. I know that's probably not a big deal. I think you guys made some comments on it in the Shareholder letter, but just wanted to ask about that. Then on the GAAP operating margin in second quarter guide was a little below street. I guess it was similar to the guide in first quarter. Just thinking about the pluses and minuses in GAAP margins as we go to second quarter from first.

Rob O'Hare

Yeah, sure. I will take them in order. I think in terms of the provision dollars in the quarter, we were in a position where we did choose to run some experiments within the approvals and the origination. We made the decision to keep those loans on balance sheet, and the experiment itself was pretty localized to the month of September. Those loans are on the balance sheet. They are showing up in the allowance. Because they are experimental, I think they are more than properly accounted for in terms of allowance.

That did have the impact of driving a little bit more provision expense, a little bit more allowance in the quarter. But when we look at the profitability and the revenue less transaction cost take rate that we were able to drive in Q1 of 4.3%, we felt like that was the right thing for us to do, and it was overall accretive to the network and helped drive on the new user front particularly. We feel good about that decision, and the byproduct of that was a little bit more provision expense in the quarter. But again, that felt very comfortable just given the profitability we were seeing in the first couple of months of the quarter.

On the GAAP operating income on the guide relative to external expectations, I mean, obviously, I think on our side, some of the GAAP-only expenses that would be the drivers between adjusted operating income and GAAP operating income. I think as I have looked at some of the external models, I think maybe there is a little bit of under-modeling around the warrant expense in particular.

As most folks know, we have a program with a large partner where there is a performance component, and that partner earns warrants through new-to-program users. We are seeing actually a nice trajectory of growth in new users through that program, partly driven by some international expansion that has happened. I think that is an area where our internal forecast is maybe a bit heavier on expense than the external estimates. I think ultimately that is a really good thing for the business. We really are excited about getting this toehold in the U.K., and I hope that it is the beginning of several successful international markets. Again, I think that is the one area I would point to that maybe the Street has under-modeled for us in terms of expense. I think that is driving most of the delta in the GAAP operating income margin.

Bryan Keene

Is there any seasonality in that, in first and second quarter, just based on different trends and volumes?

Rob O'Hare

I think the seasonality probably looks a bit like retail. Then there is also this maybe added complexity where in a new market, we see a higher rate of new users than we would in a more mature program or mature market. I think it's a combination of those two things. But yeah, there's definitely some holiday period seasonality.

Bryan Keene

Thanks so much.

Operator

Your next question comes from Harshita Rawat with Bernstein. Please proceed with your question.

Harshita Rawat

Hi, good afternoon. I have two questions. One, I think in the letter you referenced, kind of bank account for down payments instead of debit cards. I guess my question is, what are the challenges to getting more borrowers to do that, I guess? Also, I think help us kind of quantify some of the kind of savings. I know obviously you save on interchange with debit cards, but there's also some costs associated with bank accounts. Then second, maybe talk about digital wallets. You referenced that in the letter. You're live with Apple Pay, Google Pay. What have been the learnings so far from the rollout as well? Thanks.

Max Levchin

Yeah, I mentioned the down payment with ACH, a little bit in the same context as the AI gateway. There's a lot to save still inside our system. We're fairly well optimized in terms of managing operating expenses, but at our scale, there's some serious fire engines going by. Hopefully you cannot hear it. They're clearly in a hurry.

Anyway, so these are, and I guess one way to think about the way to analyze these savings is, the approach anyway, every time you switch from a real-time network to a non-real-time network, you are introducing an element of risk. We are very good at risk management. At a certain scale, you have enough data where you can essentially self-insure using debit card networks to take down payments. You get a little bit of an insurance of good funds, but you're paying interchange.

By switching to ACH, you are introducing a delay. You don't necessarily know you're getting good funds in real time, but if you have a really good underwriting model, you're able to build a specialty model for that particular form of payment, you are saving money and effectively just putting it towards giving consumers better deals and saving on OpEx. That's kind of the general thrust, and I mentioned one, but there's many such initiatives going on, and they're always going on. This one was just particularly dear to my heart because it was a long time in making.

