William Blair

Equity Research
Financial Services and Technology | Fintech

July 1, 2026
Industry Report

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Digital Lifeblood

Short-Term Consumer Liquidity Drives Positive Ecosystem Economics



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Key Conclusions

Meeting an Inescapable Need. Our view is that tens of millions of consumers are candidates to use short-term liquidity tied to digital banking services. PYMNTS estimates that 67% of consumers live paycheck-to-paycheck and the Consumer Finance Protection Bureau (CFPB) estimates this cohort overdraws about 20 times per year, while the U.S. Bureau of Economic Analysis puts the post-COVID personal savings rate at 4%, half of what it was before the pandemic. We submit that digitally underwritten liquidity products, like Earned Wage Access (EWA), small-balance loans, and buy now, pay later (BNPL), address consumers' short-term liquidity needs more efficiently, fairly, and transparently than alternatives like payday loans and credit cards.

Massive TAM and Monetization Opportunity. We note that the 185 million financially vulnerable consumers cited in Financial Health Network's 2025 report dwarf most digital finance companies' monthly active users (MAUs). We see growing unaided brand awareness driving rapid user expansion, and highlight that monetization is in its early days, with a large spread between market participants (see exhibit 5). We anticipate that our favorite companies' new product roadmaps can materially boost gross profit per MAU.

The Street Is Too Skeptical. As with many nontraditional consumer credit products, we think fintech investors worry that short-term liquidity carries punitive consumer terms and undue credit risk, owing to fast balance growth. In addition, reliance on capital markets financing, the timing of reserve builds that often drive provisions ahead of losses, and in some cases loan marks create an unfavorable comparison to traditional bank CECL accounting. While sympathetic to these arguments, we think they are outdated and underestimate the durability of proprietary, data-driven underwriting credit outcomes in the context of short-duration, high-velocity, small balance loans. We contend that strong through-the-cycle organic revenue growth and profitability will drive a positive re-rating of our best ideas.

Different Strokes for Different Folks. Importantly, in our opinion, our best digital finance ideas, including Affirm, Block, Chime, and Dave, serve the market differently, highlighting a variety of ways for investors to participate. For example, Chime's primary banking model prioritizes spending, while Dave is a pure-play consumer lender. Affirm's leading BNPL solutions are debit with a credit toggle and Block's Cash App comprises all aspects. These distinctions offer diversification and let investors decide how much credit risk they want to take in digital finance. Affirm trades at the highest estimated 2027 EBITDA multiple, which we think reflects its long track record and the Street's appreciation of the BNPL TAM. Dave, which in our view is the most compelling pure-play name in the space, trades at a meaningful discount, offering a positive re-rate opportunity as it generates rising gross profit at scale. This bullish outlook persists despite recent powerful stock appreciation (DAVE is up 68% versus SPX up 9% year-to-date).

Opportunities, Risks, and Our Favorite Ideas

U.S. Consumer Credit Market Undergoing Fundamental Change as Digital Finance Providers Offering New Solutions Rapidly Take Share From Traditional Banks

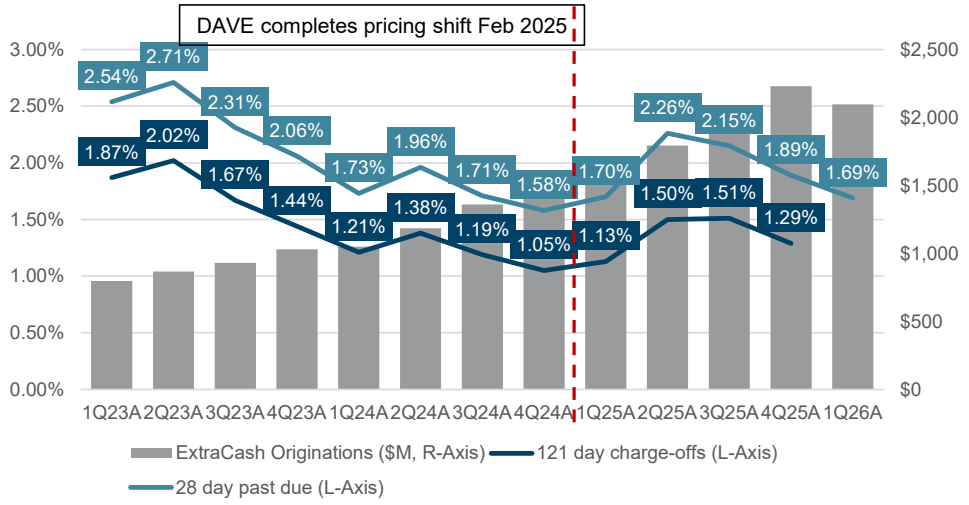
Nowhere is this structural shift in the credit market more evident than among lower-income consumers, specifically those making $100,000 annually or less. We see this as a structurally vulnerable demographic poorly served by banks with legacy tech stacks and business models geared toward more affluent customers who purchase more products and hold higher balances. Because banks are poorly positioned to serve these consumers, incumbent business models rely on expensive credit cards that trap customers in debt spirals as they require low minimum principal

payments, charge high interest rates, and levy late fees. For many households, there have been few alternatives to revolving credit card debt apart from payday lending, which is analog, inconvenient, and even more extractive than bank cards. Emerging purveyors of digital, fairly priced, fee-free short-term consumer credit are offering better solutions, in our view, and the Street is only now beginning to appreciate this market's potential.

