



Third Quarter Fiscal 2024 Earnings Call

May 8, 2024

Call Participants

Affirm

Max Levchin, Founder and Chief Executive Officer
Michael Linford, Chief Financial Officer
Zane Keller, Director, Investor Relations

Analysts

Robert Wildhack, Autonomous Research
Jason Kupferberg, Bank of America Merrill Lynch
Dan Dolev, Mizuho Securities
Bryan Keane, Deutsche Bank
James Faucette, Morgan Stanley
Reginald Smith, J.P. Morgan
John Hecht, Jefferies & Co.
Lemar Clarke, Wells Fargo
Ramsey El-Assal, Barclays

Presentation

Operator

Good morning and welcome to the Affirm Holdings Third Quarter Fiscal 2024 Earnings Call.

Following the speaker's remarks, we will open the line for your questions. As a reminder, this conference 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, Director, 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, and Michael Linford, Affirm's Chief Financial Officer. In line with our practice in prior quarters, we will begin with brief opening remarks from Max before proceeding immediately into Q&A.

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

Max Levchin

Thank you, Zane.

Thank you for joining us today and your interest in our journey and our mission.

As you can tell, we're trying something new, a pre-market open earnings call, live from New York, in our awesome, remote work be damned, very well-attended office in Manhattan. We're excited to see some of you in person later this week, but for now, as you can tell, we had another excellent quarter. It's all in our note, so let's jump straight into Q&A.

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

All right. Thank you. Our first question comes from the line of Rob Wildhack with Autonomous Research. Please proceed with your question.

Robert Wildhack

Good morning, guys. Maybe one on the quarter and then one bigger picture question too. Near term, the slides called out that the majority of the benefit from pricing initiatives will be realized by the end of this fiscal year. That all makes sense. But wondering if you could quantify how much the pricing initiatives have been helping volume growth in recent periods.

Max Levchin

Yes, it's hard to quantify to be completely honest. We don't couple these measures super tightly because it's very dangerous to decide that one thing leads to the other. We have a wider APR range. Obviously it has served us well in the world of increased rates, but we still underwrite every transaction. We still decide which transaction we will do or not etc., so I would struggle to put a distinct number on it. Certainly, wouldn't want to make any prognostications about the future impact. Obviously, we are very keen on growing. We're still growing really well. We benefit from the pricing quite nicely, but ultimately, we are in the risk measurement and management business here and so we will, first and foremost, do no harm to that as we grow.

Michael Linford

Maybe one thing I'd add, if you look at the letter, we bridge for you the year-over-year change in our revenue-less transaction cost measure. You can see that the revenue growth roughly offsets the increase in funding costs, other transaction costs, and the incremental provision costs. The real governor here for us is making sure that we post positive unit economics and so the way to think about it is the revenue was what we needed to offset the change in rates in the business, and we feel like we've done that. It allows us to be back to more business as usual.

Robert Wildhack

Okay, thanks. Then bigger picture, Max, you've talked a lot about unbundling the credit card, but elsewhere in the industry, you've got Capital One tying up with Discover in kind of a rebundling of the credit card. I'd love to get your thoughts on how you think that could impact the industry more broadly and then also if you see this rebundling as a new or unique competitor to Affirm in any way.

Max Levchin

First of all, I think that it is singularly the most impactful and interesting thing that's happened in financial services probably in the last 10 years. Huge kudos to Capital One for seeing the opportunity and executing on it, like nothing but extreme respect for the leadership team there for just having the chutzpah to go do this.

I think creating another network, given Discover's reach, is especially powerful and lots of good things from their point-of-view, I think, to do that. I think any incremental network building, whether it's open or not entirely open is a good thing for us because it just creates more plurality in a market and validates the idea, frankly with even our investors that there's still a chance to build another giant network. That's certainly the business we're trying to have here.

I'm not sure the products that are intended to run on top of the newly, whatever the name is going to be, Discover Capital One network is meant to be any different from what happens currently on Visa and Mastercard. As you know, ours is fundamentally different. We look at SKU-level data and integrate directly with merchants at a much richer degree of bandwidth to make sure that we can underwrite transactions and equally importantly, offer APR subsidies to consumers to motivate purchasing. I think the network itself is a little bit more of the same, but I do think that the actual deal is a profoundly interesting thing, certainly from a Capital One point of view.

Robert Wildhack

Great, thank you.

