



# Affirm COO/CFO Fireside Chat

September 30, 2024

## Call Participants

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### AFFIRM

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

### OTHERS

**Katie Perry**

*Co-Host, After Earnings Show*

## Presentation

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### **Katie Perry**

*Co-Host, After Earnings Show*

I'm Katie Perry and this is After Earnings. The show brought to you by Morning Brew and Stakeholder Labs. We talk to the public company executives that you want to hear from. Today, we have a Buy Now, Pay Later, that's BNPL, juggernaut with us. Affirm is back on the show. We're joined by Michael Linford. They're coming off a solid Q4 earnings report where they reported 48% year-over-year revenue growth. They also showed some progress on their path to profitability. So today, we're welcoming Michael Linford. He is the newly appointed COO and CFO of Affirm, formerly was just CFO, and he is taking your burning questions. That's right, we have shareholder questions authenticated through Say and Stakeholder Labs. We're working those into the conversation. So stay tuned to see if your question gets answered.

With that, let's talk to Michael.

Michael Linford welcome back to After Earnings. How have you been?

### **Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Quite well. Thank you for having me.

### **Katie Perry**

*Co-Host, After Earnings Show*

And I got to say you have a new title this time. So tell us about that, you were recently appointed as COO and CFO.

### **Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. We announced at our last earnings, that I would be taking on the title of COO and I'll be our CFO until we transition that to Rob O'Hare, who's one of our leaders in the finance org. Yes. It's really exciting. I get to step into a broader role here. I'll still look after finance and still talk to investors quite a bit but also really help us continue to leg into the next stage of growth as a company, and I'm excited for the expanded role.

### **Katie Perry**

*Co-Host, After Earnings Show*

Amazing. Well, congratulations. That sounds super exciting. And as you know, we're doing a little -- we're doing things a little bit differently today. So we've collected verified Affirm shareholder questions from Say Technologies and Stakeholder Labs. There's a lot of -- a flurry of questions that came in. So we're going to work those into the conversation, make it a little more interactive.

### **Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Awesome.

### **Katie Perry**

*Co-Host, After Earnings Show*

Amazing. So let's start off by catching up on the last quarter and that was really an eventful one on your path to profitability. Your founder and CEO, Max, noted that it was a killer quarter. Can you double-click on

the margin improvement that you all reported?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes, it was a killer quarter. The company is really performing very well across all parts of our business. The top line is growing very quickly. We're engaging more consumers and expanding our merchant distribution. We're maintaining really strong unit economics. We talk about our units as the revenue less transaction costs. That number actually came in above our long-term range, which we've talked about as being 3% to 4%. We're slightly above that due to the timing nature of one deal that we did. But it just goes to show you the really strong units in this environment is really impressive. And when you grow very quickly and you maintain good unit economics and then control your operating expense growth, you drive leaps forward in operating margins.

And so the operating margins also grew quite a bit in Q4 and put us in a position to make the commitment that we're going to get to GAAP profitability by the end of this year, this fiscal year. And so it's really exciting when you have that perfect recipe of lots of top line growth, really strong unit economics and then really good operating leverage. There's really little not to love about this.

**Katie Perry**

*Co-Host, After Earnings Show*

And what were some of those levers that played into that, the last quarter and which do you plan to continue pulling looking ahead to those GAAP profitability goals?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. I think that the path towards GAAP profitability is really simple. It's just continue to execute the same way we've been executing. The biggest step change in the expense base is going to be the reduction in some of the amortization from one of our largest enterprise partners. We granted them some warrants and the amortization begins to roll off by the end of this fiscal year. That's the biggest change to the expense footprint. Otherwise, we're going to be growing expenses at a rate slower than what we're adding to the business in terms of top line results. And the top line formula is really unchanged. We partner with the world's best enterprises, best platforms to get our product in front of as many consumers as possible. It's why we partnered with large enterprises like Amazon and Shopify and we're also now partnering with Apple to build an Apple Pay product, a product inside of Apple Pay. And these distribution points for us are what we've been talking about as the key to what we call winning at checkout, something that's the big part of our growth formula between now and \$50 billion in GMV.

