



UBS Global Technology & AI Conference

December 2, 2025

Presentation Participants

Affirm

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UBS

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Presentation

Tim Chiodo

All right. Welcome, everyone. We're really, really happy to have with us this afternoon, Michael Linford, who's the COO of Affirm. He's joining us here for now, I guess, many years in a row. So thanks again, Michael, for making the trip here to join us in Arizona.

Michael Linford

Thank you for having me.

Tim Chiodo

I also want to thank Maggie Dean, IR from Affirm, who's also here and made the trip out to Arizona. So we really appreciate you both being a big part of the event here. It's been many years that you've been supporting us. So thank you.

All right. We'll get started. We have a good long list of questions here, and we're going to try our very best to squeeze in some Q&A at the end from the audience. So please just get ready to raise your hand, and we'll bring you a microphone. But let's see if we can start with holiday trends. So here we are. It's not totally through the quarter, but we got through a nice big chunk of holiday spending with Black Friday, Cyber Monday. Maybe you could just tell us a little bit about how the holiday season is shaping up for Affirm.

Michael Linford

Yes. As you know, we don't disclose aggregate numbers. But obviously, it is still our Super Bowl, and we feel really good about how holiday went. A couple of notable trends maybe I can share with you. Our 0% business continues to really shine right now. Consumers are really valuing the 0% offers we can bring them, both in our app and with our merchant partners. You saw many categories post north of 100% growth in 0% loans. You saw younger consumers, in particular, really prioritize experiential transactions. So our ticketing business continued to be growing at a really steady clip along with things that involve being out in the real world and somewhat bucking some of the trends that I think some of the headlines that might imply about the consumer. I think we're seeing a pretty healthy and engaged consumer.

Tim Chiodo

All right. All right. Thank you. Well, let's hit on some more on some GMV trends. So clearly, last quarter was a strong one, right, 42% GMV growth. Maybe you could just talk a little bit about the Affirm card contribution. We look at the slide that you put up at your Investor Day, right, and it had a kind of a growth bridge and had a mid-single-digit growth contribution from the card. But recently, it's been more like 10 points of contribution. So it's clearly exceeding expectations. And what investors are looking to know is what level of contribution should we be thinking about going forward? Clearly, the base is getting larger, maybe the growth decelerates, but it's still a big contribution.

Michael Linford

Yes. I couldn't be more proud of our direct-to-consumer team overall and the products we're building and the way we're serving our consumers. It's nothing short of remarkable, the continued and sustained growth that we see in the card. The -- when you look at the cohorts on the card, it's just -- it continues to impress even the most bullish people about the card, and I am that. I think we've talked for quite some time about how important it was for us to get the card product to scale and to see the level of engagement on a continued and sustained basis is something really special. The growth of the card has accounted for about 1/3 of our total growth rate, 15 points of growth in the total Affirm growth in Q2 -- Q1, excuse me, was from the card. About 30% of our actives were touching a card in our direct-to-consumer channel overall. And those are really impressive numbers and obviously well in excess of the 5%. I would encourage everybody to think about as the card continues to grow and as Affirm continues to grow, the denominator will bring down some of those growth rates even as you see really healthy engagement by cohort. You're seeing cohorts that we onboard now to engage at a starting point at a higher level and can -- seeing older cohorts continue to engage more frequently. And we're still well short of our really audacious goals that we put out there. We moved out some really big numbers. But

they've gone from being numbers that looked kind of like hopes and dreams to you start to see the path to us actually having 20 million users using the card and spending \$7,500 a year with it.

Tim Chiodo

All right. Excellent. Well, before we move on to a little bit more on the Affirm card, I want to both thank and introduce Jill Shea. Jill Shea is a co-covering lead analyst on Affirm, and she's joined us on stage here, and we're going to get into some follow-up questions. So thank you, Jill, and over to you.

Jill Shea

Thanks. So just maybe just another follow-up on the card. Clearly, an important part of the story, and it's contributed more to the growth at an earlier stage than we expected. And you saw users up 500,000 quarter-over-quarter. And you had a 12% attach rate in the quarter. I think that was -- in terms of the growth rate, that was the highest growth quarter you've seen. Could you just touch a bit more on what's driving that acceleration in card adoption?

