

Affirm Holdings

F2Q beat and raise, but expectations were high

Reiterate Rating: NEUTRAL | PO: 45.00 USD | Price: 43.00 USD

Shares down after-hours despite strong beat and raise

AFRM is down materially after-hours following a beat and raise in F2Q. All key metrics exceeded the high end of the F2Q range and F24 guidance was generally raised by somewhat more than the beat. That said, shares have rallied significantly the last two months, including 10% today, which may have resulted in a “sell the news” dynamic against the backdrop of high expectations. In our view, AFRM is performing well within the BNPL market and continues to show a strong ability to manage credit risk. However, we view the discretionary spending skew and core consumer base as risks, and see valuation as a limitation. Reiterate Neutral.

F3Q guide is above consensus

For F3Q, AFRM expects GMV of \$5.8-\$6.0B which is above BofAe/Street at \$5.6B/\$5.7B. RLTC guide of \$205-\$215M compares to BofAe/Street at \$199M/\$206M. RLTC as a % of GMV for the quarter is 3.5% at the midpoint, squarely in line with long-term guidance of 3-4%. Revenues of \$530-\$550M were also well above BofAe/Street at \$469M/\$488M and adj. operating income margin at 6-8% was better than consensus at 5.7%. Management seemed to suggest that guidance, particularly on GMV, may be conservative.

F24 guidance raised by more than F2Q beat

Fiscal year guidance was raised across most key metrics, driven primarily by strength in F2Q. Affirm now expects GMV to be more than \$25.25B, up from +\$24.25B previously and above consensus at \$24.8B. Revenue and RLTC as a % of GMV guidance were increased slightly. Previously the %s were expected to be in line with FY'23; now revs and RLTC as a % of GMV are expected to be ~65bps and ~25bps higher than the previous year. Adj. operating margin guide was also increased to +11% from +5% prior. We increase our GMV/RLTC estimate to \$25.6B/\$902M from \$24.6B/\$830M to account for F2Q and guidance. We increase our PO to \$45 from \$27 based on a 11.5x multiple to RLTC, up from 8.5x, which we believe is justified given Affirm's growth and execution.

F2Q results – beats across the board

Affirm posted F2Q GMV/RLTC at \$7.5B/\$242M above BofAe and the Street at \$6.9B/\$194M and \$6.9B/\$199M, respectively. GMV and RLTC exceeded the high end of the guide (\$185-\$200M/\$6.7-\$6.9B), driven by a strong holiday season and strength at Shopify. 30+ day delinquencies have remained solid at 2.4%, flat q/q. See inside for more detail on the quarter.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(2.66)	(3.34)	(2.22)	(1.76)	(1.72)
EPS Change (YoY)	-35.0%	-25.6%	33.5%	20.7%	2.3%
Consensus EPS (Bloomberg)			(1.96)	(1.52)	(0.77)
DPS	0	0	0	0	0
Valuation (Jun)					
Free Cash Flow Yield*	-1.7%	-0.9%	5.6%	-0.6%	-0.2%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

12657579

Timestamp: 08 February 2024 07:34PM EST

08 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	27.00	45.00

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Stock Data

Price	43.00 USD
Price Objective	45.00 USD
Date Established	8-Feb-2024
Investment Opinion	C-2-9
52-Week Range	8.80 USD -52.48 USD
Mrkt Val / Shares Out (mn)	11,493 USD / 267.3
Free Float	88.8%
Average Daily Value	569.63 USD
BofA Ticker / Exchange	AFRM / NAS
Bloomberg / Reuters	AFRM US / AFRM.OQ
ROE (2024E)	-23.7%
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".

BNPL: Buy now, pay later

GMV: Gross merchandise volume

RLTC: Revenue less transaction costs

iQprofileSM Affirm Holdings

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-14.1%	-14.9%	-7.9%	-7.0%	-6.7%
Return on Equity	-28.9%	-38.2%	-23.7%	-19.0%	-22.9%
Operating Margin	-64.2%	-75.6%	-33.7%	-27.8%	-23.9%
Free Cash Flow	(200)	(108)	648	(66)	(22)

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	1.6x	0.9x	1.2x	1.4x	1.5x
Tax Rate	NM	0.4%	NM	NM	NM
Net Debt-to-Equity Ratio	-22.3%	34.4%	0.5%	23.6%	39.8%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,349	1,588	2,198	2,558	2,986
% Change	55.0%	17.7%	38.4%	16.4%	16.7%
Gross Profit	687	912	1,296	1,435	1,701
% Change	56.5%	32.8%	42.0%	10.7%	18.6%
EBITDA	(813)	(1,066)	(622)	(601)	(599)
% Change	-143.6%	-31.1%	41.7%	3.3%	0.4%
Net Interest & Other Income	141	212	52	140	140
Net Income (Adjusted)	(749)	(985)	(689)	(572)	(573)
% Change	-137.9%	-31.5%	30.0%	17.1%	-0.3%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(743)	(985)	(689)	(572)	(573)
Depreciation & Amortization	53	135	120	110	114
Change in Working Capital	NA	NA	NA	NA	NA
Deferred Taxation Charge	0	0	1	0	0
Other Adjustments, Net	577	863	1,364	550	603
Capital Expenditure	(86)	(121)	(147)	(155)	(166)
Free Cash Flow	-200	-108	648	-66	-22
% Change	4.3%	46.0%	NM	NM	67.1%
Share / Issue Repurchase	(111)	(58)	184	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	2,109	1,408	207	789	931