Then on the wallet side of things, no, we are trying not to talk in great detail about any one particular product, so I'll keep it general. Generally speaking, it's been very accretive. We find that folks that prefer digital wallets really stick to them, so having a direct integration is a great unlock for repeat usage. We definitely get some new users through those integrations as well, but the most compelling benefit for those deals is always just being there when the consumer is. If you look at some of our merchant partnerships, you'll find our logo, you'll see many digital wallets right next to us, and any door you go through, you will find Affirm available. Some folks love going through our flows. Others like to do that inside a digital wallet provider, and we see it as an important part of our business to be in all those places.

That's been kind of the most important thing. That strategy was something we said, we sometimes say we embrace channel conflict as sort of a shorthand for this, and we have embraced it for a little while, and it has paid dividends. We are seeing those users come back through those doors over and over again, and they become accustomed to finding Affirm exactly where they prefer to shop.

Operator

Your next question comes from the line of Will Nance with Goldman Sachs. Please proceed with your question.

Will Nance

Hey, good evening. Thank you for taking the question. I was going to dovetail off that last one there, at least the answer. It was great to see the DTC and wallet driving around half of the volume this quarter. When we think about ways to drive that even higher over time, obviously you have things that you can do that I would kind of put in the network effect category, adding more merchants, more nodes to the network, and more places where you can use Affirm, and that just driving good things for the overall business.

If we think about it more from an issuing perspective, what are some of the things that you're contemplating just to enhance the overall experience of the Affirm user and just drive kind of more repeat usage, more habituation? I thought the example that you just gave on the wallet partnerships was great. Anything you can talk about just on kind of user experience and kind of things on the roadmap there? Thank you.

Max Levchin

Never pre-announce the roadmap. It takes longer than you think. I'll bite, but I'll try to keep it not overly dissipative. There's a lot of work being put in right now into the card. We really think it's the best way to use Affirm, or it should be the best way to use Affirm. We think it already is. There's so much more we can do. The card should be unequivocally the best, most protective, least difficult. It should be the thing that you prefer. The reason I'm so excited on that is because it fits naturally into both kind of a normal, quote-unquote, point of sale integration, doesn't matter who processes your card. It also fits natively into all the digital wallets. We're very, very focused on that product, just continuously adding benefits to that.

There's a lot of work being done. You'll see some of it actually launching literally in days, if not weeks. You'll see an answer to this question in the very immediate future. There are some card-specific financing programs coming. There's card specific Affirm offers that are going to start appearing that will make the Affirm card the preferred way, kind of just through the pure financial benefits to consumers.

I'll stop there, but I think that's kind of the thrust. Some of this is, by the way, what we internally call the mainline development, and then there's even more coming a little bit later from the ZT1 team, where we're really thinking in the sort of the next iteration of the card.

Will Nance

Great. Looking forward to that. Thanks for taking the questions.

Operator

Your next question comes from the line of Andrew Jeffery with William Blair. Please proceed with your question.

Andrew Jeffrey

Hi. Good afternoon. Max, you always speak so eloquently about credit and your ability to, I think you talked about the we take risk comment in the letter. I think it was great. But the credit and the ability to manage risk and increase approval rates across the credit spectrum. I wonder if a little bit

of tonight's reaction to another really good quarter is just that Michael explained the delinquencies in this quarter, but just a reaction to the higher provision and concerns that in a more uncertain economy, credit becomes a problem or credit weighs on our RLTC. I wonder if there's just a misperception fundamentally about Affirm's ability to compound GMV at 30% plus while maintaining the excellent credit outcomes we've seen.