Michael Linford

Yes. I mean I think at the end of the day, the killer feature of the card is we bring the power of the Affirm installment loan to a tried and true last mile kind of distribution, the card's ability to take out some friction that might exist otherwise on our virtual card product is really resonating with consumers. It's a much more efficient way to repeat on Affirm. I've said this repeatedly and I really believe it, it's the best way to repeat on Affirm. It's the best way for consumers to enjoy the benefit of the credit we can extend to them. The biggest driver for us is to continue to build the product in a way where consumers see the value in that. And as our user network scales, so does the base of the users of the card. And it's really important that we're continuing to build features for those users to solve problems that they have. It means that we need to understand how and where they need credit, understand how and where they need us to help remove friction from checkout experiences. We need to continue to improve the experience of the card offline. There's a lot of work that we should be doing to make that process better for consumers and take out as much friction as we can. And again, continue to try to serve as many transactions for those users as we can.

Jill Shea

Great. I'll turn it back to Tim on the 0%.

Tim Chiodo

All right. 0% loans. So we generally think about this as a very TAM-expansive type of product for you. To set the stage though, the growth there was 74% year-over-year in the most recent quarter. The number of merchants funding these loans tripled to 40,000. Again, expanding the TAM, unlocking to some higher income users, but maybe you could talk a little bit about the strategy here and when the enterprise salesperson from Affirm goes into the merchant and pitches these 0% loans, what does that conversation sound like?

Michael Linford

I think there's no better and more effective ROI dollar to be spent than financing 0% loans. Zero is the most powerful concept in business. And certainly, 0 -- when the consumer can experience a 0%, it means something. But at Affirm, our zeros are doubly special because they're an actual true 0%. If you haven't yet, you should read our Head of Communications wrote, I thought a really tongue-in-cheek, great tongue-in-cheek press release when we announced our 0% days when we were out talking about what our 0% days were going to mean. And we played with the idea of what nothing meant because an Affirm 0% loan has nothing in it. There is nothing the consumer can ever pay beyond the purchase price of the product. There's no late fees. There's no deferred interest. There's no disclaimer that says if not paid in full by month 48, we revert the payment back to the first date and yet nothing, the consumer's obligation is the purchase amount. And when a consumer goes through that experience, it becomes a really powerful conversion tool because they have confidence that what they're getting is what they've been advertised. And so it's a really powerful conversion tool. It is hard for us to do. And therefore, it is one of the things that's most unique. Affirm is a kind of place that's drawn to the hardest possible problems, and this one is hard. It's hard because you have to have the merchant's willingness to pay for it, which means you got to demonstrate impact. It's not inexpensive. And so it's a real cost to merchants. You can't do this for 50 basis points or 100 basis points to MDR. You have to have merchant funding. In order to have that merchant funding you have to sell and convince them of the impact that it has and you have to have really good underwriting capabilities. Interest-bearing loans create space for bad underwriting to hide a little bit. You have this great benefit of interest covering up losses. And you can have less good underwriting and okay outcomes with

interest-bearing. With 0%, there's no revenue stream to offset that. You've got to be very, very good upfront at the underwriting piece if you want to price it at all competitively. The conversation with customers is really about how do we grow your business in the most efficient way possible. You can do a 20%, 25% discount or you can pay a 7% MDR and drive similar levels of conversion output for your business. I think that the best and worst thing about our 0% offers is that they truly are a marketing expense for merchants. And the reason why that's the best is because you're talking to the merchant about growing their business. That's a great opportunity to have a really cool dialogue. The reason why it's going to be challenging is when merchants are trying to cut back, as you saw a couple of years ago, when merchants were dealing with a combination of inflation and cost changes in their business, you did see merchants pull back on it. Part of the reason we're so aggressive right now about talking about and growing our business is because we see our merchants being very front-footed. You cited the merchant's that they're wanting to grow their businesses, and we want to be there to help them do that.