Operator

Thank you. Our next question comes from the line of Jason Kupferberg with Bank of America. Please proceed with your question.

Jason Kupferberg

Morning, guys. Thanks. Just coming off a very strong GMV growth performance here in the quarter, obviously well ahead of your guide, up 36%. I think the midpoint for the fourth quarter is implying more like 25%. Year-over-year comps a little bit harder, but I think from a seasonal perspective, you might expect typically stronger quarter-over-quarter growth in GMV in Q4 than what's implied in the guide. Just wondering if there's any particular callouts or any plans to tighten underwriting or a more cautious view on the consumer or just any additional color there would be great.

Max Levchin

I'm sure Michael will have some words in a second, but let me tell you how I feel. We don't run the business on a quarter-by-quarter basis. It is just a fundamentally wrong way to look at a payments company that wants to be around a hundred years from now. Like, what are you going to do next quarter?

We're trying to grow, we're trying to make sure that we grow really well, yet carefully we take risk. But most importantly, the fact that we have a forecast to share with you or a guide to share with you for next quarter has fairly little impact on our planned growth initiatives on some randomly chosen time boundary that is not measured in quarters. I think it's just really important to know that I certainly do not think of Q4 numbers from a growth point of view. You definitely care about other numbers like risk, etc., that's really important, but growth is measured in years and that's certainly how we think about it from the product point of view.

Michael Linford

Yes. Just a couple of things about the quarter. Fiscal Q4 is a seasonally stronger quarter. We see strength in categories like travel and ticketing, you see that reflected in our guide. Our guide at the high end does imply faster year-on-year growth in Q4 of this year than we had on last year, so that's a year-on-year acceleration in growth.

Of course, last year, the Q4, as you point out, was a pretty tough comp because it grew quite quickly from Q3. Some context there as we called out in our shareholder letter last year, we did have some new deals with travel merchants like Cathay Pacific and Booking.com and we had some expansion projects with merchants like Royal Caribbean, and yes we also launched the adoption of 36% APR caps in many merchants.

All those things contributed to a really strong Q4 last year, making the comp quite hard. If you look at a two-year growth rate, the high-end of our guide implies about 58% growth, which is a slight decel from Q3, but really isn't all that material.

Jason Kupferberg

Okay. No, that's good. That's good color. I wanted to also ask just on Affirm Card, I think it said in the shareholder letter that the recent cohorts are actually using the product more than some of the initial cohorts. I think conceptually we might have thought that the early adopters would be the heaviest users, but just curious to get your take on that, Max, and then just any thoughts you guys might have on how card GMV might trend in Q4. Thank you.

Max Levchin

Great question. That is definitely something that I keep a much closer eye on than even quarterly measure. This is a day-by-day, week-by-week. My last conversation before I walked into this one was with one of our card leaders right outside this room, just to give you a sense of where I spend my time.

You're totally right. It would seem to reason that early adoptions would just convert and put our card top of their wallet and go, go, go and you should see some normalization. That has not happened. I didn't necessarily predict it that way, but the reason for it is simple.

I didn't say it, one of the analyst's notes said it, but it's a unique product. Every time you launch a unique product, you are teaching the market, or teaching the consumer anyway, a bunch of new modalities that they have not experienced yet, which is for some people a fool's errand and for some people the vision that they're trying to pursue, and I hope I'm in the latter, but perhaps sometimes in a former category too. As you offer the product to the market, you get consumer feedback and we have a million cards out there now with lots and lots of feedback and some people love it and some people have issues, which we are very attentive to.

The last quarter, we launched uncountable number of tweaks and fixes to the user interface, most importantly, and just made the card more and more comprehensible and easy to use and easier to understand and just eliminating surprise user experiences, and, and, and. And so as we do that, we find another three points of usage where people say, oh, okay, so now I get what I'm supposed to do at a gas station, or now I'm supposed to do this in a restaurant. These are real examples, like a restaurant pay later mode is a little bit trickier because you might leave a tip, and so the number you see on your bill is not the same number, etc. As we just go and make the card smoother and smoother, we find new usage. That's why we think the usage increased.

One interesting stat, we were roughly 6% pay now. Last quarter, we are closing in on 10% pay now this quarter. Still, incidentally, those are not top-of-wallet numbers. That's still climbing, but that's a really good clip, and we're going to keep growing until we get more. We think there's a lot more consumer spend to capture from the card and that's certainly what we are aiming for.