Shares of Our Best Digital Finance Ideas Have Been Mixed Over the Last Nearly Two Years

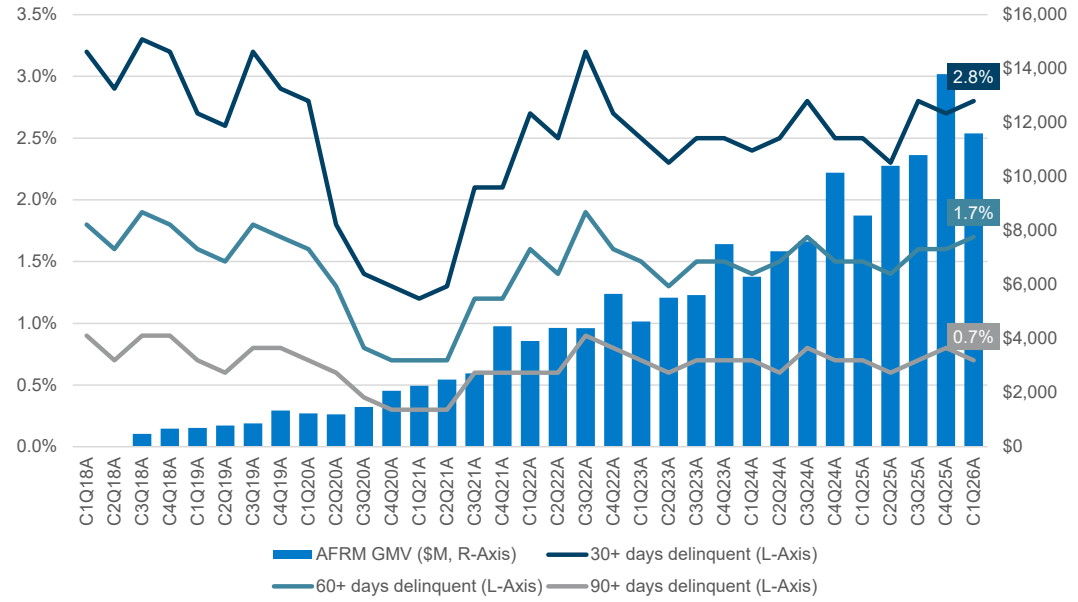
While investors "discovered" Dave shortly after the 2024 election and have powered shares of the small cap nearly 5x higher, Chime's post-IPO (June 2025) performance has been underwhelming, Block has chopped sideways, and Affirm is up 52% (compared to the SPX up 34%) since the presidential election that many anticipated would reduce regulatory scrutiny of the sector. We expect investors to embrace short-term consumer finance leaders as they demonstrate model durability, with credit quality and through-the-cycle profitability bolstered by data-driven underwriting, short loan lives, and low balances. Because many of these products are nondiscretionary and represent a financial lifeline, we contend that there is an inverse relationship between habituation and credit costs, suggesting that FCF ROIC will rise as the industry matures.

Exhibit 1
ExtraCash Demonstrates Benefit of Habituation on Credit Performance



Note: 28 day past due defined as ExtraCash volume and revenue that remains past due 28 days after respective settlement date, divided by ExtraCash origination volume and revenue in that disbursement month. 121 day charge-offs defined as amount of ExtraCash volume and revenue that is past due 121 days after corresponding disbursement date, divided by ExtraCash origination volume and revenue for the underlying vintage (calculated on a static-pool basis).
Source: Dave Inc. company reports

Exhibit 2
Affirm Is Another Example of Habituation Driving Strong Credit Outcomes



Note: Calendar quarters. Delinquency rates reflect loans that are days delinquent as a percentage of active balances for U.S. loans only, excluding Pay in X and Peloton loans.
Source: Affirm Inc. company reports

The market seemingly remains skeptical about the short-term consumer liquidity industry as investors worry about regulatory risk, subprime credit exposure, the economic cycle, and unconventional accounting compared with traditional banks.

Regulatory Risk

We recognize that regulatory risk is hard to anticipate, but our view is that digital finance companies offer products that are far superior to historical alternatives. We do not think it is appropriate for investors to annualize APRs, for example, because consumers in need of emergency funds are often forced to choose between addressing a pressing financial issue and maintaining their livelihood. In our experience, politicians pontificate about the cost of nondiscretionary short-term credit but fail to offer an alternative. We expect that a shift in power in Washington, D.C. will renew regulatory scrutiny, but that well-disclosed fees, the structural nature of these products (e.g., overdraft protection), and rising structural demand will keep the most aggressive regulatory pressure at bay.

Subprime and Macro Risk

The most persistent investor pushback we hear is that above-market credit growth and exposure to less creditworthy consumers mean that losses will spike during periods of slower economic growth and recession. Although these arguments have history on their side, as we discuss later in the report (page 7), past adverse credit outcomes—some as recent as earlier this year—almost always involve long-duration loans, like auto, made to subprime credit. Meanwhile, there is ample evidence from established digital finance companies, like Affirm, that data-driven algorithmic underwriting and customer habituation yield superior outcomes, compared with FICO, at all delinquency levels. We also note that very short loan durations mean that short-term consumer credit issuers see credit performance in near real-time. As a result, we see little credit risk that might manifest as equity write-downs or significantly curtailed partner bank terms. Rather, we expect that rising loss rates, as Affirm saw in 2022 and 2023, will result in smaller credit apertures and slower loan growth. Although it is hard to know what is priced into stocks, we submit that recent group weakness discounts much of the second-derivative loan and revenue growth risk.

Accounting Differences With Traditional Banks

In addition to unfamiliar business models, we think investors are skeptical about many digital finance companies' accounting methods. Practices including held for sale, which results in loan marks; asset-light models reliant on secondary market demand for liquidity and loan sales that can cause gain-on-sale revenue volatility; and off-balance-sheet valuation adjustments, such as Chime's product obligation liability, the value of which varies with credit performance, are all unfamiliar and seemingly raise concerns about quality of earnings for some investors. Although we recognize that digital finance accounting requires some work to understand, we think it is appropriate and sustainable because of the factors that distinguish short-term consumer liquidity products from traditional bank loans, including data-driven underwriting, very short durations, low balances, pay-cycle timing, and borrower habituation supporting strong credit outcomes. This report delves into digital finance accounting in an effort to demystify practices and explain why we think the market has been too negative regarding reporting earnings quality and underlying business model economics.