Tim Chiodo

Great. Well, Michael, we often describe it in that same manner. We often say if a merchant wants to sell more, they can put something on sale. They can buy traffic or they can offer 0% loans. And it sounds like what you're saying is that based on your data, definitively, the most cost-effective way to do that is the 0% loans.

Michael Linford

That's right. And I think it's also really hard to do, hard to do well and hard to do honestly. And I think that when you are able to talk to a merchant and they understand that, it's pretty powerful.

Tim Chiodo

All right. Great. Well, I'm going to turn it over to Jill to talk about RLTC margins.

Jill Shea

Great. So in terms of RLTC, you had another strong quarter at 4.2%, partially benefiting from lower funding costs and lower provisioning as the loan sales, the forward-flow partnerships, began ramping up. Can we expect this level of loan sales to continue? And how should we think about the impact to RLTC going forward?

Michael Linford

Yes. Our approach to a mix of on and off balance sheet really hasn't changed. We continue to remain really committed to scaling up our ABS program, the revolving portion of which, which is the majority of it, it's on balance sheet, just as we are committed to scaling up our forward-flow partnerships. And the reason for that is we continue to believe that the most durable funding strategy for our business is to not become overly reliant on one channel. It is the case right now that the capital markets are extremely constructive for Affirm and for a lot of other names, too. The forward-flow market is really robust with tremendous amounts of demand and a lot of ability for issuers like ourselves, to take advantage of that. We don't view that as a reason to change our strategy. We view that as a reason to take advantage of it by finding and partnering with the best and to go deeper with the best providers of credit and not to be chasing just a wholesale change in our strategy. And so you've seen the rates change a little bit on the on and off mix over the years, but we don't expect a wholesale change one way or the other. And the way it impacts our business is really through the timing of the revenue less transaction costs as well as the level. So when we put loans on our balance sheet, the earnings are spread out a little bit more over time and we earn a little bit more. And then when we sell loans, some of that yield obviously goes to the risk taker, the forward-flow partner who owns all the risk, but we earn all of our economics upfront. I think if we were running our business entirely on a forward-flow basis, we would still very much like the margin profile of the business. However, we don't think it's as durable or as a prudent way to manage through cycles ahead.

Jill Shea

Great. And maybe just turning to -- back to Affirm card, just a quick question there. Affirm card is about 13% of total GMV in the first quarter. Can you just talk about the RLTC margins and what it looks like there? I mean clearly, interest-bearing seems to be the vast majority of the GMV, so likely not dilutive to margins, but maybe you can just walk through the dynamics there.

Michael Linford

Yes. It's actually pretty accretive to margins. The card has got 2 real benefits -- well, 3 benefits, actually. Number one, for the credit transactions we earn healthy interchange on the swipe. Number two, we have a huge positive selection. The vast majority of Affirm card users are repeat users. In our business, the highest risk transaction is the first, the most important transaction to underwrite is when we haven't seen that user before. Very quickly after consumers repeat on our platform, the user's history with us becomes the most important signal for us to manage risk with that consumer. And obviously, the first transaction being on the card would be a higher risk. Well, the card is mostly -- almost all of that volume on the card is with repeat users. So we benefit from that. And then, yes, as you point out, the mix of financial products on the card is skewed heavily towards interest-bearing loans. And so you have a positive selection on credit, a healthy level of interchange and an interest-bearing loan puts you in a really strong position. Part of the reason why 0%'s are so important to us overall and in particular for our card base is we do know that we have to continue to give value back to those users and 0% or APR promotions generally are a great way to do that, and you're going to see us continue to be very aggressive there.

Jill Shea

Great. And I'll turn it back to Tim on international.

Tim Chiodo

All right. Great. On international, we know it's still pretty early, right, with Shopify in the U.K. But let's just fast forward 3, 4, 5 years. If you were -- if you had a model for the international business, which I'm sure you do, would the -- what would roughly be the RLTC margins of that business in the U.K.? And what would the product mix be?

