

## Affirm Holdings

## Solid all-around F4Q

Reiterate Rating: NEUTRAL | PO: 18.00 USD | Price: 13.81 USD

## Shares trading up on strong 4Q, in-line F24 guide

Given Affirm's (AFRM) MTD share performance of -28%, we are not surprised to see the stock trading up after-hours following a print that included F4Q upside on all key metrics, as well as in-line initial F24 guidance. AFRM also continues to execute on its top priority of controlling credit outcomes. Reiterate Neutral - we continue to view AFRM as a share taker in the BNPL market, but consumer discretionary spending patterns and credit conditions remain unpredictable, while interest rates/funding costs remain a headwind. AFRM is holding an investor forum in New York on Nov. 14.

## F24 guidance broadly in-line; F1Q24 slightly ahead

For F24, AFRM's outlook calls for GMV of \$24B+ vs. consensus at \$24.7B. Revenues and revenues less transaction costs (RLTC) are expected to be a similar percent of GMV as in F23 (7.9% and 3.3% respectively), consistent with Street. Both metrics will trough in F2Q due to seasonality, and AFRM cautioned that this could lead to an adjusted quarterly loss in F2Q. For F24 however, AFRM expects adj. operating margin to be >2%. In F1Q24, AFRM expects to deliver GMV of \$5.3B-\$5.5B (consensus at \$5.3B), revenues of \$430M-\$455M (Street=\$422M), and revenue less transaction cost of \$175M-\$190M (consensus=\$178M). F1Q Adj. operating margin guide is 2-4%.

## New disclosures on Affirm Card (fka Debit +)

The Affirm Card (which runs on the Visa network) enables consumers to either pay now or pay later. In F4Q, 80% of Affirm Card volume and 50% of transactions were interest-bearing, while pay now was 10% of GMV and 42% of transactions. In-store represented 24% of Affirm Card volume, 9x higher than Affirm overall. Unit economics on the Affirm Card were in-line with the rest of its business. The Affirm Card generated \$130M of volume in F4Q and over \$70M in July. AFRM expects the card to contribute a couple of points of growth in F24 (in guidance), which we think seems conservative given the current run rate.

## See inside for more on F4Q results and updated estimates

Estimates (Jun) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	(1.97)	(2.66)	(3.34)	(2.71)	(2.38)
GAAP EPS	(1.97)	(2.66)	(3.34)	(2.71)	(2.38)
EPS Change (YoY)	17.2%	-35.0%	-25.6%	18.9%	12.2%
Consensus EPS (Bloomberg)			(2.88)	(2.16)	(1.55)
DPS	0	0	0	0	0
Valuation (Jun)					
P/E	NM	NM	NM	NM	NM
GAAP P/E	NM	NM	NM	NM	NM
Dividend Yield	0%	0%	0%	0%	0%
EV / EBITDA*	NM	NM	NM	NM	NM
Free Cash Flow Yield*	-5.7%	-5.4%	-2.9%	-4.1%	0.4%

\* For full definitions of *IQmethod*<sup>SM</sup> measures, see page 6.

24 August 2023

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## Stock Data

Price	13.81 USD
Price Objective	18.00 USD
Date Established	10-Aug-2023
Investment Opinion	C-2-9
52-Week Range	8.62 USD -31.42 USD
Mkt Val / Shares Out (mn)	3,691 USD / 267.3
Average Daily Value	164.96 USD
BofA Ticker / Exchange	AFRM / NAS
Bloomberg / Reuters	AFRM US / AFRM.OQ
ROE (2023E)	-38.2%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

GMV: Gross merchandise volume

MTD: Month to date

BNPL: Buy now, pay later

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# iQprofile<sup>SM</sup> Affirm Holdings

## iQmethod<sup>SM</sup> – Bus Performance\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-11.1%	-14.1%	-14.9%	-10.9%	-9.6%
Return on Equity	-20.9%	-28.9%	-38.2%	-32.6%	-30.0%
Operating Margin	-40.7%	-64.2%	-75.6%	-50.3%	-40.1%
Free Cash Flow	(209)	(200)	(108)	(153)	13

## iQmethod<sup>SM</sup> – Quality of Earnings\*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	1.0x	1.6x	0.9x	0.6x	0.6x
Tax Rate	0.6%	NM	0.4%	NM	NM
Net Debt-to-Equity Ratio	-30.5%	-22.3%	34.4%	26.5%	44.6%
Interest Cover	NA	NA	NA	NA	NA

## Income Statement Data (Jun)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	870	1,349	1,588	1,963	2,287
% Change	70.8%	55.0%	17.7%	23.6%	16.5%
Gross Profit	439	687	912	1,144	1,274
% Change	25.8%	56.5%	32.8%	25.4%	11.3%
EBITDA	(334)	(813)	(1,066)	(810)	(737)
% Change	-238.0%	-143.6%	-31.1%	24.0%	9.0%
Net Interest & Other Income	(54)	141	212	140	140
<b>Net Income (Adjusted)</b>	<b>(315)</b>	<b>(749)</b>	<b>(985)</b>	<b>(847)</b>	<b>(778)</b>
<b>% Change</b>	<b>-176.6%</b>	<b>-137.9%</b>	<b>-31.5%</b>	<b>14.0%</b>	<b>8.2%</b>