Max Levchin

I'll start, but I think Michael is the one who's going to give you the really eloquent answer. But I'm going to steal a line from him before we get anywhere. I'll tell you a story. In May of 2020, we were not a publicly traded company. We did not have a lot of cash. We had no idea what this COVID thing was going to be all about. The stimulus check hasn't arrived yet, and Michael and I were staring at our book, asking the question, "If the world goes to absolute hell in a handbasket, no one can pay their bills, what are we going to do?" He gave a very pithy line that remains true to this day, a whole six and a half years later.

This was in May, that whatever happens, by August, it won't matter, because the entirety of the book at risk will have been paid off. We lend very, very short weighted average term. I'll leave it to Michael to repeat. I think actually Rob is the one who explained that a lot of the delinquency changes are entirely seasonal, the year-over-year change is irrelevant. The provision update has to do with some, we think it's very intelligent segmentation, but it's all entirely in our control.

But the bigger point, if you don't believe any of the eloquence that I bring to my storytelling around modeling and risk management, just know that the average term is still very, very short. We get to deal with whatever overexposure we might take on today is less than 90 days. So, that, that should give a lot of people, I think, great comfort in our ability to recover from whatever mistakes we might make. That said, like a third of the Company is involved in some form or another of managing credit. Credit is job number zero, used to be my call sign in every one of these letters until I got tired of repeating myself. But it hasn't changed the way we run the business. If that's the reason the market misunderstands us, let it stop at misunderstanding.

Rob O'Hare

Then just two things to add. First is the credit outcomes that we are getting now and have gotten over the past six years of our public life have been in line with what we wanted to have. Our credit outcomes are a choice point that we make in our business, where we want them to be. Everything we do is intentional with respect to credit. We can do that because we're looking at hundreds of millions of decisions every quarter when we're making underwriting decisions. You can tune those models to the appropriate amount of losses you'd like to have based upon that just incredible volume of decisions that you're making in a quarter.

The second is the capital markets have spoken very loudly on this topic. Whether it's the ABS markets who both understand and appreciate and have the first risk and [inaudible] in a ton of our loans. But also, the forward flow market, really sophisticated, world-class blue chip loan buyers who understand the credit losses in our business exceptionally well, continue to be extremely interested in exposure to our assets. These folks are honestly some of the smartest credit investors in the world, and they are still extremely excited to participate in our asset.

ABS deal that we were in market right now on and priced today was over four times subscribed despite doing it in one of probably the worst macroeconomic, certainly in the equity capital markets days we've had since COVID. To be able to price a deal like that without volatility, you can't do that without that market giving you two big thumbs up on your ability to control losses.

Andrew Jeffrey

Okay, I appreciate that very much. Sorry about misrecognizing you, Rob.

Rob O'Hare

It's a compliment.

Max Levchin

If you've been tuning in for a while, you know how we feel about credit and how much we care. It sometimes frustrates us that not everybody has gotten the message yet, but we'll just keep compounding at 30% and keeping that DQs in the right range, and at some point, I'll be helping out parents.

Operator

Our next question comes from the line of Nate Svensson with Deutsche Bank. Please proceed with your question.

Nate Svensson

Hey, guys. Thanks for the question. Max, one for you. I was hoping you could talk a little bit about the time you're spending now with the ZT1 team. Clearly sounds like it's positive for your mental health, but I guess in terms of what your role in that team opens up for Affirm as a whole now that you're able to refocus your time a bit, and I think in one of the prior questions you said you're not going to pre-announce roadmaps, so I won't ask that. But I think more of a flavor on how you're spending your time with that team, what you're working on would be helpful.

Max Levchin

Sure. I know some of them are listening. Shout out to my ZT1ers. They are a genuine delight of my daily grind here. I guess some sense for what we're actually working on. I'll give you a true look behind the curtain. The MO that I set with ZT1 roughly to try to remind us what we're here for every quarter or so is to work on projects that have either a risk-adjusted or probability-adjusted path to a billion dollars in revenue in a span of five years from launch. Or to move the needle to the tune of 15% to 20% on an existing line of business that is already a billion dollars.