Best Ideas

We like all four digital finance names in our universe, but if forced to rank the stocks, we would do so as follows: 1) Dave; 2) Affirm; 3) Chime; and 4) Block. In some ways, we think Chime could have the most long-term upside given its interchange-centric nondiscretionary model and robust operating leverage outlook. The company's primary banking relationships should reduce reliance on short-term credit offerings for revenue growth while providing a reliable source of underwriting data. We rank it third, however, because of the likelihood of persistent product obligations liability adjustments. These adjustments effectively act as loan marks, even though they reflect the positive economic reality of improving loss rates. Our view is that accounting concerns have pressured digital finance valuations. Dave seems like the clearest near-term winner, given its pure-play status, superior midteens monthly transacting members (MTMs), and low-double-digit ARPU growth algorithm. We also believe Affirm should outperform over the next 12 months, reflecting nearly 30% GMV growth compounding and strong unit economics. Lastly, we see Block continuing to outperform as well, powered by above-market Cash App Borrow growth, reliable self-funding, steady credit performance, and rising monetization driven by greater ecosystem integration.

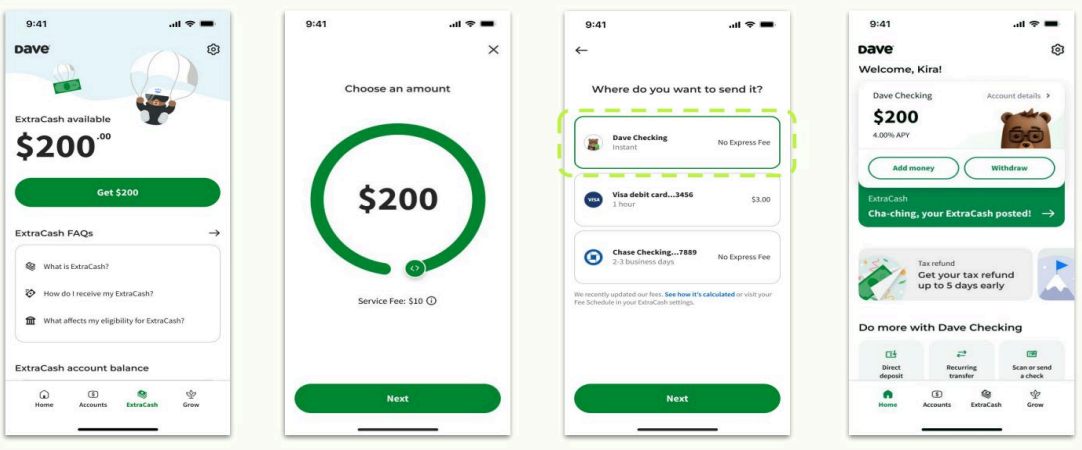
Short-Term Consumer Liquidity Products Are Categorically Different From Traditional Bank Loans

We think all short-term consumer liquidity products possess three primary attributes: low balances, short duration, and resulting high velocity. We think about short-term liquidity spanning categories, including EWA, BNPL, and true unsecured credit. The last category may still be tied to a payroll cycle and is generally used for nondiscretionary spending, but it is distinct from the other two products, as we discuss later. Without getting too granular, these are all small-dollar—generally less than $500—unsecured loans that bridge liquidity gaps to fund nondiscretionary expenses and address emergencies. Naturally, these products are geared toward low-income consumers with low FICO scores and generally thin credit files, which limit credit access. Left with few options, these consumers have historically turned to traditional payday lenders, continue revolving costly credit card debt, and in some cases even seek emergency funds from close friends and family. As we describe, we submit that next-generation short-term liquidity products are more consumer-friendly and have better credit attributes than historical alternatives.

We contend these factors are catalyzing the rise of digital-first, short-term liquidity providers that leverage proprietary underwriting and transparent pricing. We believe these newer, digitally forward firms represent a far more consumer-friendly option, and companies like Dave have built

an entire business around this niche. Since Dave's inception a decade ago, its ExtraCash product has originated over 200 million short-term loans for its members. Once members connect their bank account to the Dave app, a proprietary machine-learning algorithm analyzes several years of historical spending, savings, and earnings based on data directly from the linked account to determine the advance amount. ExtraCash provides this much-needed liquidity in just minutes without requiring a primary bank account relationship (see exhibit 3). The appeal of these products is in their convenience, simplicity, and transparency. We will evaluate pricing later in this report; here we will only say that viewing these products through the lens of annualized APR does not make sense to us. While we acknowledge Dave's pricing is putatively expensive, its customers (and those of other providers) face only worse alternatives. In addition, it is our view that consumer value is driven by instant access, avoidable fees, and the elimination of revolving credit, which can create a vicious debt cycle.

Exhibit 3
ExtraCash Provides Much-Needed Liquidity in Minutes Through a Simple UX



Source: Dave Inc. company reports

We believe there is rapidly growing demand for these solutions, as evidenced by robust growth across emerging providers. Originations via Cash App Borrow are at about a $22 billion annualized run-rate, compared to roughly $2 billion three years ago. Dave's ExtraCash originations exited 2025 at a $9 billion annualized run-rate, and Chime extended over $40 billion in annualized liquidity across its product suite. We believe younger cohorts are also driving rapid adoption of these digital-first credit products. For instance, over 70% of Dave's 14.5 million members are either millennials or Gen Z. This speaks to younger consumers' comfort with these solutions, a strong UX advantage, and the realization that alternatives are more expensive and carry long-term financial risk.

