Affirm CFO Fireside Chat

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Call Participants

AFFIRM

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ANALYSTS

Bryan C. Keane
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Presentation

Bryan C. Keane
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Good morning, and welcome, and good afternoon to some out there. Happy to host a webinar here today with Affirm's CFO, Rob O'Hare. My name is Bryan Keane. I cover the payments, processors and IT service companies at Deutsche Bank.

And this is kind of a retail forum of questions that we've put together. We have a few institutional investor questions as well that we're going to mix in. I think we're going to go 60 minutes here, kind of a rapid-fire process through the question list. So with that, Rob, I just want to say, hey, thanks for doing this.

And I know you're new now. You got promoted, what we thought was a well-deserved promotion to CFO. Maybe you can just first talk about what your role has been previously before taking over as CFO at Affirm, and then we can get into some of the questions. But thanks for doing this.

Robert W. O'Hare
Chief Financial Officer

Yes. And thank you, Bryan, for moderating this Q&A. It's a really important forum for us, and it does give us an opportunity to speak to retail investors.

So yes, in terms of my background, I've been with Affirm for just over 4 years. And I was a Senior Vice President, leading a couple of sub-teams within finance, so helping drive the efforts to forecast the business. I've led merchant pricing for Affirm, which sets all of our go-to-market rate cards with merchants.

I've led a procurement team that helps us manage our third-party vendor spend. I've led Investor Relations, which obviously is the team that interacts with debt and equity investors. And then I've also led our corporate development efforts, which includes M&A execution as well as integrating those targets after they've been acquired by Affirm.

So it's been really an awesome 4 years. I was added to our executive team just over 2 years ago. So I've been part of that forum, and it's gotten me that much closer to some of the decision-making at the company.

So I’ve really enjoyed my time here, and I'm beyond excited to take this next step. And so in my new role, I'll also be helping to lead our accounting function as well as the tax function. So those are the 2 biggest changes for me personally.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Got it. Great. So I was hoping to actually to kick it off with the news this morning that hit about Sixth Street becoming part of the forward flow agreements and deals for Affirm. I guess how does this help accelerate growth? And maybe what are the -- how does this work? And what are the implications for RLTC with Sixth Street now being in the mix?

Robert W. O'Hare
Chief Financial Officer

Yes. And maybe just to recap slightly for folks that maybe didn't see the announcement this morning, we announced a large partnership. It's a 3-year partnership, up to $4 billion in funding capacity with an asset manager called Sixth Street, which is a large, very large, diversified asset manager. I think they manage something like $80 billion of assets under management, so a really blue-chip partner for us.

The program is set up actually where there's a joint venture between us and Sixth Street. And then Sixth Street is giving access to their clients to participate in forward flow.

So I think for us, as we look ahead, the $4 billion in capacity is the largest forward flow program we have. So that's good news.

Again, taking a half step back, the job of the capital team at Affirm is to fund all of the growth in the business. And capital never has been, never will be a constraint to us growing.

So I think this is an example of us being proactive and building relationships more deeply into the asset management community. And it just helps us build excess capacity in advance of growth and to do it on what we think are really favorable terms and to build a program that we're really excited about that has a lot of potential to grow and be very long in duration.

Bryan C. Keane
Deutsche Bank AG, Research Division

Yes, because I was thinking about that, that this is private credit kind of investors. And usually, they expect higher returns versus other forward flow partners. So does it change any mix for RLTC, the revenue less transaction costs for you guys?

Robert W. O'Hare
Chief Financial Officer

Down the road, just given its size, it may mean that we choose to move a higher proportion, maybe a slightly higher proportion of our loans off balance sheet. Forward flow has been part of our funding program for a long time and a significant part of it.

So I wouldn't expect any sort of sudden swings in RLTC margins because of this. I think really we're diversifying and augmenting the existing forward flow program with this relationship.

And then in terms of the cost of this or the returns to the partner, I think those are in line with the rest of our forward flow program. Obviously, we also fund the business through asset backed securities, the ABS market. And there's typically a relationship between the pricing that we're able to garner on the ABS side of the world and then the yields that the forward flow partners are solving for.

So I think this is nothing but good stuff for Affirm. And again, it helps us add capacity ahead of all the growth that we see in the business.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Got it. No, that's really helpful. So this is a retail forum, so I'm going to call out some retail questions and some of our questions with the institutional investor base combined.

But let's start with the retail one and a popular one even on the institutional side. From Bobby B, and he's asking if you could give us an update on trends you're seeing as we're now in the full swing of the holiday season with regards to BNPL demand, which is now about 8% of e-commerce volume. How does growth compare to last holiday season?

Robert W. O'Hare
Chief Financial Officer

Yes. We haven't come out and given our year-over-year growth for Black Friday - Cyber Monday. Some e-commerce players, some commerce players generally have done that. We've chosen not to.

We did call out particular strength in travel and consumer electronics. Each of those verticals for us was growing in the 40% to 50% range. I think in the case of consumer electronics, it's really nice to see the growth there. That was a category that saw some demand come in during COVID, and it's great to see the strength in that category. I think it says a lot about how the consumer is feeling about their discretionary spend.

So that's -- those are 2 highlights that we called out. I think it's important to remember, we're growing much, much faster than e-commerce at large or much faster than the U.S. economy, too.