Michael Linford

I love Tim asking this question because I think back a lot to our first days after being a public company and Tim's launching coverage on us. And I think the first, second and last question he ever asked us on every call was when are you launching with Shopify? When is the Shopify thing going to go from a talk to being reality? And our answer then is the same as it is in the U.K., which is it's going to be very real, going to be very big, going to be -- we like the economics of this program, but it will take time. And I think we are really happy that we got to GA with Shopify in the U.K. That was something we talked about on our call and Shopify did as well. We're very happy that we've got the product built. We are in a spot now where we're making sure that it's up to our standards. We talk about that a lot, getting products up to our standards for merchants and consumers in the region. And so it's a bit premature to start talking about long-term destination economics. But there's very little about that market that we think doesn't look like the U.S. market in terms of the economic profile. There's some puts and takes. Some things will be higher. We would expect, for example, funding cost to be higher early in the program as there's no history, and it will be predominantly a warehouse-funded business at first. There are some things that will be lower. We think repayment costs, for example, will probably be lower in the region. But we think that the rough range of economics should be very, very similar at destination. But it's a bit premature. We're really early and we would just encourage investors to be patient with us as the program actually gets to be meaningful and get some real math to it.

Tim Chiodo

All reasonable and still really helpful commentary. So thank you, Michael. I'm going to pass it back to Jill, who's going to talk a little bit about margins and then also funding.

Jill Shea

Great. So maybe just going back to your Investor Forum in November 2023. You talked about 2 adjusted operating margin outlook scenarios, which you've clearly exceeded even in the low revenue scenario. Could you just provide us an outlook in terms of where those margins can get to over the next several years?

Michael Linford

We have exceeded those frameworks, and we're A+ students here at Affirm, I guess, is the only explanation I can offer to why we're so far ahead, and we really are far ahead. I think the earnings potential of this business remains, we think, very, very high. We're not going to update that outlook yet. Do stand by. We do know we owe the market an updated framework and we plan on doing that next year, but not anything to announce there yet. One thing, though, to think about is just incremental margins in our business. And what we've seen is just incredibly high incremental margins. If you think about -- we would measure that as a percentage of revenue less transaction cost and how much of that actually flows through. And if you looked at that over the past couple of years, we've been in some quarters above

100%. So we're actually printing more bottom line than we are even at the RLTC line. And then the last quarter was a really impressive number. I mean these numbers are really indicative of, I think, the long-term earnings potential in the business. I think a thing that we've been saying now, we said in 2023 and would repeat here is that this business has inherently a lot of leverage in it. It's a technology company. It's a software company. We build software for a living. Software has a great feature of a lot of healthy marginal unit economics. And the marginal units in our business post our -- below RLTC are really, really strong, and I think you've seen that. And yet, we continue to want to keep investing in the business. So we have a lot of opportunity. The U.S. market continues to be extremely underpenetrated for our category. We think there's at least a tripling of the industry in the U.S. before you start to get any sort of slowdown on the e-commerce side. The offline commerce is just largely untouched. And that's before you consider all of the new markets that you can add. So it's very early innings. And so we feel like we want to continue to invest. And yet, the business is just so structurally well positioned to generate really strong incremental margins that you're going to see this thing where on some quarters where our investment for long-term growth is a little bit higher, you'll see a little bit less incremental flow-through. But overall, continued and sustained expansion of operating margins in the business. I think the turning the corner on GAAP profitability is a big milestone for us. We think we have a lot of work yet to do there to grow GAAP margins. And as we do that, the adjusted margins will grow as well.

Jill Shea

Great. That's very helpful. Maybe just turning to funding and capital partners. You had a really strong quarter in capital markets with your latest ABS deal pricing at the lowest average yield since 2022. And you did note that you saw some flight to quality. Could you just give us an update on your funding partners? How are they positioned today? Is the demand for consumer credit still strong? And are you still seeing that flight to quality?

