



## Affirm's Results Affirm Our Thesis: Sell This Stock

Affirm (AFRM: \$58/share) was trading at about the same level as it is now when we warned investors against owning the stock on [January 31, 2022](#).

Since then, the company's latest earnings report disappointment confirms our thesis that the stock is overvalued by 80%+.

We are not surprised to see the company guide expectations lower for revenue and profits because the business is losing market share, lacks competitive advantages, is unprofitable, and faces intense competition.

The recent struggles at [Peloton](#) (PTON), historically one of Affirm's largest merchant partners, only bring more pressure to an already struggling business.

We first alerted investors to the risk in Affirm Holdings when we put the stock in the Danger Zone in [October 2021](#). Since then, the stock has outperformed the S&P 500 as a short by 50%.

We think the stock has much farther to fall as we detail below by using our reverse DCF analysis to quantify how the high the future cash flow expectations baked into the stock's valuation are.

### Current Valuation Implies Affirm Will Be Biggest BNPL Firm in the World

Despite facing larger, more profitable competition, Affirm is priced as if it will be the largest buy now pay later (BNPL) provider, measured by gross merchandise volume (GMV), in the world, on top of immediately achieving profitability.

To justify its current price of ~\$60/share, Affirm must:

- immediately improve its NOPAT margin to 8% (above Block's [formerly Square Inc.] 1% and Affirm's -41% TTM NOPAT margin), and
- grow revenue by 38% compounded annually (nearly 2x [expected](#) industry CAGR through 2028) for the next eight years.

In this [scenario](#), Affirm's revenue grows to \$11.4 billion in fiscal 2029, or 13 times higher than the company's fiscal 2021 revenue.

If we assume Affirm maintains a revenue per GMV rate of just over 10% (equal to fiscal 2021), then this scenario implies Affirm's GMV in fiscal 2029 is \$109 billion, which is 1.6x Klarna's TTM GMV at the midway point of 2021. For context, Statista [estimates](#) Walmart's 2020 ecommerce GMV was \$92 billion. Affirm must process more than double Walmart's 2020 ecommerce GMV simply to justify its current valuation. We are skeptical of any BNPL firm ever achieving such high merchandise volume.

### 56% Downside If Consensus Growth is Realized

We review additional DCF scenarios below to highlight the downside risk should Affirm's revenue grow at consensus rates, or if margins do not improve as much as the scenario outlined above.

If we assume Affirm:

- immediately improves its NOPAT margin to 8%,
- grows revenue by 46% in fiscal 2022 and 43% in fiscal 2023 (equal to consensus), and
- grows revenue by 22% each year thereafter through fiscal 2029 (equal to projected industry growth), then,

Affirm is worth just [\\$26/share](#) today – a 56% downside to the current price

### 83% Downside If Margins Remain Capped by Competition

If we assume Affirm:

- immediately improves its NOPAT margin to 4%, which equals Block's highest ever margin,
- grows revenue by 46% in fiscal 2022 and 43% in fiscal 2023, and

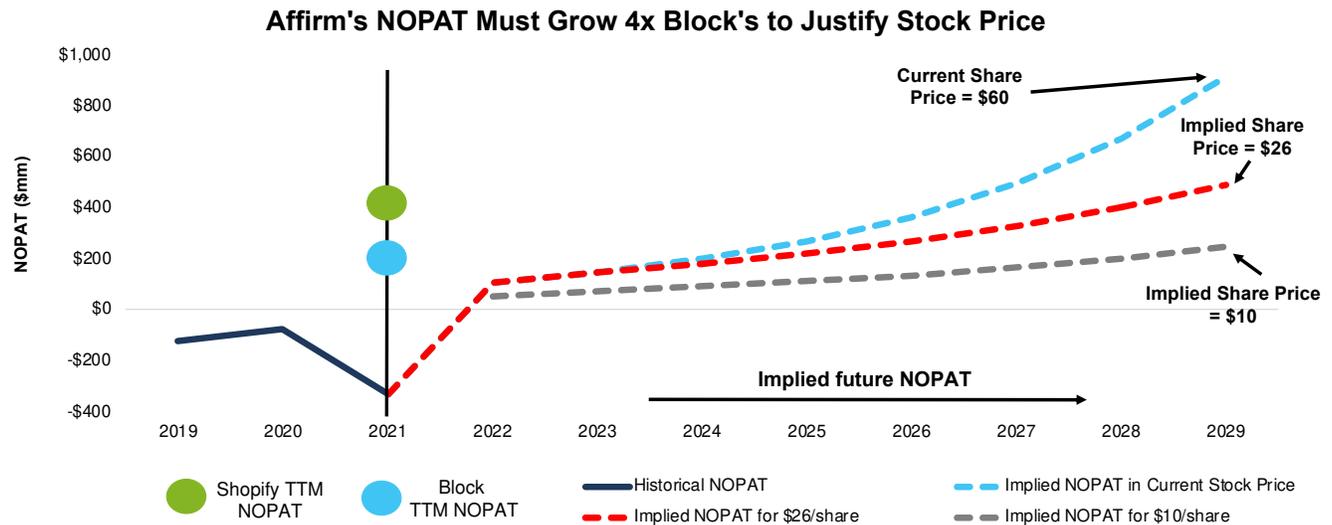


- grows revenue by 22% each year through fiscal 2029 then,

Affirm is worth just [\\$10/share](#) today – an 83% downside to the current price.