We've got guidance for the December quarter out that suggests that we'll be in the high 20s percent range for GMV growth. So we've been very growthful. And I think when you look at some of the industry estimates for e-commerce, I've seen ranges from 8% to 15% for the Black Friday - Cyber Monday period. So again, I think it's been a really strong holiday season for e-commerce, in particular.

That was one of the trends that I saw in the reporting was just that e-commerce has accelerated a bit versus off-line commerce. Obviously, that's a good thing for us. The lion's share of our volume comes from e-commerce. So we're feeling good about the quarter, but not able to share specifics today.

Bryan C. Keane
Deutsche Bank AG, Research Division

I know Adobe came out and talked about maybe 11% growth rate in some of the holiday sales. I know Afterpay had some comments, maybe they were up 10%. But you guys have traditionally always grown faster. And as you said, the guidance is for 29%. Is that mostly just share gains, just ramp of new clients that gets you guys to grow in excess of even what the BNPL market might be growing at?

Robert W. O'Hare
Chief Financial Officer

Yes. I think we're really fortunate today to have multiple growth vectors. So I think it's all of the things that you outlined. We're definitely growing with our merchants and in most cases, growing faster than those merchants.

So we call that metric share of cart. Our proportion of the merchant sales is increasing. But we're also seeing really nice increases in frequency on the consumer side.

I mean we shared that we had done 5.1 transactions per user per year as of the September quarter. That frequency is up very, very nicely. So I think it's a mix of growing with the merchants, adding new merchants, of course, that's always part of our playbook, and then also deepening the relationship on the consumer side.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Got it. There's some seasonality in this December quarter. Can you just talk a little bit about the seasonality with interest-bearing loans maybe having a higher percentage than typical quarters for you guys?

Robert W. O'Hare
Chief Financial Officer

Yes. I would say the seasonality in our business can be a bit tricky, again, partly for the reasons I've already touched on. We're so growthful, and we have some large programs that continue to scale really nicely.

And so if and when Affirm's growth ever normalizes and starts to fall, we may find a more typical seasonal pattern. But we're so growthful that it's really hard to point to a quarter and say it should be exactly this proportion of the year.

I would say in the last quarter, in the September quarter that we published, I think we were 75% interest-bearing loans. If you look at the December quarter in the prior year, I think we were 73% loans. So I think between those 2 data points, I think we would expect the mix to be roughly in line with those 2. There may be fluctuations in either direction. But some of our largest and highest growth programs are very interest-bearing heavy.

And so I think as those continue to scale, we may see a modest indexing into some more interest-bearing. But for the most part, we think we found a mix that's in the historical periods, it's probably pretty indicative of where we're going to be for the next couple of quarters.

Bryan C. Keane
Deutsche Bank AG, Research Division

And does the rapid growth in Affirm Card, does that change the mix on that?

Robert W. O'Hare
Chief Financial Officer

Yes. We love Affirm Card. Affirm Card represented, I think, 7% of our users roughly were using Affirm Card. It was about 8% of our GMV in the September quarter. So it's a really important way for us to deepen the relationship with consumer.

But even that product was running roughly 80% interest-bearing when you look at the mix of the volume that was coming from Affirm Card. So again, there may be a modest uptick in mix because of Affirm Card, but we really don't think there's going to be a meaningful change in overall mix.

Bryan C. Keane
Deutsche Bank AG, Research Division

Yes. Got it. Got it. And then just staying on Affirm Card, we've obviously been impressed by that rollout since the inception there. But going back a few quarters, I think you guys have previously mentioned some hurdles on the user interface and consumer education that had impacted early adoption. Can you provide maybe some color on what were some of those learnings that helped you guys maybe fix and pick up adoption on the card?

Robert W. O'Hare
Chief Financial Officer

Yes. I mean really, if you think about what Affirm Card means for us, it's a product that deepens the relationship with existing consumers. It's not an on-ramp into Affirm. Most of our users on the Affirm Card side start with a, what we call point-of-sale loan and then discover some of our direct-to-consumer offerings, whether it's our marketplace or Affirm Card. And they're using it for their second, third, fourth transaction.

And so we want to make sure -- I mean, these are our best users, right? These are users that have shown that they're good payers for us and then also it's users that want to repeat and drive frequency.

So really, we've got a small sort of SWAT team within the Affirm Card program that's focused on an acronym we call surprise user experience. And so it spells SUX, right? We want to make sure that when you go to use your card, it does what you want it to do, right?

We're focused on end-to-end conversion. We're focused on reducing declinations. And then we're also focused on educating the consumer because the Affirm Card is a bit unique. It's a bit innovative relative to how other debit cards or even credit cards work.

So we've spent a lot of time and thought around making sure that the consumer has confidence that when they go to make a purchase, whether it's a cup of coffee or a big screen TV that the card is going to work for them. And it can support a whole range of transactions for them from everyday spend to more considered purchases.

So really, it's about reducing friction in the card, improving education for consumers in the card and then also giving them that confidence that they know how much purchasing power they have with Affirm and making sure that, that's prominent and obvious to them.