Michael Linford

Yes. The flight to quality is in 2 directions. I think you're seeing issuers like ourselves, we want to partner with the best sources of capital, and you're seeing the best sources of capital want to work with the best issuers. And I think that's a really healthy sign for the market overall. The demand for, I think, the asset I would characterize as continues to be extremely robust. It's not something we take for granted. The reason why I think there's so much demand for our asset is our focus on delivering consistent and repeatable credit outcomes. If we continue to deliver the credit outcomes that our investors underwrite, they continue to earn the returns that they need to for their shareholders, LPs and insured populations. We can continue to enjoy access to capital. And that's the way -- that's the reason why it works. And I think that just the very robust market that is out there right now for our asset just puts us in a position where we get to be very selective and very thoughtful about who we want to partner with and how deep we can go with them. And it's a really fortunate place to be in. And that's on a bilateral basis. On the ABS market, like as you mentioned, the last deal that we did, the static deal that we did, we were really impressed with the quality of the execution and the demand that we saw. I constantly hear from our ABS investors, just how far -- I had this investor pull me aside and he was -- he said, "I'm really upset with your team." And I was like, "Look at my face" -- all the blood drained out of my face." He's like, "They make everybody else look really bad." They are so buttoned up. They're so on top of everything that it's just a different game. And it's the case. At Affirm, what we do is very different and the quality of work that we do really is understood by our best investors, and that's why they show up in the deals like they did last quarter.

Jill Shea

And then maybe just drilling down on that a little bit, just given your success there, what's the pathway forward in terms of driving funding costs down? Can you continue to have runway there?

Michael Linford

Yes. I think benchmark rates are probably coming down. The forward curve certainly implies that. And I think that's -- it's going to be a thing that I'm sure a lot of folks spend a lot of time thinking about. Spreads are probably not coming down as quick or if at all. And so I think there may be a little bit of tension with rates coming down and spreads going out a little bit for the market. Our opportunity remains in continuing to demonstrate the results and continue to be picked as the different player. And that differentiation should show up in more demand for our asset, which should show up in lower spreads. And the last deal we did is a good example for it. But we -- again, we don't take it for granted. The best way we can reduce spreads is to continue to deliver the results that our investors are looking for.

Jill Shea

And then maybe not to harp on funding, but maybe one quick question as well. I think you had given us that rule of thumb that 100 basis point decline in rate is about 40 basis points to funding. Could you just walk through the timing

element of that? How much of it is truly variable? How much reprice is on a lag? How do we see the funding costs kind of coming through the income statement over time?

Michael Linford

Yes. So the warehouse business for us, which is now one of our smallest funding channels, but an important one just to manage liquidity throughout the quarter, that's floating. And so that's very much as rates move, so do our warehouse costs. Everything else has some level of episodic repricing. In the case of our revolving deals, those are fixed cost deals. And so those are good for the duration of the deal, but we're constantly doing them. We'll do a couple of those a year. And so you can kind of get this layered situation where you have some of your portfolio that's 2 years old, some of it you just printed. And then our forward-flow deals really do range. We have some deals that price regularly, some deals that price only on renewals. Net-net, though, think of it as kind of 3 to 4 quarters or so of time for these benefits and costs to flow through the system a little bit more depending upon the funding channel or a little bit less.

Jill Shea

Great. I'll turn it back to Tim.

Tim Chiodo

All right. I think we can make this one a quick one and then maybe leave some time for Q&A. So I'll bring the microphone around in a sec. But -- so Michael, there was a comment in the fiscal Q3 2025 shareholder letter that really was well received by investors. I know you've talked about this a little bit since, but the comment was basically that, "Hey, in a recession, where you see a 50% increase in credit stress, the impact of the business would be a 10% reduction in GMV, meaning the loss rates would kind of hang in there, of course, and you would just say no, 10% more, and you'd see a little bit of a slowing in the GMV." And I think that comment was really, really helpful to the investment community because it allowed people to get more comfortable putting a multiple on Affirm. So maybe you could just talk a little bit about that number, what went into it? How do you define a 50% increase in credit stress?