In other words, we either want to take a bet on an existing thing that we believe Affirm proper is misprioritizing, and we have both the audacity and the capacity to try to move the needle there, or just frequently, back more frequently, we actually want to go into kind of the dream big approach where we build something and we have no idea if it is going to work or not, but we are going to try. If we see a heartbeat, we go all in and build it until it gets to a point where we hand it off to the main development team and then they pick it up.

One practical thing, this is not a big reveal because we have talked about this product before. Every once in a while, we mention BSPs or brand-sponsored promotions. This is the idea that if you are a multi-SKU general merchandiser, you are probably selling a lot of things that you are not marking up more than 10%, maybe 15%. When Affirm comes in and says, "Hey, you ought to do a zero percent sale," they are not thinking it is a great idea. Black Friday is coming up, zero percent drives the volume, let us do this. If you are a vertically integrated seller, like, of course, sounds like a great idea. Here is my 6.5% to 9.5% MDR. Let us give lots of people access to 0% loans.

If you are a general merchandiser and you are reselling a branded product that someone else manufactured, your markup is basically the ask that we are making of you for the MDR. The zero

percent is not going to happen unless you are just trying to have empty calories. However, the original equipment or the original item manufacturer retains a lot of margin, and many of them are motivated to put their marketing dollars to work. In fact, they already have existing relationships with the retailer, and so helping the retailer and the brand tie all those funds, which are typically fungible, there is a lot more margin to go around, which usually gets spent in sort of silly promotions, like driving, “Did you know there is a 20% sale at retailer X on brand Y?” That is an extremely unsophisticated way of doing it. A much better way is, “Did you know that this particular SKU is on a zero percent loan at the exact retail price? There is no discounting, but this retailer has this brand at zero percent available right now.”

All of this sounds kind of obvious. It is brain dead that nobody has done it. The reason no one’s done it is because it’s really hard to scale. This actually happens in retail today. We didn’t invent the genre. If you talk to any major player, any general merchandiser, they’ll tell you, “Oh, yeah, we do this all the time. It’s called vendor promotion, vendor-funded promotion.” You go to the vendor and say, “Hey, give a couple hundred thousand dollars, I want to put you into my circular. It’s going to go out to people.” It works okay, but it’s run off of spreadsheets, and people have to make phone calls, and it’s quite a lot of manual labor. They do this maybe once or twice a year, and it’s generally speaking applicable to every item for a brand, and it’s very, very undifferentiated.

We’ve been building a system that allows for all of this to be managed basically entirely electronically, where you can really have a large number of SKUs at any given time with these brand-sponsored promotions. This requires things like budget management, because nobody wants to run these promos forever. They need to be launched and wound down at exactly the right times. They have to hit at the same time as marketing promotions that happen. Typically, within the general merchandisers, retail media networks, all of them now have their own advertising arms, so this has to echo through that and reach the consumers that way. Plumbing all of that together and making sure it’s still very profitable for the retailer is just an incredible amount of work. That’s what we’ve been building at ZTI.

If you want to see what that looks like, if you actually play with the Affirm app, you will find that we’ve scaled BSP out very significantly. I’m not going to drop any names. This call, it’ll be a good scavenger hunt. There’s about a million different SKUs in the Affirm app that are brand-sponsored funded. That’s very real. It’s not in anyone’s forecast. Discount heavily everything I say here, but I’m personally very excited what this will do for Christmas sales, and hopefully we’ll scale it out to hundreds of millions of SKUs before too long.

Nate Svensson

Yeah, super interesting stuff. Thank you, Max.

Max Levchin

Hopefully, half of this made sense. If you want a flavor of what it is like to work with me, these rants occur in ZTI on a regular basis.

Operator

Your next question comes from the line of Jason Kupferberg with Wells Fargo. Please proceed with your question.