Bryan C. Keane
Deutsche Bank AG, Research Division

Yes. I think there's 1.4 million of Affirm Card users last I looked. And I think you guys are now at 19.5 million active consumers on the platform. So I guess, how do we think about penetrating that 19.5 million of -- will Affirm Card be able to go to that entire base? And how long will the ramp-up take to get further penetration?

Robert W. O'Hare
Chief Financial Officer

Yes. We've been really happy with the trajectory that we're on in terms of new user growth. And really, it's not even new users. It's existing users navigating and migrating to cards.

So we've been really pleased with the trajectory there. When we think about the opportunity for card, we don't just limit the opportunity set to the call it, roughly 20 million active consumers that we had as of September 30. We think about it as anyone that's ever taken out an Affirm loan and shown themselves to be a good payer. And so that number is north of 30 million, close to 40 million historically.

And so we think that this really does provide utility to that subset of American consumers. And I wouldn't want to limit the opportunity by putting a penetration rate on it. I think I've heard estimates from institutional investors that are 10%, 20%.

I mean we think that long term, there's an opportunity. We've set the milestone internally to get to 20 million active cardholders, right? We've got a long way to go to get to that. And more importantly, we want a card to be a meaningful part of their spend, whether it's everyday spend or more discretionary spend.

So we've set a target of getting to $7,500 per user per year for the frequency, too, right? We don't just want to have a lot of cards out there and not have people utilize them.

We think card is important because it unlocks a lot of surfaces that as great as our point-of-sale offering is, we're not able to service certain transactions. And so the best example is everyday spend, right? You can use the Affirm Card for transactions that typically most consumers put on a debit card.

And then even maybe more importantly, I think Affirm Card is a really elegant way to get all of the functionality and all the access to credit that Affirm offers and to get that in a brick-and-mortar setting, right? That's a big untapped area for Affirm and also, I would say, for the buy now, pay later industry at large.

No one has really cracked the code on off-line spend, and we're seeing really nice uptick of Affirm Card in the offline world. And so I think in our last quarter, we were north of 40% in terms of the mix of GMV that was coming from offline spend. So we think that's really encouraging as well.

Bryan C. Keane
Deutsche Bank AG, Research Division

Yes. Just wanted to understand the economics of the Affirm Card. I know you guys have said it's kind of in the same 3% to 4% RLTC range. But just as we think about it for impacting the margins of the business, the dynamics between the in-person point-of-sale debit transaction versus interest-bearing Pay in 4 , how does that -- how do the economics maybe change? And how does that look compared to the core business?

Robert W. O'Hare
Chief Financial Officer

Yes. Great question. I mean I think really the long-term economics for Affirm Card in a lot of ways are going to be a function of the mix of lending products and also the mix of everyday spend that we're seeing on the card.

And so today, as I mentioned, 80% of the volume on Affirm Card is showing up as interest-bearing loans. And when you look at all of our lending products, interest-bearing loans is the most profitable loan product that we have in the portfolio. So that goes a long way to driving really positive economics within Affirm Card.

The other, I think, important factor to keep in mind when you're thinking about the economics of Affirm Card is that these are users that are repeat users by nature. And typically for us, the riskiest transaction that will extend to a consumer is that first transaction. Once a user pays us back in that first transaction, the risk does start to diminish. It never goes away completely, but there's less risk inherently in the Affirm Card transactions because they’re users that we've worked with and that we know.

So I think both the combination of having our highest revenue take rate and RLTC take rate product be the lion's share of the volume and also the fact that this is a user population that maybe has a bit less risk to it generally, I think those 2 things have contributed to really strong economics.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. And then just to finish, Daniel V., a retail investor, wanted to ask about the Affirm Card, what callouts do you have on usage trends or new growth vectors that a card can bring in? Would that include like a cashback or other incentive?

Robert W. O'Hare
Chief Financial Officer

Yes. I mean we think that consumers that are opting into Affirm Card really are looking for the extension of credit that Affirm provides. And they want to be able to use that credit outside of our integrated merchants, and they want to be able to use it, we're seeing increasingly, in store.

And so we think that's right now the killer feature. The killer feature of Affirm Card is that it's Affirm on a card. And so we've experimented with -- because this is a very high frequency sort of power user base for us, we've experimented with introducing some new products to the Affirm Card base first, right? And so we've experimented with things like Pay in 6, for example.

And then I think we can also do some unique things around maybe reducing the APR for certain transactions, promotionally using 0% offerings within the Affirm Card base. We think those are the surfaces that we should be experimenting with to drive increased frequency more so than a cashback program or a traditional rewards program.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Got it. So I wanted to turn to some of the partnerships and merchant wins. John T, a retail investor, wanted to ask about some of the ways Affirm plans to expand its distribution across different websites.

Robert W. O'Hare
Chief Financial Officer

Yes. I mean I think we're actually pretty proud of our distribution today. We think we cover more than 60% of U.S. e-commerce through integrated relationships, right? We work with some of the largest providers in e-commerce.

But that all said, we also don't think we're done or that there's not a massive opportunity ahead of us. And so when we think about distribution, given the size of our base and the nature of the merchants we're already working with, we also start with how can we do more with our existing partners and how can we bring the entire product set to some of these large programs that we have.