Michael Linford

Yes. And first, I think it's important that people understand like what -- there's a philosophical point being made, which is we manage to credit outcomes and because our asset is short duration and because of our yes and no underwriting and transaction level underwriting, we get to decide the level of credit loss in our business. We -- the primary way we answer the question of are you seeing stress is like, is the credit outcome that we see consistent with what we underwrote with the time we originated the loans 30 to 35 days ago. If you see the same level of loss in that cohort, great, that means that your model is holding up and everything is great. The point there is we can control that. If we decided that we needed a less loss, we reduce it. The way you reduce it is any number of levers. You can change cutoffs, you can add down payment requirements, you can change product mix offering, et cetera, all of which would lead to some level of degradation in conversion and GMV growth slowing down. The point there is philosophically, we'll run the business to a credit outcome and let growth be an output of that, not an input to it. When we define 50%, we literally just take credit losses on delinquencies or charge-off basis and grow them 50%. It's kind of consistent with some recession modeling we've done on our business. And all that's before some mitigants that we have. There's a lot of work we can do to mitigate. We do think that in that environment, you're going to see more top of funnel demand for our product because the thing that we do for consumers is help them solve affordability problems, which go up in those environments. So we do think there's some offsetting factors there. But we wanted to contextualize both for investors, the philosophy we had, but also just the numbers, which is when your business is growing as quickly as ours, you can begin to feel comfortable about still maintaining pretty strong growth through what could be some macro headwinds.

Tim Chiodo

Well received. Thank you. All right. We do have time to take a question. If anyone would like to jump in, just raise your hand, we'll bring the microphone. Here we go.

Investor

I was early at Nubank in Brazil. And I look at the U.S. banking market, and I kind of think, well, is there an opportunity for a digital-first player to ultimately challenge the big banks like Nubank has? And so I'm wondering to what extent that's on Affirm's radar screen that you could eventually offer a bank account and become the principal bank account for your customers? And what that could -- what Affirm will ultimately look like 5 to 10 years from now?

Michael Linford

Great question. Our mission at Affirm is to build on its financial products that improve lives. Clearly, the thing that we do mostly today is a very narrow set of that. We help consumers get the things they want and need in an honest way, and we're really attacking the credit part of the problem today. Our eyes are much bigger than our stomachs in terms of what we can actually work on and the opportunity set is just so enormous on that subset of the problem. So no doors being shut, but our focus still remains right now on solving the credit part of the problem. That being said, we have a product, Affirm Money Account that's live where consumers can store funds within an account, earn a good APY. And it's a product that we feel like we could do a lot more with over time, but really haven't prioritized a lot of build on that yet, for no other reason than the opportunities in the core business are just so big and it's every time we turn around, they just get bigger and bigger, the growth in the card is such a great example for this. Like we're meaningfully ahead of where we thought we'd be in terms of contribution from the card. And it's difficult to say we should take effort away from that to fund a more speculative thing around direct banking experience. That being said, there are plenty of problems with consumer banking, and I think that hopefully, somebody does get around to fixing those.

Tim Chiodo

All right. Since we have time, if you don't mind, I'm going to squeeze in that last one and I didn't know if we were going to get to -- agentic commerce. So I go into ChatGPT, and I find a ceramic mug on Etsy and I see the buy button, I see Apple Pay, I see Stripe link, I see pay with a card. I think the investors are just looking, will we start to see an Affirm button through agentic commerce user interfaces?

Michael Linford

Agentic commerce is so exciting. I think it is truly one of the megatrends that everybody should be paying attention to. It's also extremely early. I think a lot of the chatbot companies are trying to figure out exactly how to do it and varying strategies are out there. But yes, the answer is we fully anticipate being participants in anything that looks like agentic commerce. For what it's worth, you can do that with Apple Pay, you can do that with your Affirm card today. And obviously, we think we're very well positioned in that environment. When you have a product that has no late fees, that there's no tricks to the product, the certainty that you can offer consumers when you check out, that sort of math and logic is best valued by a rational thinking machine and overcomes whatever sort of marketing that people might be exposed to on a taxi cab cover.

Tim Chiodo

All right. Well, Michael, Maggie from the Affirm team, thank you guys again for being here. Looking forward to this dinner tonight. And also, I want to again say a special thanks to Jill Shea, co-lead analyst on Affirm. And thanks, everyone, for joining us.