**Katie Perry**

*Co-Host, After Earnings Show*

And along that line of thinking, let's flip to the top line revenue. You grew 48% year-over-year. I know you have your interest income, you have your merchant fees. Where are their green shoots in either or both of those?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. I think, again, it's really impressive to see everything working quite well. Everything for us starts with the loan itself. The loan has revenue in it from either the consumer or the merchant. A consumer pays us interest, the merchant pays us a fee for facilitating that transaction. And in both cases, those revenue sources are growing consistent with the size of the total GMV in the business. And because that's growing very quickly and we're maintaining our yields, we had a really great quarter in terms of just total revenue content. After we originate the loan, though, we also have some capital markets implications where we

either put the loan on our balance sheet either in a warehouse or one of our ABS deals, or we sell that whole loan on a whole loan basis.

And the health of the capital markets, in particular, this last quarter, really allowed us to grow our gain on sale quite quickly and fund the business in a way where we're able to again put up some pretty great revenue less transaction cost numbers. And so it's really across the board, driven by strong growth in the units we produce in GMV, maintaining discipline in the market in terms of how we price and then excellent execution in the capital markets.

**Katie Perry**

*Co-Host, After Earnings Show*

And I know in the Q&A during your last earnings, there was some analyst questions around potential Fed funds rate changing. We've, of course, had some news out of the Fed since then. So I want to flip over to a shareholder question that came in. And this question asks, could a lower interest rate environment lead to increased consumer demand and a corresponding boost in Affirm's revenue?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. I think the business is very well positioned in any rate environment and we think in any macro environment. A lot of the investments that we've made as a business is to allow us to navigate through really volatile environments. In the past 1.5 years, it's been the rising rate environment and the sustained higher rates. Into the future, it could be a declining rate environment or even changes in the macro picture for things like employment.

Our business is really well suited to navigate those things given the really short duration of the loans that we generate. And what I mean by that is, our business is not a few big loans. It's lots of little loans that we can construct and constantly curate the mix of, which allows us to navigate and be reactive to the macro environment as it changes. The story over the past couple of years has been the rate rises, as rates begin to decrease, it certainly changes things. I think it's not going to be as quick as people think.

A lot of our funding sources are pretty sticky. And so it will take -- play out over the course of 1 year to 2 years before the benefit shows up in our cost structure. But as that does, it does allow us to invest that back into the consumer and to the merchant relationships. For the consumer that can look like more 0% offers or discounted APRs. For the merchant, it's continuing to drive best-in-class growth in average order values and best-in-class conversion for the merchant. And that's really where those incremental sources of economic goodness would go to, which in turn, results in higher growth for Affirm.

And so we feel really good about what would happen holding everything else constant. We're also really mindful of the fact that a reduction in rates is probably coming with a less optimistic picture on employment, which is something that's very important to us. By far, the most important cost to us is our cost of credit. It's the most important thing that we do every day. And we will maintain high levels of discipline on credit as we know that that's what unlocks everything else in the business. And so if you hold credit constant, then everything I said is how it will play out.

But we're mindful of the fact that the credit picture is certainly one that warrants a lot of focus and attention right now and we'll be reactive as or when we learn more about how the landing is going. I think it's really impressive the way in which the economy has really cooled off from an inflation perspective and maintained healthy levels of employment. I think the thing that we're mindful of, though, is there's going to have to be some balance between the two. And I think the Fed signal was very strong recently and that definitely puts us in a position to where we want to be paying really close attention to the employment picture.

**Katie Perry**

*Co-Host, After Earnings Show*

Definitely a lot of levels to that, for sure. And you mentioned lots of little loans. And that's really your innovation, right? And you guys were early in this BNPL wave. And now it seems like normalized for people. I mean many younger consumers, this is just how they plan and make considered purchases. And I'm curious if you have any insight into how that specific demographic, the younger shoppers, say, Gen Z, how is that attributing to your growth that you're seeing at Affirm?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. I think the younger consumers really started this change. A lot of our history dates back to consumers who grew up, they were young, preadults during the great financial crisis. And they saw some of the largest financial institutions in United States treat consumers very badly. And they continue to see how the credit card business model definitely puts the bank at odds with the consumer and they wanted an alternative. And the thing that Affirm offers this consumer is this really transparent offer. We're on your side, and our interests are aligned with yours. And that has really resonated with younger consumers who feel fed up with a lot of the ways that banks treat so many consumers in the country. And that is the underlying social trend that I think started and would have happened regardless of whether or not Affirm came on the scene but certainly, we helped create as well.