I think Shopify is a great example of landing a program and expanding it over time. We started the Shopify program to be a Pay in 4 only program. And about a year later, the program was expanded to include interest-bearing loans, and we've since added longer-term 0% loans as well.

So that program now includes all 3 of our core loan offerings, which we think is really important to long-term growth and also to making sure we have the right aperture and have the right set of offers that can resonate with consumers with different preferences around borrowing. So I think that's the playbook in a nutshell.

But we're also partnering with a couple different types of partners, right? So we've got some really exciting wallet partnerships on the consumer side. That sort of moves Affirm from being what we would consider a closed loop when we're integrated with the merchant to being more of an open loop, right?

We can ride the credit card rails to facilitate those transactions on a wallet even when we don't have an integrated relationship with the merchant. As long as the merchant accepts Visa, we can facilitate the transaction and make it profitable for us and share some of that profit with the wallet partner.

Similarly, we've done a lot of work to integrate with some of the largest merchant acquirers in the world. So Stripe is a great partner of ours. We're integrated into Stripe. And so if a merchant, large or small, decides to use Stripe to process payments, Affirm is available as an alternative payment provider within their platform.

So we've seen really nice traction there. And that allows us to sort of scale with these platforms and not necessarily go door to door adding small merchants in particular.

Bryan C. Keane
Deutsche Bank AG, Research Division

Yes. One of those partnerships, obviously, is a small company called Amazon. And they represent a large percentage of GMV over the last few quarters. I think it's something up to 23% of your GMV. Can you just provide color on that relationship, how it should trend going forward, especially with them maybe adding a few other BNPL providers?

Robert W. O'Hare
Chief Financial Officer

Yes. We did share in the most recent quarter, I think, the 23% stat. I don't know Amazon's total size for U.S. e-commerce. But I would wager that they're a larger proportion of U.S. e-commerce on their side than they are for us, right?

I think they're much larger than 23% in the U.S. and for e-commerce at large. So that tells us that we're still underpenetrated with Amazon. As big as that program has scaled to be for us, we still think there's a ton of opportunity to continue to grow and to continue to compound for the foreseeable future.

So we're really excited about it. They're a very sophisticated partner for us, and they push us to do our best. And we think that there's some really unique things that we can do within the Amazon ecosystem. And we're really excited for the road map that we have to continue to drive conversion for Amazon and growth for both us and Amazon.

Bryan C. Keane
Deutsche Bank AG, Research Division

And do you think that any of the new competition that Amazon might add or adding is going to change your guys' growth rates much or...

Robert W. O'Hare
Chief Financial Officer

I mean I think it's up to us to make sure that we execute and that we're great partners for Amazon. I mean

I would argue that Amazon is -- has always been a competitive environment for us, right? There's 0% offers from credit cards on Amazon. There's other forms of financing that have always been available on Amazon.

And so it's on us to make sure that we're putting fair and honest offers in front of Amazon's consumers, that we're delighting those consumers and that, again, we're driving conversion for Amazon itself. I think we don't expect to benefit from some form of exclusivity or to get special treatment by Amazon. I think it's on us to win the checkout box and to earn our prominence on that site.

Bryan C. Keane
Deutsche Bank AG, Research Division

You've mentioned Shop, and I think now they're 10 billion in cumulative volumes. So could you maybe help us understand some of the add-ons to the program like the Shop Pay Commerce Component, which is separate from Shop Pay and just what that might do to push forward the growth rate for the Shop agreement?

Robert W. O'Hare
Chief Financial Officer

Yes. And maybe just to level set for everyone. So Affirm is the exclusive provider of installment lending within the Shop Pay sort of wallet that is part of Shopify. So we call that program Shop Pay Installments. That's a program that we co-developed with Shopify and have been innovating against for several years now.

So there's -- I think the fact that it is something that both companies look at as co-owned, I think that goes a long way when we're thinking about expanding the surfaces that we touch. I think Shop Pay is an important revenue driver for Shopify, and we're really happy to support it. And we've seen really awesome growth and penetration of the program.

And so we're ready to go to support what we call Shop Pay Off Shop, which is their expansion outside of the ecosystem. And again, I think it's a great -- you think about the Venn diagram of what we do and what Shopify does. Shop Pay Off Shop is just a -- it's a logical extension of -- for both companies, right, where we pride ourselves on our ability to integrate with merchants, large and small, with a whole host of requirements. And this is the same problem set that we've been solving, that Shop's been solving for a long time.

Bryan C. Keane
Deutsche Bank AG, Research Division

Can you talk a little bit about some of the nontraditional retail verticals that Affirm is -- that might not be available to consumers? I think Narjare S. is a retail investor, he's asking in particular about offering pay later for elective medical procedures and other expenses not covered by health insurance.

Robert W. O'Hare
Chief Financial Officer

Yes. No, I think you look at sort of what elective medical can mean, whether it's an optometrist, whether it's a med spa, whether it's a dentist, right? It's a considered purchase, right? Or in some cases, it's almost an emergency purchase that maybe wasn't planned, and the average order values in those categories can be quite high into the thousands of dollars.

And so there's a lot about those dynamics that resonates with what Affirm does. We do service that sector today. We think it's an important category for us. We have some direct relationships with merchants that are providing those services, but we also work with some of the platforms that serve those clinics and storefronts.