Jason Kupferberg

All right, great. Good evening, guys. I wanted to just come back on GMV growth for a minute. The 34% in Q1, obviously, real strong. We're doing at least 30 according to the new guide for the full year. On the surface, that implies some deceleration during the balance of the year. I know your compares get a little easier because you got past the Walmart headwind, et cetera. Any factors that would actually drive a slowdown off of these Q1 levels, or is this just the typical conservatism that we've come to know and love?

Max Levchin

Yeah, I mean, obviously, we've given a floor for growth for the full year at about 30%. It's not a range. There's no ceiling to growth. We're doing everything we can to grow the business responsibly. We're seeing growth rates early in Q2 and certainly in September as well that were much north of what we posted in Q1. No reason to, no reason to, nothing to point to specifically in terms of a deceleration in the business. We just wanted to set a responsible floor for growth for the full year. That's what we did with the FY '27 guide.

Jason Kupferberg

Okay, understood. I also saw in the Shareholder letter, you have the first Affirm Edge pilots are going live in the first half of the next calendar year. Talk a little bit more about how many banks that will be with, what is the general size of these institutions, and any other color, because obviously, based on what you talked about at the investor day, it seems like it could be pretty exciting over a multi-year period. Thanks, guys.

Michael Linford

Hey, I'll take this one. This is Michael. We're really excited about Edge. It's a chance for us to distribute what we know is a better way for consumers to access credit to a really very wide audience by partnering with the issuers of debit cards across banks of all sizes. It is also really early. We've been hard at work, working to develop the product. I feel like we're really close to being wrapped up with some of the development work. Then we will need to figure out the right set of partners to get live with.

Nothing to announce here today. But I think patience is the code word here. We have a set of partners, both the platform partners as well as the end customers here who don't move exceptionally fast. We have to be really mindful of just the pace at which they can move, and we have to pace ourselves to them. They're going to govern that. It's going to take a little bit of time, don't have lots of partners, but are and continue to remain very excited about the product.

Operator

Thank you. Your next question comes from Dan Dolev with Mizuho Securities. Please proceed with your question.

Dan Dolev

Hey guys, thanks for squeezing me in. I appreciate it. I want to ask the question about agentic commerce in a different way, Max. Maybe just help us understand, and this is what everyone has been trying to figure out. If a merchant cares about agentic conversion, shouldn't they subsidize more Affirm 0% loans or any other Affirm loans? Or does it not make a difference? What's the key hook here for the merchants in an agentic world? Thank you.

Max Levchin

Couldn't have written it better myself. Yes, they should. Part of why we've been so hard at work on things like BSPs is to create programmatic APIs. Initially humans with calendars and tools, but soon enough, agents on their own can deploy dollars to compel a buying agent from their side to say yes. Agents are going to be shopping on your behalf. They'll certainly be looking for good deals on your behalf. Affirm is really the only scaled player that's capable of managing longer-term zeros that are differentiated, that are driven by SKUs, that are driven by targets or targeting. We should expect, at some point, this is very, very early. I just heard Dara talk about how there have been very few agentic rides booked on Uber. It's all very, very early days. But it is coming. It's exciting.

I'm sure all of you have tried all the various agents, and some of them are really, really compelling now. Each one of these will be programmed to find you the best financial transaction. That is going to be a combination of costs, which is going to matter, and zero percent is going to be the best cost because there's no cost to borrow. It's also going to matter that they are fully disclosive, that the price doesn't change if you are somehow a day late, that it doesn't compound, so you can estimate it in dollars. All the things that we've talked about as really, really important.

A high percentage of our consumers picks us because of those features. Some pick us because we're there, and they don't necessarily grasp the full kind of value that they're getting by choosing Affirm. One hundred percent of all agents will grasp exactly the value they're getting. We do offer the best credit product there is. That's factually true. As agents find us, it will help merchants sell more. Merchants can help merchants sell more by funding more promotions. I expect zero percent volume to go up a lot.