And that sense of, I really want an alternative to the credit card business model is one that really resonates all the way down to those younger consumers. I think it's so exciting for us because that trend will continue. There's very little indication that the legacy business models in the consumer credit space are going to change their ways. There's a huge resistance in large financial institutions to waking up to this trend. And we will continue to be the beneficiaries of that as these consumers vote with their wallet for more honest financial products and they put away their revolving credit accounts.

**Katie Perry**

*Co-Host, After Earnings Show*

Yes. It's fascinating looking back at just how normalized this has become. I think you all first came on my radar with the Peloton partnership in the pandemic, and it just made a lot of sense, right? You're replacing a gym membership, paying over time. As we think about BNPL, I want to flip to a shareholder question from Jamila. And she asks, where do you see Affirm in comparison to your competitors like Klarna and Afterpay? How should investors think about you all in the context of others in your space?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. It's a really great question, one we get a lot. I'll start by saying that we obviously are biased. We love our business very much. But we really do think that we're one of one. There's not a competitor out there who can do all of what we can do. Our business model is unique, and our product set is unique. I think there's a lot of competitors out there who offer a pay in 4 solution, and this is a installment loan that's broken up into 4 payments. It works really well for smaller purchases that have higher frequency. It's a lower-margin product that clearly has a lot of popularity in the large number of consumers and we certainly have that product too. But what we can do is expand that, and we can offer really any term length. We can offer interest-bearing in 0%. And when I say any term length, any term length up to about 48 months, very long duration relative to those pay in 4 loans. And that product breadth allows us to serve more merchants and more consumers and more use cases.

Think about a \$1,000 purchase. A \$1,000 purchase broken up into 4 \$250 purchases doesn't really help you. You need some level of duration to make that payment fit into your monthly cash flow. And Affirm's investment from day zero in credit and underwriting and credit risk management and that's the area where we really shine.

Our investment in those areas allows us to serve a lot more transaction modes than a lot of our

competition does. And that's why the largest enterprises like to partner with us. Our product is without late fees, it's without deferred interest, it's without any compounding of interest, or any other hidden fees. And that attracts the largest enterprises to want to partner with us because they know that we're going to treat their customers really well. They know that our business is built on a really transparent offer to the consumer, and it's quite simple in the sense that we want to make every transaction one that's good for all involved. And that really does stand out versus some of our competition and is really valued by a lot of our players -- a lot of our partners.

That being said, the market remains competitive. I think it's going to remain competitive because of what we just talked about. Anytime you have these secular trends where consumers are adopting something in very large numbers, where the underlying trend is really away from even where Affirm is and it's about the consumers wanting honest financial products and alternatives to what they've had in the past. Anytime you have these fundamental trends, it attracts competition because this is a thing that younger consumers are really excited about. So we expect the market to be competitive for really the foreseeable future. And we just want to keep focusing on building as many products to serve as many transaction modes as possible.

**Katie Perry**

*Co-Host, After Earnings Show*

And competition really is the engine for innovation. And as is the case with many of these conversations we have with tech executives, we've got to talk about AI. It came up in the shareholder questions. We had a shareholder ask, how does Affirm see itself being able to leverage AI in consumer purchase pattern behaviors? Do you think this will generate a higher revenue per user and increase overall GMV?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. AI is certainly -- it's a really exciting topic because it's so dynamic right now and the world is changing very quickly. But what I think is worth maybe re-anchoring around is just the history that Affirm has in machine learning and data science. Those are -- it's a less sexy label for what a lot of what we mean when we say AI. We really mean really advanced models that are predictive and can help steer the company to better decisions. And we really do have our roots in world-class data science and machine learning and a lot of what we've done from credit risk management starts with a really robust set of data science and machine learning capabilities. And those aren't going anywhere. We're going to keep investing in those.