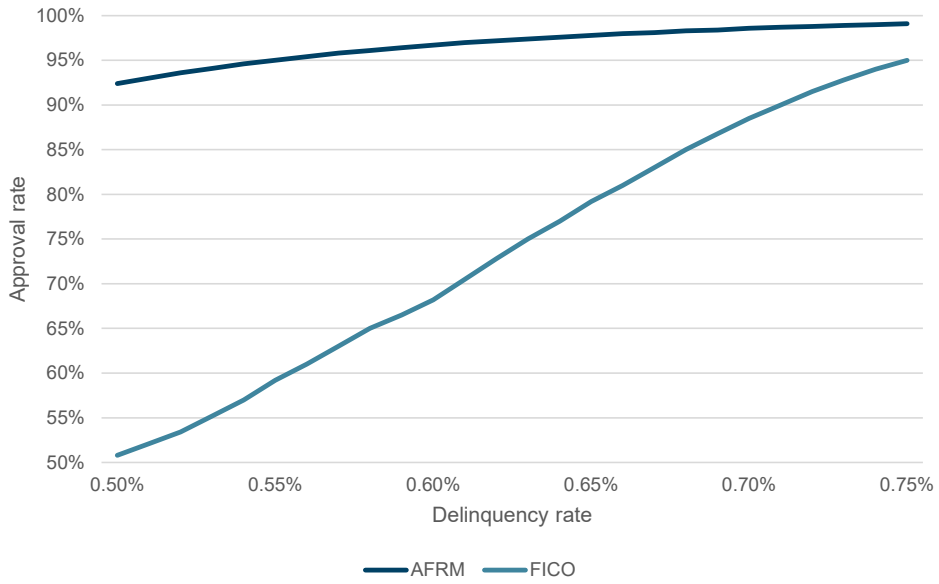
We believe investors have been historically skeptical about lenders that grow much faster than traditional banks, especially when they cater to low-FICO customers. We recognize that history seemingly supports the argument that meaningfully above-market origination and loan growth can only be achieved through aggressive underwriting. Furthering these worries is the historical proclivity of subprime members to use gain-on-sale accounting, sell loans into the secondary market, or employ loan marks, even in cases where they were held on the balance sheet. These are all valid critiques, in our opinion, and we note two relatively recent high-profile subprime auto lender blowups, First Brands (detailed here) and Goeasy (here, login required). These unfortunate events make short-term consumer liquidity companies easy targets. However, we point to several structural features of short-term liquidity products that distinguish these loans from the traditional credit paradigm, creating what we consider an opportunity for long-term investors as market perception shifts.

1) ***Short duration allows rapid model optimization.*** Short-term credit products are short-duration loans, by definition. In the case of Dave, the average duration of an ExtraCash loan is less than two weeks. By maintaining a short repayment cycle, these products can iterate and re-train their underlying credit models at a much faster rate compared to traditional lenders. With such short loan lives, and even in cases like Affirm where average life is closer to six months, the peak of the bell-shaped loss curve occurs days or weeks after the loan is made. In this sense, these proprietary underwriting models evaluate credit performance in real time, either retraining models or closing the credit aperture to avoid outsized credit losses. Given the foregoing, we contend that there is an inverse nonlinear relationship between loan duration and the growth at which credit losses can be managed—and a loan book can generate strong ROI.

   The rapid turnover of the credit book also results in a capital-efficient model. For example, Dave holds just $297 million of net receivables on its balance sheet, despite originating $7.58 billion in 2025 ExtraCash volume. Scale and iterating on incremental loan data are key underwriting distinctions. We believe Dave's stark improvement in loss rates, from upward of 10% in 2017 to just 1% in 2025, reflects model optimization and continuous risk adjustment with inputs from a growing pool of proprietary lending data.

2) ***Real-time, cash-flow-based underwriting.*** Dave and other short-term liquidity providers leverage more granular, transaction-level data to underwrite loans compared to traditional banks. Unlike traditional lenders, short-term liquidity providers do not rely on FICO or Vantage scores or external credit bureau data. While credit bureau scores may be more appropriate for longer-duration lending, such as auto loans, and FICO remains the gold standard in mortgage lending, we argue that real-time cash-flow data is a far better predictor of whether a subprime consumer can repay a short-dated small dollar loan. FICO scores are based solely on consumer credit report data, which tends to be a lagging indicator. ExtraCash detects income patterns, spending habits, and employment signals—none of which are captured in credit reports. Affirm clearly demonstrates that data-driven underwriting creates higher approval rates relative to FICO across varying delinquency rates, as seen in exhibit 4.

Exhibit 4
Affirm Demonstrates Underwriting Advantage Versus FICO



Note: Exhibit reconstructed from Affirm investor day presentation materials. Data is approximated.
Source: Affirm Inc. company reports, William Blair Equity Research

3) ***Consumer psychology and habituation.*** For many of its users, short-term credit is a critical budgeting tool to manage liquidity needs and meet nondiscretionary or emergency expenses. We believe members are highly motivated to repay loans in a timely manner to maintain access to this credit lifeline. We find it difficult to overstate the utility these products have in solving a critical consumer pain point. This is the key driver of habitual usage, in our view. Cash App, for example, disclosed that 95% of Borrow actives in 2024 subsequently took another Borrow loan. Fear of losing a financial lifeline is one factor linking habituation to loss rates that fall over time. We also submit that there is a relative lack of cognitive dissonance around defaulting on a longer-duration liability, like an auto loan. We think borrowers understand that even if they damage their credit by walking away from an auto loan, they can repair it. In addition, in the case of larger loan balances, many consumers simply do not have a choice; they have to default on the loan due to job loss, illness, or other life events. These are not pertinent considerations with small-balance, short-duration loans, in our opinion.

Different Products, Various Value Propositions

As previously mentioned, we see several different types of short-term consumer liquidity products that monetize differently and are designed around varying levels of consumer engagement. We do not necessarily believe one is superior to the others. Rather, they reflect providers' differing models, and we think this diversification creates room for more than one winner and ultimately opens the TAM via differentiated product roadmap development.

We discuss each of the major short-term consumer liquidity categories below, focusing on: 1) pure-play short-term loans; 2) primary banking-related offerings; 3) BNPL; and 4) hybrid solutions that began as P2P offerings and have evolved into diversified consumer banking companies.

1) ***Pure-play algorithmic short-term consumer loans.*** Dave is the company that stands out in this category, even as tenured providers of longer-term vertical solutions, like Synchrony, nibble around the edges, and newcomers, including private companies like Sunbit, make their presence known. Dave's consumer value proposition is simple: if a consumer needs money to get to the next paycheck, opening a Dave account provides instant access to up to $500 for a reasonable fee ($3 monthly subscription plus a 5% service fee with a $5 minimum). We like this product because it is instant, funds can be deposited in a Dave account with a virtual card for no additional fee, and consumers do not need to navigate the extra steps involved with opening a primary bank account. Nor does Dave actively encourage customers to switch their direct deposit, which we think is a friction point.