Jason Kupferberg

Thanks, Max.

Operator

Thank you. Our next question comes from the line of Dan Dolev with Mizuho. Please proceed with your question.

Dan Dolev

Hi, guys, thank you for taking my question. I just have one question. With rising interest rates, I'm actually surprised to see how resilient GMV is and margins are going up. What is driving this resiliency? It's pretty amazing to see that. Thank you.

Max Levchin

Thank you. That's a very nice compliment.

We've said it before, I sometimes tweet about it, but I'm not sure people read my tweets. It may be a good thing. Higher for longer is okay with us. We are not super rate sensitive so long as rates move in subtle increments, 25 bps up or down just doesn't change our cost of capital in a dramatic way. Our resilience is not a secret, it's just the fact that the business isn't ultimately all that sensitive to minor rate movements.

I think other lending businesses behave differently. Ours has this really nice property where we are just not that rate sensitive and we are very, very comfortable operating the business at this growth at the rate that the Fed has set for us, and we'll continue growing with or without rate cuts.

Dan Dolev

Thank you.

Operator

Thank you. Our next question comes from the line of Bryan Keane with Deutsche Bank. Please proceed with your question.

Bryan Keane

Hi. Good morning. Max, just want to ask about Affirm Card. I know it was down a little bit sequentially, but it sounds like that was mostly seasonality, and just as you think about the longer picture trajectory of the card and the adoption of the card, how do you think about volume growth on Affirm Card? Just trying to get a sense of what the trajectory will look like, given you probably have a pretty good idea what the pipeline looks like.

Max Levchin

It is entirely seasonal. That's certainly the correct assumption. I think we talked about it last quarter, so should not be in any way surprised. Very happy with the clip. We're still not promoting it nearly as aggressively as we feel we could because, as I just said, we have a bunch more to do just on the user interface and product improvements.

Not sure I will offer a specific shape of the curve for the card growth just now, given that it's still in this hyper-growth stage, so easier to be wrong than right. But we have a huge number of things to ship there. We're still experimenting very actively with various kinds of rewards. Obviously, you want to be careful with margins, but it's a product that we're very excited about. We feel that it just has lots and lots of room to grow.

We really started to just offer it widely just if you wanted to stretch it two years ago if you wanted to take it a little bit more narrowly a year ago, it's now very squarely trending towards multi-billion dollar business, so just from a pure like where have you been, where are you going, not sure there are any other financial services companies I can stick a finger at that launch a

card product for the first time and end up in multi-billion dollars within 12 to 18 months. We have a lot of features to roll out. I promised myself I'll never preannounce things on these calls, so I won't, but we've got some really cool stuff coming.

Michael Linford

Yes. The only thing I'd add, Bryan, is if you look at spend on a trailing 12-month basis to capture or to cancel out some of that seasonality, we actually saw spend per user increasing at a pretty healthy clip from Q2 to Q3, so we feel very, very good about the engagement on the product right now.

Bryan Keane

Got it. The adjusted operating margin keeps beating expectations and I think in the fourth quarter we're guiding to 15% to 17%. Can you just talk about what you're seeing on the margin and is that a good jumping-off point as we go into next year? Or are there some other puts and takes to think about?

Michael Linford

It's a great question. Yes, I think this year has been a real year where we've been able to drive a pretty meaningful operating leverage in the business. It's a function of us really driving strong growth in our unit economics with the revenue less transaction costs growing very quickly and our flat or even reducing fixed operating expenses.

We would expect some of those trends to play out. However, we do still feel very optimistic about the opportunities ahead of us, so there's lots of exciting things that we're working on that will need resources. We definitely would not want folks to think that we're going to be much above our framework that we gave investors in November. We think we continue to have revenue growth rate numbers that are well above our 20% threshold that we put out there in November and would expect us to live within the adjusted operating income framework that we put out in November.

Bryan Keane

Okay. Thanks for the color.

Operator

Thank you. Our next question comes from the line of James Faucette with Morgan Stanley. Please proceed with your question.

James Faucette

Morning. Thanks for doing this, this morning. Appreciate the call out on increasing exposure, given the credit performance and the yields that you're generating right now, which seems like could create some potential for near-term delinquency increases. But I'm wondering is there a framework of how we should be thinking about GMV versus credit right now? It seems like if we look at the 30-day plus DQs on some of your prior deals that there's still a fair way to go to high watermark. Just how should we think about that balance of driving volume growth versus where some of these other delinquency measures and credit measures may move?