Figure 1 compares Affirm's implied future NOPAT in these three scenarios to its historical NOPAT. For reference, we include Block (SQ) and Shopify's NOPAT.

**Figure 1: Affirm's Historical vs. Implied NOPAT: DCF Scenarios**



Sources: New Constructs, LLC and company filings.

Each of the above scenarios assumes Affirm grows revenue, NOPAT, and FCF without increasing working capital or fixed assets. This assumption is highly unlikely but allows us to create best-case scenarios that demonstrate the expectations embedded in the current valuation. For reference, Affirm's invested capital has grown 4x from fiscal 2019 to fiscal 2021. If we assume Affirm's invested capital increases at a similar rate in DCF scenarios two and three above, the downside risk is even larger.

**Fundamental Research Provides Clarity in Frothy Markets**

2022 has quickly shown investors that fundamentals matter and stocks don't only go up. With a better grasp on fundamentals, investors have a better sense of when to buy and sell – and – know how much risk they take when they own a stock at certain levels. Without reliable fundamental research, investors have no way of gauging whether a stock is expensive or cheap.

As shown above, [disciplined, reliable fundamental research](#) shows that even after plummeting, Affirm still holds significant downside.

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*Disclosure: David Trainer, Kyle Guske II, and Matt Shuler receive no compensation to write about any specific stock, style, or theme.*

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## ***It's Official: We Offer the Best Fundamental Data in the World***

Many firms claim their research is superior, but none of them can prove it with independent studies from highly-respected institutions as we can. Three different papers from both the public and private sectors show:

1. Legacy fundamental datasets suffer from significant inaccuracies, omissions and biases.
2. Only our “novel database” enables investors to overcome these flaws and apply [reliable](#) fundamental data in their research.
3. Our proprietary measures of [Core Earnings](#) and [Earnings Distortion](#) materially improve stock picking and forecasting of profits.

### **Best Fundamental Data in the World**

Forthcoming in [The Journal of Financial Economics](#), a top peer-reviewed journal, [Core Earnings: New Data & Evidence](#) proves our Robo-Analyst technology overcomes material shortcomings in legacy firms' data collection processes to provide superior [fundamental data](#), [earnings](#) models, and [research](#). More [details](#).

Key quotes from the paper:

- “[New Constructs’] *Total Adjustments* differs significantly from the items identified and excluded from Compustat’s adjusted earnings measures. For example... 50% to 70% of the variation in *Total Adjustments* is not explained by *S&P Global’s (SPGI) Adjustments* individually.” – pp. 14, 1<sup>st</sup> para.
- “A final source of differences [between New Constructs’ and S&P Global’s data] is due to data collection oversights...we identified cases where Compustat did not collect information relating to firms’ income that is useful in assessing core earnings.” – pp. 16, 2<sup>nd</sup> para.

### **Superior Models**

A top accounting firm features the superiority of our ROIC, NOPAT and Invested Capital research to Capital IQ & Bloomberg’s in [Getting ROIC Right](#). See the [Appendix](#) for direct comparison details.

Key quotes from the paper:

- “...an accurate calculation of ROIC requires more diligence than often occurs in some of the common, off-the-shelf ROIC calculations. Only by scouring the footnotes and the MD&A [ as New Constructs does] can investors get an accurate calculation of ROIC.” – pp. 8, 5<sup>th</sup> para.
- “The majority of the difference...comes from New Constructs’ machine learning approach, which leverages technology to calculate ROIC by applying accounting adjustments that may be buried deeply in the footnotes across thousands of companies.” – pp. 4, 2<sup>nd</sup> para.

### **Superior Stock Ratings**

Robo-Analysts’ stock ratings outperform those from human analysts as shown in this [paper](#) from Indiana’s Kelley School of Business. Bloomberg features the paper [here](#).

Key quotes from the paper:

- “the portfolios formed following the buy recommendations of Robo-Analysts earn abnormal returns that are statistically and economically significant.” – pp. 6, 3<sup>rd</sup> para.
- “Our results ultimately suggest that Robo-Analysts are a valuable, alternative information intermediary to traditional sell-side analysts.” – pp. 20, 3<sup>rd</sup> para.

Our mission is to provide the best fundamental analysis of public and private businesses in the world and make it affordable for all investors, not just Wall Street insiders.

We believe every investor deserves to know the whole truth about the profitability and valuation of any company they consider for investment. More details on our cutting-edge technology and how we use it are [here](#).



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