   Dave's underwriting is powered by CashAI, the company's proprietary machine-learning-enabled underwriting system. CashAI is fed by data on over 180 million ExtraCash transactions and billions of bank transactions since the company's inception. Each successive model—the current one being v5.5—is trained on roughly two times as many inputs as its predecessor, allowing CashAI to iterate, learn, and adapt to changing consumer behavior. It is our view that algorithmic underwriting is durable and can produce through-the-cycle credit outcomes far superior to bank cards. We note that 121-day charge-off rates are approaching 1% under v5.5, and although Dave has not been through a traditional credit cycle, we think the primary risk is related to slower loan origination growth during periods of consumer stress, rather than credit risk.

   We have described why we think algorithmic underwriting is so effective: models are constantly fed new transaction data, in many cases lenders can see how their customers are spending money, and ample third-party data from providers like Plaid (private) offer additional insight

into customer behavior. Small balances, very short loan lives, and customer habituation also contribute to good credit outcomes, in our opinion. Habituation plays a particularly important role in predictable credit, owing to previously discussed psychological impediments to default. As illustrated in exhibits 1 and 2, loss rates across short-term liquidity products tend to fall predictably with time, accentuating habituation's important role.

2) ***BNPL.*** We consider BNPL a type of short-term consumer liquidity as it skews more toward credit than debit even as it retains many debit characteristics. Although BNPL loans can range from simple deferred payments, such as Pay in 4, to true interest-bearing offerings, we think the product appeals to consumers who would otherwise use debit but might need terms to complete certain purchases. In this sense, BNPL is more discretionary than algorithmic short-term loans, but it has more in common with this product than bank cards.

   BNPL is becoming a daily spend product, in our opinion, making it more centric to consumer behavior. This is illustrated by the Affirm Card, which we see exiting fiscal 2026 at more than 20% of GMV. This is important for BNPL's emergence as a short-term liquidity substitute for bank cards because we think consumers will tap Affirm more readily than credit cards if the tender is already top-of-wallet. In addition to habituation, we consider this behavior bullish for the entire ecosystem because customers will increasingly recognize the benefits of serially underwritten loans, a lack of revolving credit, and the absence of fees. Greater comfort with BNPL, generally, may also create demand for other forms of more nondiscretionary short-term consumer liquidity.

   We are notably anticipating some convergence between BNPL and short-term liquidity as Dave launches its Flex product in second half 2026. Unlike Affirm, which is about 75% merchant POS, meaning it is branded, Flex is a pre-purchase decision that consumers can use at any merchant accepting Visa. Unlike Pay in X products, where the merchant pays an MDR and the consumer spreads payments over time, Flex will charge an upfront fee while allowing customers to spread repayments over four periods. We see Flex powering a flywheel in which consumers use a broader suite of short-term liquidity offerings, which as a portfolio offer better terms and greater flexibility than credit cards.

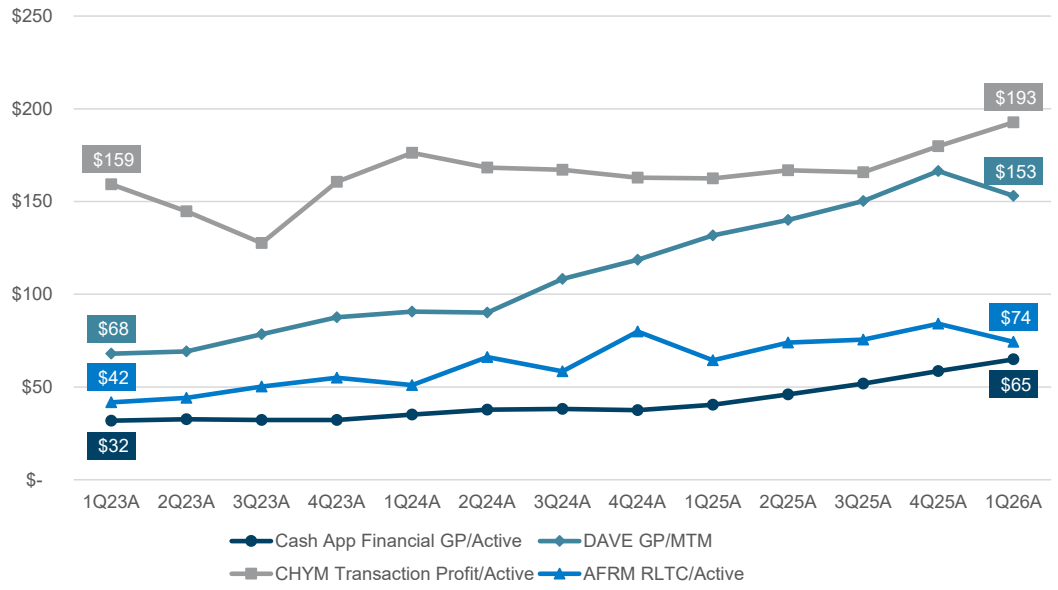
3) ***Primary banking-centric offerings.*** Unlike Dave, which makes short-term loans without an eye toward direct deposit funding and primary account data, and BNPL, which skews more discretionary and benefits from branded cards without explicitly pursuing them, companies like Chime prioritize the primary banking relationship and drive incremental monetization from different types of short-term consumer liquidity. This is a structurally different model tied to the idea that by overcoming sticky direct deposit relationships, companies like Chime can optimize customer LTV and monetization. Owning the direct banking relationship also means more Durbin-exempt interchange revenue and less of a reliance on short-term liquidity for monetization. We think a higher share of nondiscretionary debit payments should afford Chime shares a modest premium to Dave.