Max Levchin

Good question. Thank you, James.

What I meant in my note is that we are over-earning, as Michael would put it, which means that we have capital to invest in growth. That does not necessarily mean loosening. In fact, summer in particular is a seasonally high delinquency rate time and so there'll be undoubtedly seasonal fluctuations in delinquencies, more likely up than down. We're very, very concerned with delinquencies at any given time just because that's the single most important part of the job here.

But having a little extra money on hand to invest doesn't always mean, so let's take a little bit more risk. What it does mean, for example, that, but also you could invest that in APR subsidies, which go towards the higher credit quality borrowers and create positive selection bias in the credit portfolio, and so we'll definitely reinvest the extra gains. We'll still maintain an extremely vigilant watch over credit.

As we've always said, and we'll continue to say and behave, we don't use credit as a growth driver or limiter. Credit is a thing we manage entirely discretely. There's not a conversation about, well, if we just tighten a little bit, the growth will slow down. We don't want that. We want growth as much as we can responsibly handle, but not before we have credit results that we like, and most importantly, our capital markets partners like, and so we'll look at that and we'll manage that entirely separately and we'll find all the intelligent ways that we can possibly grow. I don't think we're supposed to offer a framework for that, but I just want to double-stress that there's no coupling there and there should not be coupling there.

James Faucette

Great. That's a great answer there, Max. I wanted to ask as a follow-up on the Affirm Card and clearly a lot of work going into the user interface and points where you can reduce friction. In previous comments, you've talked about some of the things that you're doing on the customer service side, and I think have also called out even using AI assistance to help improve those customer support costs. I just want to hear from you where we're at on that process and what are the additional things that can be done to bring down cost of support versus reducing upfront usage friction and where you feel like you're at on that process.

Max Levchin

A great complex question. I could spend the next 30 minutes diving into all that stuff. That's what I like talking about. On the card, I think I mentioned this before so it shouldn't come as a surprise. We think of these things in work streams, so we have a work stream called SUX, Surprise User Experience. The card is a new product, as I've mentioned just now, and there's plenty of surprises that we do not want our consumers to have with the card, so we've been very, very busy just polishing the rough edges and that's a long list.

If you use the card, you will see what we've done there, some of it is very apparent and some of it is a little bit more sophisticated, but just to give you like a glimpse into this, because the card sometimes runs over Visa rails, sometimes runs over our own, there are situations where you have to match a transaction, or if somebody, for example, wants a partial refund, etc. So, just a logic around transaction matching, going back sometimes 30 days, etc. is fairly complicated, and the more intelligent you are in transaction matching, the better you can serve somebody. Somebody who calls you or chats with you and saying, hey, this transaction, I have to cancel it, showed up not as described. I have a chargeback, whatever. If you know exactly what it is, the call will go faster, and the consumer will be happier. That sounds like a

small thing, but it's a major cost reducer, for example, and there's like three dozen more where that came from.

On the AI side of things, because I'm always terrified of sounding like too much of a nerd because I am, we try to make sure our AI strategy is technology that is real versus PR, which is what we're encountering a lot in the industry right now or at least pure PR. We've been, generally speaking, fairly quiet and dismissive about it. But we've been investing really heavily in this idea that certainly, Gen Z consumers really love chatting versus calling, and they have no problem chatting with an AI, especially if the AI is intelligent.

There's lots and lots of really complex things. One is, obviously, everybody knows hallucination is a thing in AI, and you have to be very careful. But there's a bunch of really smart solutions that people in the industry have come up with, us including, where hallucination is not a problem, and we can very, very quickly satisfy a query, certainly around a question of what do you do or what's your policy or what do I do as a consumer if I have an issue or a problem, etc., and that's been working really, really well.

It's very early, we expect to do a lot more there. No one has yet to lose their job to be replaced by a robot at Affirm, so that's not a short-term cost saving. But in terms of our ability to scale our customer service and base as we employ AI more and more. That's certainly going to be a saving over the next one, two, three years.

We expect for consumers to always be able to reach a human. I think that's really important. But by the time they get to the human, they want to hear someone who's an expert, who has a really deep understanding of what's happening with that particular account, that transaction, whatever dispute or question they may have. You can prework a lot of that with AI, and so that's where we're spending a lot of our cycles. Super excited about that. Again, we try to not talk too much about it because it's just the cacophony of everybody being AI-powered is a little too loud right now, but it's a really exciting tech, and we're super thrilled to have it deployed.