In agentic, I expect agents to care about the ever-changing catalog of zero percent loans or zero percent deals inside the Affirm ecosystem. I think that's a really important service that we're going to provide to every agentic shopper tool out there. There's a lot to like about where this is headed. But again, I would just caution anyone to create a spreadsheet that shows going to the moon with agentic shopping.

Dan Dolev

Thank you so much.

Operator

Your next question comes from the line of Dan Perlin with RBC Capital Markets. Please proceed with your question.

Dan Perlin

Thanks. I just wanted to follow up a little bit on that, actually. But from the context of cybersecurity investment cycles, it's definitely becoming a little bit more of a topic this quarter, and especially in a world that you just described, Max, around increasing agentic opportunities. The question is, how are you guys thinking about where you are in that cycle? Are you able to throttle up and or down given potential risks associated with that? Then the other part of the question is, is there any risk to you guys in terms of ownership of liability in the event that you start to see more agentic fraud as a result of pointing in your direction? I don't know the answer, so I'm just trying to just kind of figure out what kind of, I guess, position that.

Max Levchin

It is a great question. On the cybersecurity side of things, obviously we take it super seriously. This is not And by the way, so should everyone. There is a meme going around, "I wake up, there is another vulnerability." That is the life of our security team and every security team who has a job right now. I think we are all constantly watching out for new disclosures. We are trying to keep up with all the patches, trying to make sure that we are keeping our data safe, our users' data safe, et cetera. This will be a I am generally speaking quite bullish, by the way. We are definitely not in security, but it is a little bit of my past life, so I have strong opinions.

I think defenders are getting access to better models quicker than attackers. We will go through an unpleasant period of patching and fixing and learning how to write better software. But in some fairly short period of time, we are going to just be better software builders with AI, and generally speaking, better protected. We are in a little bit of a shooting war right now with these bugs that are being discovered every day, but it will end hopefully relatively quickly, and then we are all going to be better for it. I am not unconcerned, not even a little bit. In fact, I text our security team at all kinds of hours saying, "Have you guys seen this disclosure yet? What are we doing to make sure we are not affected?" That is daily life right now. But we are technically very, very strong, and we are definitely benefiting from the excellence of our engineering and, in particular, security engineering teams.

On the fraud and liability side, that is a fantastic question. Generally speaking, you can expect agentic commerce to be more than a little bit messy in the early days. Your agent will hallucinate. You must have said yes, and here is an 85-inch screen TV for your tiny one-bedroom apartment, and we do not care what you are going to do with it. You bought it, and it is yours. You will have to return it, but the headaches and the hassle will be there. As all of that gets figured out, AI is improving very quickly. Your agent is going to learn. The models that power your agent are going to learn very quickly, including understanding your agency. All of that is also going to resolve itself in a reasonably short term, but the messiness of consumer interaction with agentic purchases, unwanted purchases, not as described, and then, as you very aptly pointed out, agentic fraud is going to be a thing.

Generally speaking, if there is risk to manage, we like that world better than the world where there is not. We are very good at it. We are very good at capturing the right data. We are very good at rapidly scaling model building and training things that allow us to mitigate price and ultimately manage risk. I do not want to say I am excited for the new challenges that come our way, but to some extent, every time there is a disturbance in the force of payments, whether in a form of risk or rates or fraud or credit or new modalities, new channels, we tend to win because the solutions are inevitably engineering and AI and ML-based, and we have a very strong advantage over the rest of the industry in that space.

Dan Perlin

That's great. Thank you so much.

Max Levchin

Yeah. It just gives me something to build is basically the shorthand answer.

Operator

Your next question comes from a line of Matt O'Neill with Bank of America. Please proceed with your question.

Matthew O'Neill

Oh, thanks for squeezing me in here with a minute to go. Maybe, Max, to cherry-pick a word from the Shareholder letter, it would be fatuous of me to double down on so many of the questions that have already been asked and answered. Maybe, for a closing remark, is there anything that none of us managed to ask that you would have liked to have been asked or you would like to conclude with? Thanks.