   Although owning the primary banking relationship has advantages in terms of durable LTV/CAC, we think it creates other challenges that could constrain long-term, above-average organic revenue and gross profit growth. First, because direct deposit is sticky, Chime must spend more on brand marketing to break customers free of traditional bank relationships, even in cases where consumers are unhappy and mistreated. Inertia is a powerful force working against change in consumer payment behavior. Although it enjoys an enviable 8x-plus LTV/CAC, we note that CAC is about $90, much higher than Dave's $18. Although Dave does not optimize for CAC, and we could see customer acquisition costs rise to support better gross profit growth, the gap between the companies highlights the challenges of driving primary banking relationships, although we

see this as a worthy goal. Lastly, we note that Dave has no loan marks or gain on sale, owing to very short loan lives. Our view is that Chime's valuation has been pressured recently by investor focus on loan marks related to loans held for sale on its partner-bank books.

4) ***Hybrid solutions.*** Companies like Block and PayPal have deep roots in P2P money movement and have subsequently tried to evolve models into well-monetizing digital finance offerings. PayPal is known for Venmo, which does not generate much gross profit per MAU. We note that in 2025, Venmo reported roughly $25 revenue/MAU, implying gross profit per MAU that is likely closer to $20. This is lower than Cash App's $59 annualized fourth quarter 2025 gross profit per active, and sharply below Chime and Dave (exhibit 5). Our view is that lagging relative monetization reflects these companies' P2P roots and consumers' lack of brand recognition when it comes to short-term liquidity offerings. Cash App ramped up its Borrow product, posting 82% year-on-year first-quarter volume growth, to originate more than 8x more volume than Dave. However, Cash App also boasts more than 26x more MAUs, highlighting potential attach growth and relatively lower ecosystem engagement. This dynamic is even starker at PayPal, in our view. Venmo generated $1.7 billion of 2025 revenue across a 62 million user base. Although we think PayPal can improve monetization by focusing on debit card adoption and BNPL integration, we believe it will remain a tangential short-term consumer liquidity market competitor. We assert the same about Cash App, but its nearly 10 million primary banking members, which are roughly equal to Chime, demonstrate that Block has greater upside potential.

Exhibit 5
Stark Differences in Monetization Reflect Varying Business Models



Sources: Company reports, William Blair Equity Research

In addition to monetization differences, we argue that hybrid offerings are designed to drive flywheel effects around core offerings, rather than competing as standalone solutions. In Venmo's case, we see PayPal trying to translate growing commerce volume into better branded checkout volume performance. Whether loyal Venmo users will migrate checkout activity to PayPal remains to be seen, but we do not think this is a viable long-term monetization strategy. Regarding Block, the company is using Borrow in an effort to drive habituation, leading to more Cash Card use (interchange revenue) and greater integration between Cash App and Square (MDR). Ultimately, the company believes that integrating BNPL, rewards, and

merchant discovery, while closing off the payment loop with Cash App Pay, can drive deeper engagement, higher monetization, and market share acceleration. Similar to PayPal, we think Block has an uphill battle against the pure-plays. That said, the company has a strong innovation track record, and the appeal of lower card acceptance costs could enlist Square merchants in the effort to drive engagement and habituation.

Comparison With Payday Lending and Credit Cards Illustrates Stark Differences

We disagree with the assertion that short-term consumer liquidity providers are just another category of digital payday lending. Traditional payday lending and revolving credit card debt often trap consumers in a debt spiral. We think the new generation of short-term consumer liquidity products is far more consumer-friendly, enabled by stronger underwriting and consumer guardrails, along with transparent disclosure and attractive unit economics, which remove the reliance on excessive fees. Historically, payday loans and revolving debt were the primary destinations for cash-strapped consumers with emergency liquidity needs. In this section, we lay out the primary features of the existing legacy solutions and compare them to consumer-friendly short-term liquidity offerings, contending the latter is a superior product.

Payday Loans

According to National Debt Relief, about one in 20 adults use payday loans every year. Most are repeat borrowers and take out multiple loans just to keep up with previous payments. Borrowers have a few common traits: most are employed and nearly all have some access to income, but they are low earners with limited savings and lack of affordable credit access. The average payday loan size is less than $500, and lenders typically charge a flat finance fee ranging from 10% to 30% on principal, which we note is far higher than Dave's 5% fee. According to Pew Charitable Trusts, 70% of borrowers use payday loans to cover recurring necessities (e.g., rent, utilities, groceries, transportation) and about 16% of loans are used for unexpected expenses (e.g., vehicle repair, medical costs).

While upfront borrowing costs for payday loans are higher than short-term credit offerings like ExtraCash, we argue the real friction arises from excessive junk fees. In 2022, low-income borrowers in states allowing high-cost lending paid an estimated $2.4 billion in fees to borrow 20 million loans totaling $8.6 billion, according to Center for Responsible Lending. We think legacy lenders cannot effectively underwrite this cohort and rely on excessive fees when their borrowers inevitably miss a payment.

Exhibit 6
Junk Fees Are Primary Friction in Payday Lending
($ in millions)



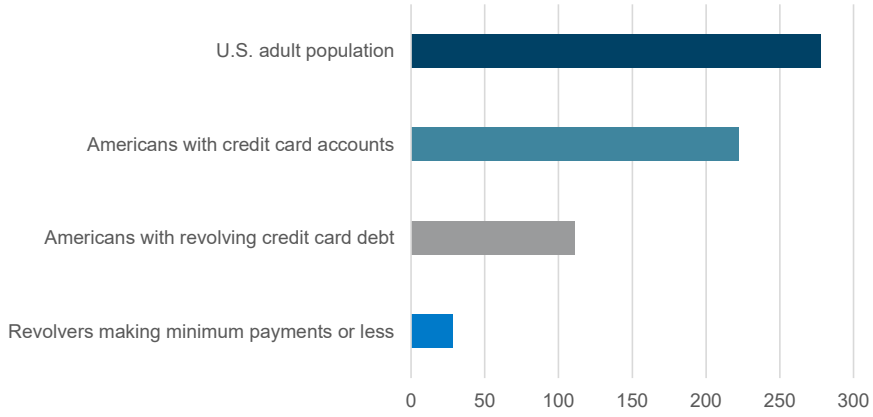
Note: Data represents fees paid by low income borrowers during 2022 in states allowing high-cost lending
Source: Center for Responsible Lending

In certain states where "rollovers" are permitted, the lender can extend the due date (typically another pay cycle), charging a "renewal fee" like making a minimum payment on a revolving credit card balance. After paying this fee, the borrower is still responsible for paying the original finance charge and principal loan amount at the end of extension period. Late or returned check fees are also incremental costs levied by payday lenders. If funds are loaded onto a prepaid card, there may be additional fees associated with adding money, checking balances, calling customer service, and general card usage.