So we have a partnership with Repeat MD, which is a sort of a practice management software and payments provider for the med spa space and for elective medical clinics. We work with another platform called Zenoti. So yes, there's a lot to like about that category, and we've been leaning in there for a while now.

Bryan C. Keane
Deutsche Bank AG, Research Division

Great. Great. Want to turn to credit and profitability. A common question we get, and I'm sure retail investors have is just talking about Affirm's differentiated underwriting capabilities, which has been really strong. DQ rates and credit losses have been managed really well even during this economic kind of slowdown here and done a lot better than really the industry.

So there's an actual investor question from Marmi S. asking, could you walk us through the credit capabilities of Affirm? What makes it unique in this current environment with the macro rates or interest rates falling?

Robert W. O'Hare
Chief Financial Officer

Yes. So we at Affirm believe that managing credit is always job 1 for us. And I think that we've built a transactional underwriting model that allows us to be both very nimble, but also sets us apart from some of the other ways that credit is extended to consumers.

And so you think about the average Affirm transaction, it's probably -- it's under $300 as of our last quarter. I think it was $280 roughly. And so we really believe that we're extending credit in very small increments. And we're able to get a repayment signal from those new loans very quickly.

And also the other nice thing about our credit model is that our loans amortize monthly. And so we're able to stare at a metric internally we call first payment delinquency, right?

So when we originate credit to a new cohort of borrowers, what's the delinquency rate on that first payment that they're making for the new loan. And we have prediction models that we compare to. And when we look at the repayment data, if we see a deviation, an adverse deviation from our expected repayment rates, we're able to be really nimble. And we're able to go investigate what's driving those increased delinquencies, and we can course correct as needed really rapidly.

So I think that gives us a structural advantage versus maybe a credit card model, where you're doing an intensive underwriting on a consumer, and then you're extending them several thousand dollars of credit for a multiyear period. We are re-underwriting consumers, re-underwriting the transaction every single time that a consumer requests credit from us. So I think that's just a structural advantage.

And then because we've been doing this for so long and utilizing this underwriting model for every transaction, we’ve built a really nice data set. And so we can build more customized credit models for some of our largest programs. That helps give us an advantage, and that helps us eke out small efficiency gains over time.

We're always optimizing the credit decisioning part of our business. And so I think it's just -- we have a big data set. I think we have a structural advantage in the fact that we're underwriting every transaction. And then we're also extending credit in very small increments, and we have a really high velocity for repayment as well. So that allows us to be pretty nimble.

Bryan C. Keane
Deutsche Bank AG, Research Division

Yes. I want to ask about falling interest rates in general, and obviously, Affirm is a beneficiary of lower rates. But there's a lot of moving pieces there. So maybe you can walk us through interest rate impacts to the P&L and considerations investors should keep in mind about the sensitivity and timing and any other considerations when you're managing credit?

Robert W. O'Hare
Chief Financial Officer

Yes. We fund the business a couple different ways. We use a mix of floating rate debt and fixed rate debt. And so if there were to be a movement in rates, the flow through to us won't be immediate, right? The fixed rate debt will not be repriced with a movement in rates.

If and when the fixed rate part of our business comes up for renewal or refinancing, then we would avail ourselves of the lower rates at that time. But it won't be an immediate pass-through. I think that's important to keep in mind.

And then we shared a heuristic maybe a couple of years ago now actually just to help investors think about the relationship between a movement in underlying reference rates and then the impact to our business. And so I think it's important to keep in mind that we have a weighted average term length in our business of just over 12 months. The average loan that we originate with the consumer is just over a year in length.

And then because the consumer is paying down principal every single month, the weighted average life or the weighted average amount of time that the loan is outstanding from a dollar perspective ends up being about 5 months. So when you think about that relationship between 5 months and then a 12-month term length, it works out to about a ratio of 0.4. And so a 1% movement in underlying rates should represent about 4/10 of a percentage point benefit to us if rates are going down. It's important to keep in mind those relationships and just the velocity of repayment that's in our loan book.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Got it. Wanted to get to the profitability side. Affirm has obviously shown some great strides in improving -- rapidly improving profitability. Junior V., who's a retail investor, is asking in particular about the path to GAAP profitability by the end of fiscal year '25. What are some of the areas Affirm has targeted to drive expense leverage and where are some key focus areas of investment, whether that be marketing, product improvement, et cetera?

Robert W. O'Hare
Chief Financial Officer

Yes. I think we've done a lot over the last nearly 2 years really to optimize our expense base and to really make profitability in the business and maybe even more importantly, efficiency in the business, really a north star for everything that we do.

I mean I think if you think about where Affirm is in terms of the industries that we play in and the merchants and partners that we're able to serve, I think growth is always going to be top of mind for us, of course, too. But I think we've proven to ourselves and hopefully proven to investors as well that we can continue to be very growthful, but also drive a really nice level of profitability in the business.

And so if you look at our full year results in fiscal '24, I think we drove 21 points of margin expansion at the adjusted operating income line. We ended the year with just over 16% adjusted operating margin. We were really proud of that result, but we also know that we're not done.

We have -- we've put a marker down for fiscal '25 in terms of our outlook that we're going to be north of 20% on the adjusted operating margin basis. So more improvement even versus the really nice progress that we made in fiscal '24.