We think it's really important, though, that we don't hand the keys off to a large language model or something similar in these domains as explainability is really important to us. It's really important that we're able to understand what's going on in the model to ensure that it's compliant and to ensure that we're making and can communicate with customers the right way. So I don't think you're going to see us talking a lot about AI in the context of underwriting really at all. I do think there's a lot that AI is doing in the corporate entity. Everything from stuff inside of the finance or other functions inside the building, we're able to use these tools and they're tools, good tools, to enhance productivity, and we expect to continue to be able to do that. But we were already pretty productive as a starting point. We're a software company at heart. We think about technology solutions to everything that we do.

So we think about this as more of an enhancer to the corporate productivity much more so than something that's wholesale transformative to how we work. This is a way in which we're able to get more out of our effort. And that's why it's really exciting is because it's a way that makes our team better. It isn't a thing that replaces our team.

**Katie Perry**

*Co-Host, After Earnings Show*

I think you bring up an interesting point and that's that the AI that we feel is mainstream is often the things we use as consumers, the GenAI. And if you do talk to data scientists, they're like, wait a minute,

we've been doing this forever, like, yes, of course. And so I do think that's a good point that the predictive engines that are built within companies that have a legacy of that, it's often not what's talked about in press releases or presentations but that stuff has been around and it's only being built on, it sounds like.

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes, for sure. And I think it's nonetheless really exciting. I mean, like I don't want to take away from that - what's going on with the large language models and GenAI. It's a really exciting time, but I think that what it should do is open up investors' minds and eyes to the fact that the data science approach, the machine learning approach to so many business problems has a lot of applicability. I think that data science is going to be the core of really the entire white-collar workforce in the decades ahead, whether that's using tools like GenAI or just using data science directly, the underlying trend is that this idea that we can use predictive models to generate better business results. And I think that trend has started way before GenAI, and I think will obviously be a key part in how the future of AI plays out.

**Katie Perry**

*Co-Host, After Earnings Show*

Going back to something you referenced earlier, Michael, the Apple partnership. We had a shareholder question come in around that. They're curious about what this is all about. When does it go into place and how long that contract is between Affirm and Apple?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. So we've not disclosed too many details, but we are excited to point out that it's actually live now. Any iPhone user, if you update to iOS 18 and you go through the Apple Pay checkout flows, you'll be able to see an option to pay later. And that is just so stinking exciting for us to be able to partner with such a large, impactful brand like Apple, for us is just really exciting. And it's exciting because we get to talk to more consumers and to more merchants. And so it's most exciting because it helps us continue to win at checkout. It's a distribution method for us. And it's a chance to touch a lot more consumers. And yet, we're really early.

I tell people that, to me anyway, there's some echoes to how we scaled our earliest partnerships with partners like Shopify. We had a really common vision for what we were going to build. We invested a lot of energy just to get it live and that was really just the start. There's a ton of work ahead of us for making the experience excellent for consumers, excellent for merchants and taking full advantage of that. And that's really going to be a thing we talk about for the years ahead. And so I encourage investors to be patient with us. There's a lot of work ahead to realize the full benefit of this. And yet, it's really exciting because there's a great opportunity to build a really compelling consumer product that helps merchants convert better and gives consumers this honest financial product and alternative to revolving credit accounts.

**Katie Perry**

*Co-Host, After Earnings Show*

All right. You heard it here first, upgrade your phones people. I need to do that myself. So I'll definitely check it out and let you know how it goes. Want to pivot a bit to international expansion. And along these lines, we had a shareholder, Michael, ask about the plans to expand in the U.K. He heard something about this happening later this year. He's looking for a little clarification and is wanting to understand if U.K. customers will be able to shop similarly as U.S. users? Or will it look a little different across the pond?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. We don't have specifics yet about the exact product availability and merchant partnerships. But we

are excited to be talking about our imminent launch. We will be launching in the U.K. this year. It's a really exciting time for us as it's our first real organic market entry. And we're going to bring everything that we think consumers and merchants need in the U.S. over to the U.K.