## Free Cash Flow Data (Jun)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(406)	(743)	(985)	(847)	(778)
Depreciation & Amortization	20	53	135	177	181
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	0	0	0	0	0
Other Adjustments, Net	197	577	863	616	715
Capital Expenditure	(20)	(86)	(121)	(100)	(105)
<b>Free Cash Flow</b>	<b>-209</b>	<b>-200</b>	<b>-108</b>	<b>-153</b>	<b>13</b>
<b>% Change</b>	<b>-132.0%</b>	<b>4.3%</b>	<b>46.0%</b>	<b>-41.7%</b>	<b>NM</b>

## Balance Sheet Data (Jun)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,467	1,255	892	1,035	913
Trade Receivables	92	142	199	231	211
Other Current Assets	2,131	4,239	5,741	6,172	6,654
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	1,165	1,335	1,323	1,273	1,228
<b>Total Assets</b>	<b>4,854</b>	<b>6,971</b>	<b>8,156</b>	<b>8,711</b>	<b>9,004</b>
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	434	349	277	283	308
Long-Term Debt	681	673	1,765	1,740	2,039
Other Non-Current Liabilities	1,177	3,334	3,580	4,024	4,133
<b>Total Liabilities</b>	<b>2,291</b>	<b>4,356</b>	<b>5,621</b>	<b>6,047</b>	<b>6,480</b>
<b>Total Equity</b>	<b>2,576</b>	<b>2,618</b>	<b>2,534</b>	<b>2,664</b>	<b>2,525</b>
<b>Total Equity &amp; Liabilities</b>	<b>4,867</b>	<b>6,974</b>	<b>8,156</b>	<b>8,711</b>	<b>9,005</b>

\* For full definitions of iQmethod<sup>SM</sup> measures, see page 6.

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

Affirm (AFRM) is a leading US Buy Now, Pay Later provider with over 243,000 merchants and more than 15.6M active consumers on its platform, concentrated in the US and Canada, as of 12/31/22. Merchant partners include Amazon, Shopify, Peloton, Walmart (signed in February 2019), Target, Wayfair, and Warby Parker. In F22 (year ending June 2022), AFRM generated \$15.5B in GMV, representing 87% y/y growth.

## Investment Rationale

While we think Affirm is positioned to deliver +20% top-line growth in the medium term due to the growing BNPL market. The economic backdrop could limit discretionary purchases, stress on the lower-income consumer raises concern for Affirm's credit metrics / growth targets, and the higher rate environment pressures funding optionality.

## Stock Data

Average Daily Volume 11,944,871

## Quarterly Earnings Estimates

	2022	2023
Q1	-1.13A	-0.86A
Q2	-0.57A	-1.10A
Q3	-0.19A	-0.69E
Q4	-0.77A	-0.69E

## More on F4Q results

AFRM reported strong F4Q results with key metrics coming in ahead of expectations and the high-end of guidance.

- **F4Q GMV** of \$5.5B, up 25% y/y and above. consensus at \$5.3B and guidance of \$5.20-\$5.35B.
  - 72% of GMV was interest bearing, 17% pay-in-4, and 11% Core 0%
  - General merchandise merchants comprised 30% of GMV and were up 61% y/y likely driven by growth in Shopify and Amazon. Travel also continued to show strong growth, up 45% y/y.
- **Revenue** of \$446M vs. BofAe/consensus at \$412M/\$407M and guidance of \$390M-\$415M.
  - Relative to our model, the revenue beat was driven by higher interest income, which benefited from both higher-than-expected loan balances and higher interest yields. Loans on balance sheet of \$4.4B was higher than our \$3.9B forecast.
  - AFRM expects to continue to realize year-over-year increases in the weighted-average APRs for interest-bearing loans.
- **Revenue less transaction cost (RLTC)** of \$182M was easily ahead of BofAe/consensus at \$158M/\$155M and guidance \$145-\$160M.
  - As a percent of GMV, RLTC was 3.3%, down from 3.6% in F3Q and 4.2% in F4Q22.
- **Credit:** AFRM reported strong credit results in F4Q. Unlike some retailers and card issuers that have seen delinquencies increase, AFRM saw delinquencies decline 20bps q/q and y/y to 2.3%.
  - 30-day delinquency rate (excluding pay-in-4 and Peloton) was 2.3%, down 20bps on both a q/q and y/y basis.
  - 4Q23 net charge-off rate was 5.8%, down from 7.1% in F3Q.
  - Allowance ratio of 4.7% was in-line with F3Q

We update our F24 GMV/RLTC forecast to \$24.7B/\$819M from \$24.7B/\$802M prior – our RLTC represents 3.3% of GMV which is in-line with company expectations. We maintain a \$18 PO based on an unchanged ~4x multiple to C24E EV/RLTC. Reiterate Neutral.