So profitability is a huge part of everything that we do. I would say this next step for us of moving from adjusted operating income profitability down to unadjusted or operating income profitability, really, the biggest piece that will change for us is some of the Amazon warrants that have been flowing through our P&L as a noncash expense. And so they get adjusted out for the adjusted operating income metric. Those will start to fall off.

And so we think there's roughly a -- if you look at it on a quarterly basis in Q3 and Q4, we should see roughly $65 million to $70 million of year-over-year decrease on an aggregate basis in each of those quarters for that -- a portion of that Amazon warrant expense. So that helps a lot with the move to what we call GAAP operating income profitability. That's a big part of the assumptions, and we call that out as part of the outlook that we put out every quarter.

And then, frankly, the other part is just continuing to do what we've been doing and do more of it, right? I mean I think growth for us is a huge part of helping us to scale profitability.

Again, I think we've demonstrated that there's a lot of inherent operating leverage in our business model. And that's a core assumption for us is that we continue to grow GMV, and we continue to do it in a nicely profitable way. And that profitability will help us clear our operating expense base and result in that operating income profitability in Q4.

Bryan C. Keane
Deutsche Bank AG, Research Division

Are there any targets for GAAP profitability, like a margin that you plan to get to?

Robert W. O'Hare
Chief Financial Officer

I fully expect that we'll get to that over time. But right now, we want to go from negative to positive. I think that's the most important thing for us, and that's what we're focused on. And I think over time, we'll have to think about the right KPIs to include in our outlook. But right now, we just -- we want to get to profitability.

Bryan C. Keane
Deutsche Bank AG, Research Division

And can you remind us on the adjusted operating margin, what were those targets? Because you guys are rapidly improving on that.

Robert W. O'Hare
Chief Financial Officer

Yes. I mean as I mentioned, we've got the fiscal '25 -- just for everyone, we're a June fiscal year. So when I talk about fiscal, that means the period ended June 30th. And so we expect to be at a minimum of 20% adjusted operating income as a percentage of revenue in this fiscal year that we're in, fiscal '25.

And then longer term, we've set some -- we've set an algorithm for long-term profitability, medium-term profitability that is a function of how fast revenue growth is in the business. But if you were to put our guidance for fiscal '25 for both revenue growth and for adjusted operating margin, you would see that we're operating over and above that algorithm that we shared with investors at our investor forum last November.

So we probably need to get back and sharpen our pencils and think about what the long-term margin potential is for this business. But we're definitely committed to continuing to show progress on the adjusted operating margin front, and we don't think that ends in fiscal '25. We think there's definitely a lot of profitability to come for us as we look ahead.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Okay. Now I'm going to go to the grab bag of questions, retail investors that I wanted to hit on here that were asked. Jorge and Ashok T. are asking about if Affirm has any plan to expand its financial service offerings into auto loans, mortgages or other financial wellness tools?

Robert W. O'Hare
Chief Financial Officer

Yes, great question and definitely one that we get from institutional investors frequently. I think today, we really are focused on the over $1 trillion of credit card debt that is outstanding with U.S. consumers. We think that's the right opportunity set for us to be playing in and continuing to take share from.

Historically, we've said no to doing any form of secured lending, meaning that the good that the consumer is purchasing is collateralizing the transaction. We think we have a competitive advantage with the way that we build our underwriting models, and we can do that in the unsecured space as well as anyone.

And so we're going to be heads down and focused on what is undeniably an enormous opportunity in the U.S. and also internationally, but I don’t think you should expect to see us move into some of those other forms of lending, particularly anything that is secured.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Brandie L. is asking why would a consumer choose Affirm over other buy now, pay later providers? What's Affirm's competitive advantage? And maybe I'll even extend that to not only the consumer, why consumers choose it, but why do merchants end up choosing Affirm?

Robert W. O'Hare
Chief Financial Officer

Yes. I mean I think it starts with the breadth of product offerings that we can bring to bear both for consumers and for merchants. As I mentioned, we have 3 discrete types of loans. We have Pay in 4 loans, which are very short duration, typically roughly a 6-week term for those products. Those are great for smoothing out small purchases. But they don't provide the cash flow smoothing for a consumer for goods that are maybe $700, $1,000 or more.

So we think they're an important part of what we do and how we engage with the consumer, but we don't think it should be the entirety of what we do. And so we also offer monthly installment plans that range from a 0% APR all the way up to a 36% APR.

And it's important to remember the 36% APR allows us to be as inclusive as possible when we're underwriting a consumer and allows us to say yes to a large percentage of transactions. So I think it's -- with that product set, we believe we're able to service and provide credit for transactions as small as $35 all the way out through $17,500.

And I think that aperture, both from a product perspective but also from an average order value perspective, that is really unique versus some of our competitors. The majority of the competitors in the buy now, pay later space that we bump into tend to be very, very heavy in terms of Pay in 4 offerings, meaning that they're solving a problem for smaller average order value financing versus what we do, which we think is more of a super set of e-commerce purchases.

So I think that's a really unique differentiator. In the most recent quarter, we had roughly 75% of our GMV coming from interest-bearing loans. Another 11% was coming from monthly 0% loans to consumers that were 3 months or longer in terms of the loan term. And then we were about 14% Pay in 4.