James Faucette

Thanks for that.

Operator

Thank you. Our next question comes from the line of Reginald Smith with J.P. Morgan. Please proceed with your question.

Reginald Smith

Hi. Good morning and congrats on the quarter. I had two questions. The first, and I'm not sure if you guys can disclose this, but I was curious if there's a way to talk about like where you're seeing the Affirm Card or the type of customers resonating within your base, so thinking about income or credit band, is there a way to talk about that. Were you seeing traction in particular in any given segment? And then I have a follow-up question. Thank you.

Max Levchin

Good question. Obviously, this is essentially a transaction card or a transactor card for a habitual revolver. I think that's probably the best way to describe the near-perfect product market fit with the card. We have all the expectations and designs to address many other

bands of credit, but the idea of someone saying, “I don't want to be in debt in a way that I can't predict. I like the ability to finance some things and to not finance others very explicitly.” That is the purpose of the card. That's the marketing message. That's the story we tell to our consumers when they say why do I need another card? That is the user. The user says, “Hey, some things need to be paid over time and some things need to be paid for right now, and I don't want to commingle the two. I'm not going to pay interest on a cup of coffee.” That is the buyer, and that's what we have today, and you can see it in all the stats.

Reginald Smith

Okay. That's helpful. Thinking about you guys break out quarterly the number of new transactors, you also give a mix of volume. I was curious, and my guess is that it probably doesn't track your volume mix. But if you were to think about where your new customers are coming in, whether it's Pay in 4, core zero, or installment, what's that mix?

The second piece of that question is, in cases or instances where you're not the only BNPL solution on a website, how does that impact, I guess, new user adoption? Is there any slippage or impact from being, I guess, the exclusive BNPL provider on certain platforms in terms of acquiring new customers, if that makes sense.

Max Levchin

Yes. It's a good question. A lot of depth to this. I'll start, my guess is Michael will have some stats that he is willing to share, maybe not.

In terms of exclusivity versus not, we don't need exclusivity to win. We are very, very comfortable being right alongside other BNPL providers because we offer products that are quite unique, and so wherever adaptive checkout shows up, that is, generally speaking, what that particular customer base needs and so our ability to predict what might be best for that user is really good and etc. etc.

We also have underwritten 50 million people in the United States alone, and so the brand speaks for itself. We are unique, or mostly unique at this point, which is actually to the good, that we don't charge late fees, we don't compound interest, we don't have deferred interest, etc. Our customer knows who we are, they seek us out. Even the ones that don't have an Affirm account yet, there's now a meaning to what Affirm stands for. I think it took a long time to persuade the market that we really are not lying or not kidding when we're saying there are no hidden fees, but it seems to be working at this point.

In terms of exclusivity, not a hugely important thing. I'm confident that people who love their brand X competing product probably go through that door, so I'm sure we are not alone in the feeling of our users love us, but our users do seem to love us.

If you read my letter, I have a little bit of a dramatic story from a recent store trip where this woman was just—we couldn't have scripted it better. She was gushing about us and comparing us to all the competitors saying, “Oh, my gosh, you're so much better than everybody else.” All right, so you're very familiar with the market and you've made a choice. I think anecdotally and in the numbers, we don't suffer from being side by side with anybody. I don't know if Michael has anything to add on the specifics of where we pick up the new users.

Michael Linford

No. I think it definitely tracks where we currently have distribution in the products that we have distributed there. Every time we're shown on a product display page, every time we're seeing a checkout, it's a chance to acquire a user, but it also is a chance to reengage new users. The only thing I would add is that it is the case that when we are launched side-by-side, maybe as a second or third BNPL product on an existing merchant site, we do see higher repeat rates there, and I think that's the power of our network on display, and oftentimes, merchants really quickly understand that adding us is incremental because of that.

Max Levchin

Yes. Actually, one other thing that I should have said earlier, one of the niceties of being as large as we are is our ability to barge into some of the checkouts that used to be exclusive property of another player and say, "Hey, we're not telling you what to do, but we do have 50 million people we've underwritten that at least a large percentage of really, really like this, you probably should add us alongside the competitor."