Our go-to-market teams have been on the ground now for close to 2 years, working with merchants to really understand the local market needs. And the thing we're most impressed with is just the reception that we've had. The merchants in the U.K. really are excited to have an alternative in that market. They're excited to see what we do for U.S. merchants and consumers and want to see what we can do in the U.K. The capital markets are obviously also really constructive for us there. We're really well set up to enter these markets. And our largest enterprise partners really do want us there too. And so it's important that we get there, we build a great business and we can support everybody we support here in the U.S. over there. Specific products, those are going to have to be things that we want to learn a little bit as we launch and scale the market but we're -- we do have a view that everything we do in the U.S. really will resonate in the U.K.

**Katie Perry**

*Co-Host, After Earnings Show*

That's great overview. And I think just important context for our listeners, understanding with a fintech or a financial product, translating across markets is obviously very complex. There's different regulations. There's different rules. So it takes -- I assume it takes a little bit to kind of get your sea legs there before you can really start running.

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Yes. I think it's way underappreciated just how complex it is to add a market. The core thing what we do is so simple.

We help consumers get the things they want and need. We offer them a really honest financial product, and we help merchants grow their business. And the core of that seems so simple and yet when you dig into the regulatory frameworks that are required in each geography, and the local market practices that you have to tailor your product towards, there's a lot of customization you have to do. So even with all the benefit and the scale that we've got, there's still a lot of work that we have to do to tailor it to each new market that we enter. And our hope is that U.K. will be the first of many markets we enter and we can learn about how we can speed up the timeline to that. And yet, we're very humble with the amount of work that it takes.

It's something that we don't think you should take lightly. I think relationships with all the stakeholders in the market are really important. I mentioned capital as being one of them. You mentioned regulators, the merchant partners as well and the consumers, these are all stakeholders you need to take care of as you enter new markets. And I think that approach to stakeholder management is one that served us very well as we scaled our U.S. business and one that I think is going to be very, very important as we enter these new markets.

**Katie Perry**

*Co-Host, After Earnings Show*

So we're talking about ubiquity of Affirm overseas, in Apple. We have a shareholder question come in. And it's a little bit of a bigger pie in the sky question. But Adam would like to know when will Affirm's sticker be displayed in the front window of retailers right next to American Express and Visa? Do you see that in the future for your company?

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*



For sure. And thanks for the question, Adam. There's a piece of Affirm history here that I think is one of the coolest things. In our very early stage when we were a private company, Max would go raise money about this idea of what Affirm was going to be. And he had a hard time articulating it. And so there's actually a picture with our old Affirm logo, our logo has moved on a few iterations since then but the original Affirm logo photoshopped into a store's wall and you can see the stickers and all the other payment networks and Affirm right there. And that's been a -- it's been a thing we've talked to investors and the company and employees and even merchants about for a long time.

And the key point there is that we're building a network. What we're up to here at Affirm is not just about helping consumers complete a transaction successfully. That is obviously the way in which -- the unit at which we build the network around but the network is what we're up to. That means that we need merchants and consumers, and we need frequency on both sides and we need to be able to add value to all the participants in the network. And that's our North Star. I mean that's the thing that we're trying to do here, is to build a payments network. The initial place that we started was in the higher average order value, larger considered purchases. But the plan remains the same as it has from day 1 that we're ultimately going to build a network whose objective is to mean something to every transaction.

And that's a -- it's a long-term vision. It's a very bold vision and it's ambitious and yet, it has been the vision that Max laid out for us, frankly, since the company's founding. And so the answer to your question, I don't know when. I don't know when the sticker starts to pop up on store doors. I think that's probably a little bit away. But nonetheless, that remains a philosophical -- an abstraction for what it is that we're trying to get done here.

**Katie Perry**

*Co-Host, After Earnings Show*

I love it. You've got to manifest. So it does exist somewhere maybe in a slide but maybe in the real world soon. Michael Linford, thank you so much for coming back with us. Congrats on a solid quarter. We hope you'll come back.

**Michael A. Linford**

*Chief Operating Officer & Chief Financial Officer*

Thank you for having me. Really appreciate it.

**Katie Perry**

*Co-Host, After Earnings Show*

I'm Katie Perry. This was After Earnings, the show brought to you by Morning Brew and Stakeholder Labs. Stay tuned for future episodes. We have executives coming on from major tech companies, health care, hospitality, many, many more. If you learned something today, tell a friend, like, subscribe, share, do all of the things and we'll see you back here soon.