And so that mix is almost the inverse of what we're seeing from our competitors. And I think that's important if you think about it from the merchant perspective because in a Pay in 4 loan, there's no interest to the consumer, which means that the only revenue that's coming to the issuer of that loan, the buy now, pay later provider, is coming from the merchant. And some merchants can't afford to pay a merchant discount rate or a percentage of the transaction that is high enough to support a large Pay in 4 program.

And so for us, because we have such a wider aperture and such a broader product set, we're able to build financing programs for the merchant that may still include a proportion of Pay in 4. But we're able to also include other more profitable programs. And that can smooth out the merchant discount rate that we're charging to the merchant and make it work within their own margin structure and the types of goods that they're selling.

So again, a long-winded way of saying, I think we have the broadest product set. And that allows us to be really flexible and to put an offer in front of a consumer that they're going to take up or even a range of offers in front of a consumer to give them choice.

Bryan C. Keane
Deutsche Bank AG, Research Division

Because is take rate more just a function of what product set and the credit risk you're taking on that because you guys have a little more flexibility maybe in take rate than some of the other competitors?

Robert W. O'Hare
Chief Financial Officer

Yes. I would think about it most simply as really 2 sliding scales that are related, right? There's a question of how much interest are we charging to the consumer and in our business that can range from truly 0% to a 36% APR. And then once you know the answer to that, right, there's another slider around, okay, what are the economics that we need to get from the merchant to support this transaction to make sure that we're printing profitable loans for us and meeting our own internal return requirements.

And so again, we can be really economically indifferent in terms of the mix of loan products that we're building for a merchant's financing program. It just comes down to meeting the merchant where they are in terms of their own cost of acceptance targets and their margin structure and then also making sure that we're putting the right types of offers in front of consumers so that they're saying yes to the offer. And that's driving conversion for the merchant as well.

Bryan C. Keane
Deutsche Bank AG, Research Division

Retail investor Peter Z. wanted to ask about large banks that he's seeing like Chase are starting to offer pay-over-time plans for their credit cards, allowing customers to break down purchases in 6, 12, 18 months with 0 fees and no interest. Does that trend threaten maybe the future growth of Affirm?

Robert W. O'Hare
Chief Financial Officer

We don't think so. I mean we think what we do is pretty unique. Most of our large programs, feature Affirm very, very up funnel in the consumer purchasing journey. So we like to have prominence all the way up on what we call the product display page.

And so as a consumer is thinking about buying their next TV, they should see the Affirm logo on the page for that television while they're shopping. And the best integrations that we have are calling out not just the fact that Affirm is there and ready and willing to provide credit to the consumer, but also what that purchase is going to mean in terms of the dollars of interest that the consumer should expect to pay and also the monthly payment that the consumer should expect.

So we think that that's the right place for us to be. And that helps the consumer think about how they afford this, not as a onetime outlay but as part of their monthly budgets and their ability to pay for this over time.

I think most of the credit card models that I'm familiar with where they're taking a purchase that's already happened and then offering differentiated financing terms for that purchase, it just -- it misses out on partnering with the consumer early in their shopping. And we think that's a real advantage for us.

And for what it's worth, I think these products have existed for several years. And we've seen really nice growth, if not accelerated growth on the Affirm platform at large. So we're really comfortable with our ability to continue to partner with an increasing amount of consumers and to mean more and more to their financial lives.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Want to ask about the U.K. I know you guys are sort of processing some merchants in that country. Can you talk about what makes your product or how is Affirm selling their product to differentiate itself from other BNPL competitors in the U.K.?

Robert W. O'Hare
Chief Financial Officer

Yes. I mean I think it's similar to how we look at the U.S. market. I think there's a range of buy now, pay later loan types that are resonating with consumers.

I think that we're optimistic that we can bring our expertise in underwriting, especially underwriting higher ticket items and longer-dated loans as well as our capital markets execution to be able to finance the loan book that we're building really efficiently and really profitably.

So again, we want to lean into the products that consumers are already utilizing in the U.K. So Pay in 3 is a very popular form of buy now, pay later financing in the U.K. We definitely are going to offer that.

But what we've seen so far, and again, it's very early and we shouldn't draw any real conclusions yet, but we are seeing uptake for higher average order values in the market. And we do think there's -- not dissimilar to the U.S. – we think there's a nice market opportunity there to support more considered purchases. And it's not an accident that we launched with Alternative Airlines, which is a travel provider as one of our large partners.

And so again, I think there's a lot to like about the market. And we think that we can definitely carve out a niche in the U.K.

Bryan C. Keane
Deutsche Bank AG, Research Division

Adam W. and Marmi S. are asking, what's the next area of expansion outside the U.K.?

Robert W. O'Hare
Chief Financial Officer

Yes. We've been live in the U.K. for, I think, a whole 1.5 months now. So we've still got plenty of work to do to make that program as large as we think it can be. So we're really excited about scaling. We're very hopeful that we'll be able to partner with some of our larger U.S. merchants and launch U.K.-focused programs in that market as well.

The COO at Shopify, Kaz, stood on stage at our Investor Forum a year ago and preannounced that Shopify was going to come to the U.K. with Affirm. So we're beyond excited to expand that partnership into a new market.