Max Levchin

I applaud your attentive read of my Lebowski references. That's one. There are several more. No one ever asks how many there are. There are many in this list. Some of them are very deep cuts, so that's a good homework assignment if you want to take your mind off the bloody market.

I think most of you really understand the business pretty well, and we're always happy to engage in these calls because it gives us a chance to brag a little bit about the questions I've gotten that are better and smarter and smarter over the years.

I don't know, Michael and Rob, do you guys have something that should have been asked? I feel like this is the last few quarters. If you want any feedback, analyst community, you've done really well. We look forward to these conversations. We like the questions. We feel appropriately challenged, and we don't roll our eyes at any of them.

Matthew O'Neill

Thank you, and see you on the next one.

Max Levchin

Thank you.

Rob O'Hare

Thank you.

Operator

Our last question comes from James Faucette with Morgan Stanley. Please proceed with your question.

James Faucette

Thank you so much. Wanted to ask on some of the larger ticket sizes and transaction opportunities, thinking about what you could be doing with ServiceNow or ServiceTitan, excuse me, and others. How should we think about how that may impact MDRs, et cetera? It seems like 0%, as you were talking about, Max, could be really attractive part of the sales toolkit for those kinds of service providers. But I think one of the things that we grapple with is what kind of impact would we have on MDRs, and the overall economics of transactions compared to what you're doing today? Thanks.

Max Levchin

Large ticket items, large ticket bills, services included is our bread and butter. There's no one else in the industry that's figured out how to do that at scale in a differentiated manner, so we're always excited for more of that volume. You're totally right. There's a really healthy demand. I remember when I answer, the largest transaction we've ever written was $7,000, and I was like, "Oh my God, I can't believe I said that out loud," and that is not even close to our largest transaction. We are

carefully increasing our aperture for risk for only the deserving borrower, only the typically quite high credit quality, but there's definitely room there.

It's actually hard for me to immediately reason about MDR changes because there's two opposing forces.

The merchant is If you're selling an HVAC system, so making it up as I go, but typically HVAC is like $20,000 to $29,000 range. That's a difficult sort of replacement for a single-family home. A merchant trying to move that merchandise is more than excited to pay a substantial MDR to make the answer as compelling as possible. You don't want me to come back and shop again. You just want me to buy this thing. MDRs are naturally easier to get from merchants because they understand that they're only going to sell a dozen of these per quarter. One of them not being sold makes a huge difference to their bottom line. Specialty shops that sell these things are particularly drawn to zero percent promotion. All of that is really, really good for MDR.

On the flip side, the buyer, given the size of the transaction, is actually typically very low risk. From our point of view, to extract a reasonable margin of safety on the loan, the requirements are meaningfully lower. You kind of have dual, two directional pressure in each direction, and I don't know if I can instantly handicap whether this means the net result is higher or lower. Feels like it goes a little bit higher, but maybe not quite as high as a four year 0% loan would compel or something like that.

Rob O'Hare

Yeah. I think for a larger ticket transaction, James, this is Rob, we would also go longer on duration. In terms of the overall total revenue quantum that we would get from the transaction, because it is going to be a longer duration loan, it's probably on the higher end of the spectrum for us as well, just given there's going to be more funding costs associated with that loan on our side.

James Faucette

Great. That's great detail. Thank you, guys.

Max Levchin

Thank you.

Operator

This now concludes our question-and-answer session. I would like to turn the floor back over to Zane Keller for closing comments.

Zane Keller

Thank you everyone for joining today. Apologies again for the technical difficulties at the beginning of the call. Thank you for your time. We'll talk to many of you again shortly. See you then. Talk to you.

Operator

Ladies and gentlemen, thank you for your participation. This does conclude today's teleconference. Please disconnect your lines and have a wonderful day.