I've said it before and I'll say it again, the first fundraising deck that I've ever put together for this company, featured a mockup obviously, of a convenience store door that showed Visa, Mastercard, Amex, Affirm, the ultimate goal of this company is to be a brand that everybody just expects in a grocery store door. We're starting to get there. We're not quite there yet, and I don't know if we're going to be there, certainly not next quarter, just if we go back to the we don't run the business by quarters thing. But that is the future we're trying to get to. We're now in a place where merchants say, "Well, yes, I probably should add you guys because there's a boat load of people who want to use Affirm."

Reginald Smith

No, that makes sense, and I appreciate that. The reason I ask is, obviously, we've got a lot of questions about Walmart and them introducing their own thing. I think it's good to hear how you guys compete or just how viable the product is even with a competing brand, so I appreciate the color there. Thank you.

Operator

Thank you. Our next question comes from the line of John Hecht with Jeffries. Please proceed with your question

John Hecht

Morning, and thanks very much for taking my questions. Just looking at AOV now. I know AOV has been really impacted over the last several quarters by a mix shift from some of the larger transaction partners that you've had. But I'm wondering what you're seeing at the point of sale now and if you're seeing any trends for what users are using a buy now, pay later, forward now, relative to order in recent quarters and what that tells you about usage in the future.

Max Levchin

I'm going to disappoint you on this one. I don't know if I have any observations to offer. It's important to note that—first of all, AOV trends are pretty stable, they ebb and flow based on where we are and outliers, if you wanted to segment it, which we obviously do, you'd see it correlate to things like who launched what 0% sale and what new something is being sold where, and so it's a ratio to compute, but it's not a metric that is profound to our business.

Obviously, generally speaking, I think, AOV is trending down. Somewhat down is a good thing, that suggests that people are using us for more and more things that look like daily purchases. Obviously, with Affirm Card, we would want the AOV to be approaching your typical debit transaction. That's the most, I think, I have to say.

John Hecht

Okay. That's helpful. I guess maybe product mix, is there anything going on there that's evolving over the recent quarters that gives you a sense of changing customer dynamics?

Michael Linford

No, not really. I think we continue to have a lot of ambition to serve as many transactions as possible. I think clearly, we have a strong position in the higher average order value, more considered purchases. The trend downward that Max is alluding to is a function of a lot of intentional effort. Some of that shows up in products like the card where we want to serve as many transaction types, including pay now. Some of that shows up in the distribution that we're pursuing, which allows us to serve lower average order value, higher frequency transactions.

I think not a surprise that as the AOV has moderated a little bit downward, you've seen frequency rising quite steadily. We know that the higher, more considered purchases are ones where we have a really strong position in, and we have some continued opportunity in serving up the smallest transaction sizes.

John Hecht

I appreciate that. Thanks.

Operator

Thank you. Our next question comes from the line of Andrew Bauch with Wells Fargo. Please proceed with your question.

Lamar

Hi, guys. Thanks for taking the question. It's Lamar on for Andrew.

I have a follow-up on the Affirm Card, and this one is specific to like penetrating offline commerce and some of the improvements that you've been making to the card over time. Is there any update that you can provide on, I guess, specific usage as it relates to certain vertical segments? Maybe some color on where you're seeing sustained strength, and then maybe increasing strength over time from a use case perspective as you continue to make these improvements?

Max Levchin

Sure. Generally speaking, as I mentioned just now, we're seeing a steady increase in pay now, which is good. That's just that people are comprehending the product better. There are obviously three different modalities to the fully connected card, which is preplanned transaction, swipe to pay now, and swipe and split later.

Pay now increasing suggests that more people are connecting their accounts. They are maybe opening up Affirm money accounts, etc., so that's all to the good. We think that we're pretty focused on is making sure the card is really, really useful and valuable to you as a consumer in day-to-day transactions, be it groceries and gas and restaurants, etc., There's a lot of just subtle work to do there to make sure that we are very close to fire-and-forget type transaction device, which is what do you expect to work in a multi-line checkout, etc. That's what we're working on.

We are seeing—I think I took that out of the letter, but we were trying to flash a stat on how the restaurant usage is picking up a little bit. These are not headline-changing results, but we're quite happy with the way things are trending in that domain.

But again, it's just really important to understand that the card is very, very early. I know we've been talking about it for a long time. It takes a long time to invent a new type of card. It's neither credit nor debit, it takes a long time to spec it, it took us a long time to build it, it took us a long time to make sure we're comfortable with the various risk modalities that we're introducing with it. It's now going really well. We're still very early. We have a lot of room to grow and a lot of features to add. That's probably the single most important thing. Like I would just judge the card in terms of what it's doing when it's no longer in the first part of the S curve.