Revolving Debt

For borrowers who are not "thin file" and have access, traditional revolving debt presents a tempting short-term liquidity bridge. However, as the affordability crisis deepens and savings rates are depleted, households are carrying higher balances and paying more in fees. According to The Century Foundation (TCF) and Protect Borrowers, roughly 111 million people do not pay their credit card bills in full each month. This represents about half of Americans with credit card accounts, and over 40% of the U.S. adult population. Of these revolving borrowers, 28 million are under a high degree of financial stress, making just the minimum payment or less.

Exhibit 7
Half of All Credit Card Accounts Are Revolvers
And About One-Quarter of This Demographic Is Under a High Degree of Financial Stress
(in millions)



Source: Century Foundation and Protect Borrowers, William Blair Equity Research

According to Affirm's analysis of Experian data, the average monthly credit limit is around $30,000. We think traditional open-to-buy products vastly overestimate what most low-income borrowers can afford, trapping these consumers into a cycle of debt as they struggle to meet minimum payments. In some ways, this is a parasitic financial relationship as traditional subprime profit pools are contingent on consumers taking on more credit than they can afford, resulting in larger revolving balances. As a result, these already distressed borrowers pay the cost through compound interest, late fees, and other junk fees.

Short-Term Consumer Liquidity

We think short-term credit providers completely flip this script, taking a vastly different approach than incumbents, resulting in a superior consumer value proposition. We summarize these key distinctions below:

1) ***Clear and transparent disclosure.*** Transparent disclosure is paramount for effectively lending to subprime borrowers. Companies like Affirm and Dave clearly disclose repayment terms to borrowers, including the exact cost to borrow and repayment date, and do not charge late fees or other junk fees on delinquent payments.

2) ***Superior underwriting.*** Short-term credit providers leverage proprietary machine learning models and bank account data to approve transactions in real-time and do not require hard credit checks. This is distinct from the legacy underwriting approach of assigning arbitrary credit limits relying on external credit bureau scores, like FICO, which tend to run on a lag and do not capture key cash flow data.

3) ***Product flexibility.*** While specific features are not identical across providers, we think broadly flexible products and interface are key tenets of next-generation liquidity providers. Affirm is perhaps the clearest example of this as borrowers can structure their own payment terms, whether it be an interest-free split payment, monthly installments with varying duration, or even paying in full. We think another example of great product flexibility is Dave's ability to underwrite a borrower in less than five minutes without requiring an existing direct deposit relationship.

Exhibit 8
Short-Term Liquidity Products Come in Various Forms but Similarities Include Short Loan Lives and Small Dollar Balances

Company	Product	Description	Avg. Loan Size	Duration	Origination Volume	Credit Performance*	Key Characteristics
Chime	SpotMe	Overdraft protection	$20 (1Q26)	7 days	$5.3b (1Q26)	<0.4% loss rate (1Q26)	Loss rates down 50% since Sep 2019 launch
Chime	MyPay	Earned Wage Access	$85 (1Q26)	14 days	$4b (1Q26)	1% loss rate (1Q26)	Loss rates down 50% since July 2024 launch
Chime	Instant Loans	3- to 12-month installment	$250 (1Q26)	6 months	$0.2b (1Q26)	4% loss rate (1Q26)	Loss rate improvements of up to 50% for repeat borrowers
Dave	ExtraCash	Cash advance (via overdraft)	$212 (1Q26)	14 days	$2.1b (1Q26)	<1.29% 121D NCOs (1Q26E)	Does not require primary account relationship
Block	Cash App Borrow	Cash advance	$244 limit (1Q26)	21 days	$5.5b or $22b annualized (3Q25)	<3% loss rate (1Q26)	34% ROIC and 100%+ ROE per Block analyst day
Block	Afterpay Pay-in-Four	Short-term split pay	$250 (1Q25)	27 days	$9.7b (3Q25) incl $750m quarterly run-rate (i.e., $3b annualized) post-purchase volume	<1% loss rate (1Q25)	29% ROIC and 100%+ ROE per Block analyst day
Afffirm	Interest-bearing	Monthly installment	$350 (1Q26)	3-60 months	~$8b (1Q26)	>3.5% loss rate (1Q26)	Likely higher avg loss rate given FICO skews lower
Affirm	0% APR	0% monthly installment	$900 (1Q26)	3-60 months	~$1.5b (1Q26)	<3.5% loss rate (1Q26)	Likely lower avg loss rate given FICO skews higher
Affirm	Pay-in-X	Short-term split pay	$100 (1Q26)	6-8 weeks	~$2b (1Q26)	<1% loss rate (1Q26)	Traditional MDR product

Note: Calendar quarters. *All loss rates are company defined, except our assumptions for Affirm's interest-bearing and 0% APR loans.
Sources: Company reports and websites, William Blair Equity Research

While skeptics may view next-gen short-term consumer liquidity through the same lens as traditional subprime finance, we argue the nature of short-term consumer liquidity creates markedly different psychology and resulting behavior. Unlike longer-duration unsecured loans, like auto, or large credit card revolving balances, short-term liquidity products have low balances and short duration (see exhibit 8). As a result, we think consumers are willing to default on longer-duration or larger dollar loans, recognizing they can rehabilitate their credit while walking away from high monthly payments and large outstanding balances, should circumstances require it. By contrast, products like ExtraCash have an average balance of just $212 and less than a 2-week duration. ***Most important is consumers' recognition that if they default on this loan, they will no longer have access to this liquidity pipeline, which we believe is a driving motivation.***