## Price objective basis & risk

### Affirm Holdings (AFRM)

We calculate our price objective of \$18 USD based on an approximate 4x C2024E EV/Revenue less transaction expense. Our multiple is a 10% discount to the peer group, which we believe is justified due to outsized credit exposure somewhat offset by higher growth and high-profile partnerships.

Downside risks to our PO: 1) increased regulation in the BNPL space, 2) increased credit risk from consumers, 3) take rate compression from increased competition, 4) weaker eCom growth.

Upside risks to our PO 1) a quicker Fed pivot, 2) increased merchant penetration, 3) quicker adoption and more frequent usage of BNPL products by consumers, and 4) acceptance of BNPL / Affirm in newer verticals / geographies.

## Analyst Certification

I, Jason Kupferberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Baring's BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackrock TCP Capital Corp	TCPC	TCPC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Block Inc	SQ	SQ US	Jason Kupferberg
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	CI&T	CINT	CINT US	Jason Kupferberg
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	EngageSmart	ESMT	ESMT US	Jason Kupferberg
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPV	GPV US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	Safeguard, Inc	SAFE	SAFE US	Derek Hewett
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Toast	TOST	TOST US	Jason Kupferberg
	Visa Inc.	V	V US	Jason Kupferberg

## US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	WEX Inc.	WEX	WEX US	Mihir Bhatia
<b>NEUTRAL</b>				
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Ellington Financial	EFC	EFC US	Derek Hewett
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	Marqeta	MQ	MQ US	Jason Kupferberg
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
<b>UNDERPERFORM</b>				
	ADP	ADP	ADP US	Jason Kupferberg
	Angel Oak Mortgage Inc.	AOMR	AOMR US	Derek Hewett
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	New York Mortgage Trust	NYMT	NYMT US	Derek Hewett
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg



## **IQmethod<sup>SM</sup> Measures Definitions**

### **Business Performance**

Return On Capital Employed

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

### **Quality of Earnings**

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

### **Valuation Toolkit**

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

EV / EBITDA

### **Numerator**

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

### **Numerator**

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

### **Numerator**

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities  
Enterprise Value

### **Denominator**

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

### **Denominator**

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

### **Denominator**

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

Basic EBIT + Depreciation + Amortization

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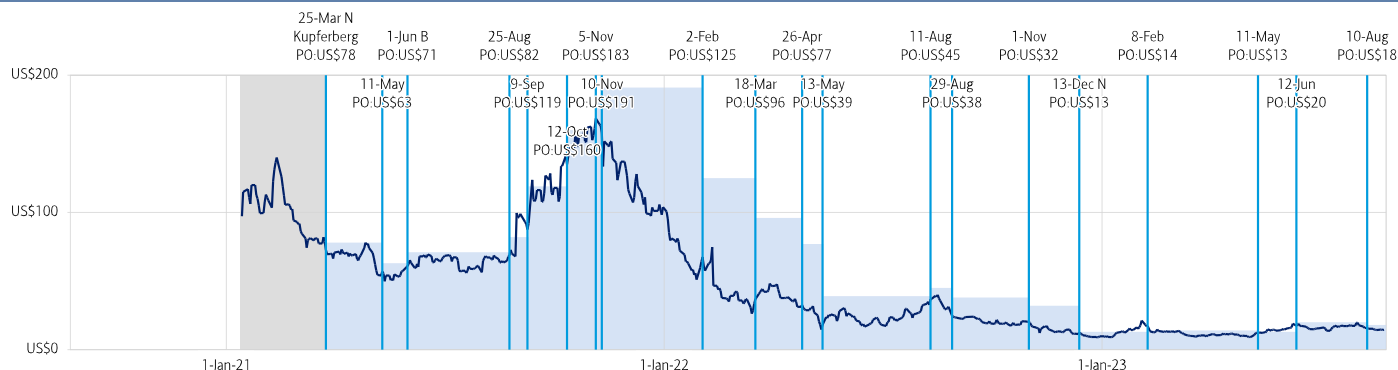
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# Disclosures

## Important Disclosures

### Affirm (AFRM) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

### Equity Investment Rating Distribution: Financial Services Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	145	50.52%	Buy	91	62.76%
Hold	78	27.18%	Hold	47	60.26%
Sell	64	22.30%	Sell	38	59.38%

### Equity Investment Rating Distribution: Global Group (as of 30 Jun 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1877	53.28%	Buy	1040	55.41%
Hold	815	23.13%	Hold	464	56.93%
Sell	831	23.59%	Sell	385	46.33%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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