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	1,255	892	1,738	1,297	1,078
Trade Receivables	142	199	251	232	270
Other Current Assets	4,239	5,741	6,086	6,796	7,475
Property, Plant & Equipment	NA	NA	NA	NA	NA
Other Non-Current Assets	1,335	1,323	1,342	1,347	1,363
Total Assets	6,971	8,156	9,416	9,671	10,186
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	349	277	336	363	390
Long-Term Debt	673	1,765	1,753	1,940	1,983
Other Non-Current Liabilities	3,334	3,580	4,046	4,648	5,535
Total Liabilities	4,356	5,621	6,135	6,951	7,909
Total Equity	2,618	2,534	3,280	2,720	2,277
Total Equity & Liabilities	6,974	8,156	9,416	9,671	10,186

* For full definitions of iQmethodSM measures, see page 5.

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 13,247,120

Quarterly Earnings Estimates

	2023	2024
Q1	-0.86A	-0.57A
Q2	-1.10A	-0.54A
Q3	-0.69A	-0.60E
Q4	-0.69A	-0.51E

More on F2Q results

- **Affirm Card** total GMV was \$397M and up 77% q/q. The company plans to do additional integrations with the card and the Affirm account and is building out more features.
- **GMV** of \$7.5B was up 33% y/y, accelerating from the prior quarter at 28% y/y. Results exceeded the high end of guidance by \$600M.
 - 73% of GMV was interest bearing, 16% was Pay-in-4, and 11% was core 0% APR.
 - General merchandise was particularly strong in the quarter, up 36% y/y and representing 40% of total GMV.
- **Revenue** of \$591M was well above BofAe/cons at \$520M/\$521M and the high end of the guidance at \$520M. Relative to our model, the beat was driven by higher interest income.
 - Loans on the balance sheet totaled \$5.2B, well above our \$4.6B estimate. Additionally, the company expects increased benefit from interest-bearing loan price changes in the remainder of the year.
- **RLTC** of \$242M was above BofAe/cons and the high end of guidance at \$194M/\$199M/\$200M.
 - RLTC as a % of GMV was 3.2% compared to the implied guidance of ~2.8%.
- **Credit** metrics were solid in F2Q. Although the net charge-off rate increased 90bps q/q to 6.6%, +30 day delinquencies were flat at 2.4% and the reserve ratio dropped 10bps to 5.0%.
- **Active merchants** increased to 279,500, up 15% y/y and 5% q/q.



Price objective basis & risk

Affirm Holdings (AFRM)

We calculate our price objective of \$45 USD based on an 11.5x C2024E EV/Revenue less transaction expense. Our multiple is a premium to the peer group at 4x which we believe is justified due to higher growth, high-profile partnerships, and idiosyncratic risks associated with close peers.

Downside risks to our PO: 1) increased regulation in the BNPL space, 2) increased credit costs, 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
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	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	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan

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

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
UNDERPERFORM				
	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
	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

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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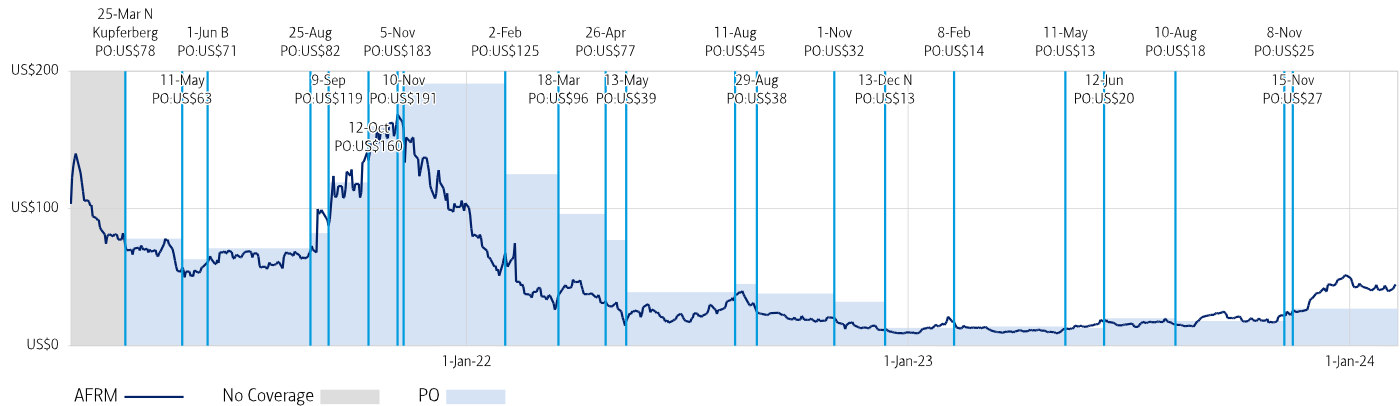
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Disclosures

Important Disclosures

Affirm (AFRM) Price Chart



AFRM — No Coverage PO

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 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} 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 ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} 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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