Lamar

Okay. Thank you.

Operator

Thank you. Our next question comes from the line of Ramsey El-Assal with Barclays. Please proceed with your question.

Ramsey El-Assal

Hi. Thanks for taking my question this morning.

As you look to roll out into more international markets, is your current funding model agnostic when it comes to operating outside the U.S.? Do you have to find geographic-specific partners? I guess on top of that, what about credit performance as you roll out these markets, is there a period where models will need to season in new geographies or is a lot of the intelligence in your U.S. model transferable as you move into different geographies?

Max Levchin

I'll take it in reverse order. Yes, we absolutely expect to be in a period of learning. One of our earliest venture capitalists called it paying tuition, where you put out some loan volume and you see how it pays back. Obviously, our next announced market is U.K. The credit behaviors and performance there has some similarities to the United States. It's a Western democracy that's built around credit reporting, both positive and negative, the same credit bureaus work there, similar data types, data formats work there, similar regulations apply, what you can and cannot use for underwriting.

Our success in Canada, which is really good, suggests that we are able to transport the models across the border. U.K. will be another good test. We will be careful. We're not going to roll out a trillion dollars of volume and hold our breath to see what happens. It will be gradual. But we

feel very good about our ability to operate in the United Kingdom in terms of credit performance, and we'll still take the time to make sure that it's good.

Beyond that, we've said nothing as to where we're going to go, but wherever we might show up next, you should expect us to—and part of why we will never presumably guide to some huge volume growth internationally on year one is because credit takes time to take ourself out and we will never skip that step.

Michael Linford

Then as for funding, yes, I think it will require that we localize funding. We want to do that anyway to make sure that we've got some currency matching with the local market, but also just getting through all the different funding sources, credit postures will require some localization. I think there are global synergies. The institutions we work with have a global footprint, and that really will help us, but it will require some localized funding sources as we get to launching, for example, in the U.K. later this year.

Ramsey El-Assal

Great. A quick follow-up from me. New merchant additions went up nicely this quarter. They've gone up nicely in prior quarters. Can you give us any further commentary about where you're seeing success there? Is it particular verticals, digital versus in-store? What is the driver? Or is it just a general rising tide type of situation with new merchant additions?

Max Levchin

It's more rising tide. I stopped the practice of calling out a bunch of brands because I felt like I was letting people down when I didn't flash some cool name brand in the next shareholder letter, so we always have a couple. But I'm sure you can understand it takes effort and time to convince them to use their name for the shareholder letter, so I stopped.

We are still chasing down great logos and adding them quite a lot. If you do some sleuthing in our app, you will probably find them through search. But frankly, where I'm most excited is—and everybody has a different acronym for it, but midsized businesses, businesses that have \$10 million to \$50 million in GMV are awesome because they are very growth-centric businesses, and when merchants grow, we grow faster.

One of the things that we've noticed, independent of economic times, independent of interest rates, independent of almost any variable, when merchants have a posture to grow their GMV and they sign up for Affirm, our growth within that merchant always exceeds theirs, and that's exactly what majority of midsized merchants want to do. They want to become larger-sized merchants.

We are always looking for both direct and channel-based sales to those folks. I spend a lot of my time talking to those CEOs trying to understand what they really need. How are they thinking about their—we're always competing a little bit for their advertising budgets as well as their growth budget. Just figuring out how they think, don't discount, use Affirm, offer subsidized APRs, offer 0% sales, like all of that is really, really important to us. That's where I spend a lot of my time. That's where the Company is spending a fair amount of its time. That said, there's always some cool logo we can probably flash if they would give us permission for it.

Michael Linford

I just want to reemphasize something Max said, that's really important, is in addition to our direct sales, which we continue to invest in acquiring new logos, we are also partnering now more with people who can help distribute our product for us. That has been a really successful strategy. A gain distribution in some of the pockets that are harder to get to with the small sales force that we have.

Ramsey El-Assal

Great. Thank you.

Operator

Thank you. There are no further questions at this time. I'd like to turn the floor back over to Zane Keller for closing comments.

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Zane Keller

Thank you, everybody, for joining the call today. We look forward to speaking with you again next quarter.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.