But hopefully, that's the first of many large partnerships that we're able to launch in the U.K. out of our existing base, but also out of brand-new merchants that we haven't partnered with yet. So again, I think we've got our work cut out for us in the U.K.

And longer term, we definitely have ambitions to be global in our efforts, and I'm not going to commit to the next new market here. But we don't think we're done with the U.K. market. We think there's definitely more markets to follow.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Questions on just Affirm offering up a B2B product? I know I think you guys announced that last year. Any update on the progress and the opportunity there in B2B?

Robert W. O'Hare
Chief Financial Officer

No. I mean we have some large programs in B2B today or programs with large merchants is the right way to say it. B2B is not a meaningful part of our overall GMV today, I mean, which is really just a function of the success that we've had on the consumer side of the world.

But we have a B2B offering that is live within Amazon. That's an important part of the B2B program for us. Amazon is a very sophisticated platform, obviously. And I think we've learned a lot with the B2B offering that we have with them. And we're happy to see that out in the world. And I think, over time, we'll evaluate how big the B2B effort should be for us.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. I got a real-time question coming in asking about how you guys think about the banking partners such as Evolve and Cross River since they're under consent orders? Any issues with kind of the regulatory environment you're seeing with that?

Robert W. O'Hare
Chief Financial Officer

No. I mean Cross River has been a longtime partner of ours. They're a partner of ours today, but they also are a pretty small part of our partner bank ecosystem. We use a diversity of partner banks when we're originating monthly installment loans.

And we think in almost everything that we do, we think that having a diversity of partners and vendors is just a core part of risk management. And so yes, Cross River has been a great partner to us. We have 2 other large-scale programs with other banks that have been great programs for us as well. And so we're not worried about anything going on with Cross River. And again, we work with the diversity of partners.

Bryan C. Keane
Deutsche Bank AG, Research Division

Got it. Question is just asking about how much visibility does the CFO have in a given quarter and then a given fiscal year?

Robert W. O'Hare
Chief Financial Officer

It's never enough, right? Whatever it is, it's never enough. Yes. I mean Affirm is a very -- it's a great question. Affirm is a very data-driven company. And so we're -- we go out of our way to make sure that we instrument the business and that we have real-time monitoring from a technology perspective to make sure that our site is up and running and doing what it's supposed to do. We're staring at daily GMV data.

So yes, I would say we're very data-driven, and there's a lot of data at our disposal. And I think we do a good job of focusing on the right things and making sure that we're monitoring progress in the business.

I would say like any business, there are certain data points that can be real time. And there are certain data points that show up on maybe a weekly cadence, a monthly cadence, et cetera. And so yes, I think we've got good visibility into the business generally.

Bryan C. Keane
Deutsche Bank AG, Research Division

Tamilia M. is asking that with the stock performance being phenomenal, especially over the last few months, how do you plan to -- how do you move the business forward for the continued success to match the stock outperformance?

Robert W. O'Hare
Chief Financial Officer

I mean, I guess, I think about it the other way around, right? I think the stock hopefully has performed because investors are realizing that we've built a really unique asset, that we're a profitable, growthful market leader in what is increasingly a very important part of how consumers are choosing to finance their purchases, right?

So I -- we don't -- we hope that the stock price appreciation is a function of the business that we've built and also the potential that we see and obviously that investors see for us as well. So we try not to stare too, too much at the stock price.

And I think we've got a really ambitious road map, both in the U.S. and in the U.K. and in Canada as well. And we're heads down trying to make sure that we do that work and that we do it as quickly and as efficiently as possible.

Bryan C. Keane
Deutsche Bank AG, Research Division

Last question for me, Rob. Maybe just highlight some of the things you're most excited about that maybe investors are not seeing on a day-to-day or just things that could make a difference in the future that you think is worth pointing out.

Robert W. O'Hare
Chief Financial Officer

Oh, gosh. I mean I think we covered so much on this call. I mean I think the -- we're so, so proud of the results that we've posted these last several quarters. I think our ability to scale profitability down to the bottom line, I'm really proud of that.

And again, with the outlook that we've set for fiscal '25, we expect to do more of that and at an increasing rate. The business continues to be really growthful, both in terms of the integrated side of the house with our largest merchants and platforms. But we've also made really great inroads with third-party distribution channels, as I mentioned, the wallets and some of the merchant acquiring relationships that we have, too.

So that's all going on, and that's all great for the business. And we're deepening our relationship with our best consumers. The growth of Affirm Card can't be overstated in terms of its importance.

So it just really feels like the business is firing on all cylinders from both a growth, a profitability and a consumer perspective. And it's great to see, and I'm honored to be able to stand up here and get to talk about all that.

Bryan C. Keane
Deutsche Bank AG, Research Division

Well, with that, Rob, we'll keep it there. Congrats on all the success, and congrats on the new role. And next time since we live probably 10 minutes away from each other, we should do this together.

Robert W. O'Hare
Chief Financial Officer

Yes, absolutely. Thanks, Bryan. Really appreciate all the prep and moderation here.

Bryan C. Keane
Deutsche Bank AG, Research Division

Yes. All right, Rob, thanks. Thank you.

Robert W. O'Hare
Chief Financial Officer

Thank you.