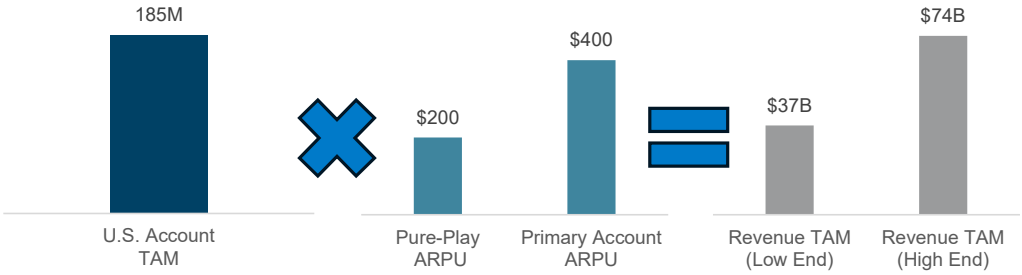
Huge TAM and Rising Monetization Support Bullish Structural Outlook

It will come as no surprise that the U.S. short-term consumer liquidity TAM is massive. The number of consumers living paycheck-to-paycheck continues rising, alongside their inescapable need for near-immediate access to liquidity to meet nondiscretionary—and often emergency—expenses. Our view is that tens of millions of American consumers are candidates to use short-term liquidity tied to digital banking services. PYMNTS estimates that 67% of consumers live paycheck-to-paycheck and the CFPB estimates this cohort overdraws their accounts about 20 times per year. These statistics are exacerbated by the fact that the post-pandemic 4% personal savings rate is half what it was pre-COVID, according to the U.S. Bureau of Economic Analysis. While incumbents have existing offerings (primarily credit card and payday loans), bloated cost structures, legacy underwriting and tech stacks, and heavy physical presences require charging excessive fees to profitably serve this market. We contend this creates a favorable setup for leading next-generation short-term liquidity providers to take share.

We estimate a theoretical revenue TAM of about $37 billion-$74 billion for this market. The lower bound of this TAM reflects the opportunity for a pure-play, short-term credit player, like Dave, and the upper end represents the opportunity for a holistic primary account model, like Chime. According to the Financial Health Network, there are 185 million financially "coping" or "vulnerable" American consumers. We think this is an appropriate account TAM for short-term liquidity providers and these consumers are analogous to the cohort of Americans living paycheck to paycheck.

Using the same account TAM and conservatively applying a $200 ARPU (versus Dave's $216 ARPU per monthly transacting member in first quarter 2026), we arrive at the roughly $37 billion lower bound revenue TAM. To reach the $74 billion upper bound revenue TAM, we apply a $400 ARPU. This is not an arbitrary ARPU figure; it represents a conservative haircut to Chime's actual monetization of its most engaged cohorts, which adopt more than six products, such as debit and credit cards, ATM activity, peer-to-peer, high yield savings, fee-free overdraft, tax filing, earned wage access, and credit tracking.

Exhibit 9
Massive Revenue Opportunity Driven by Large User TAM and Rising Monetization



Source: Company reports, William Blair Equity Research

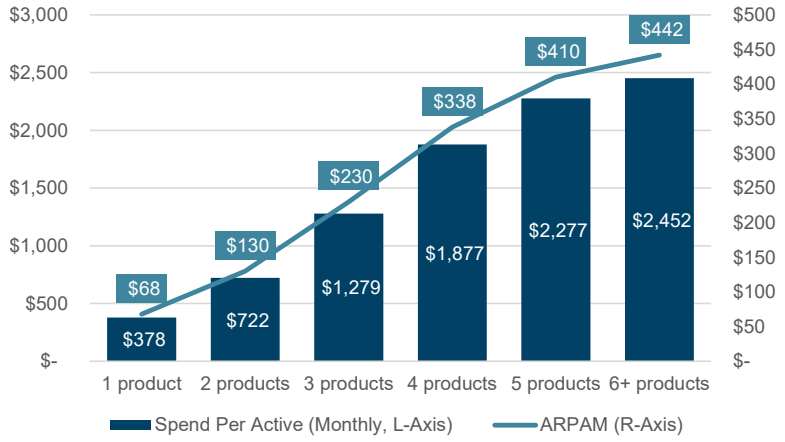
We note the wide revenue TAM range is a byproduct of business model focus. While focused short-term credit providers appear to have a lower monetization opportunity, the utility of these products is accompanied by attractive unit economics and CAC. For example, Dave boasts a best-in-class CAC of under $20 (with less than a 4-month payback), compared to $90-plus CAC for a primary account digital banking offering like Chime. The inherent utility of short-term credit products meeting a critical consumer pain point, strong word-of-mouth virality, ease of use with superior technology and user interface, and low friction help drive lower CAC. In addition, the short duration and small dollar nature of these products results in highly attractive unit economics. For example, during its 2025 investor day, Block stated that its largest lending products—Cash App Borrow and BNPL Pay-in-Four—generated roughly a 30% return on invested capital and 100% return on equity for $100 of capital extended with an average duration of less than a month,

We believe there is ample TAM available for multiple winners, as evidenced by the large user bases generated across various digital finance players. Consumers seeking liquidity solutions are often stacking multiple offerings, and we acknowledge there is likely overlap between these active user bases. Historically, fintechs have struggled to monetize the "underbanked" segment, but we are encouraged by strong monetization trends demonstrated across our favorite digital finance names (see exhibit 5). We attribute this success to focused business models centered on meeting a critical consumer pain point rather than building "everything apps" or standalone point solutions.

We think digital finance leaders are in the early innings of their monetization journey, with several levers—most notably, raising approval limits as models iterate, new product cross-attach, and pricing (including subscription fees). Chime is perhaps the clearest example in our coverage of a

company that has demonstrated product attach rates driving higher monetization through habituation and spend volume. Chime members adopting more than six products generate 6.5x higher ARPU and spend compared to those using just one (see exhibit 10).

Exhibit 10
Chime Has Demonstrated Higher Monetization Via Greater Product Attach

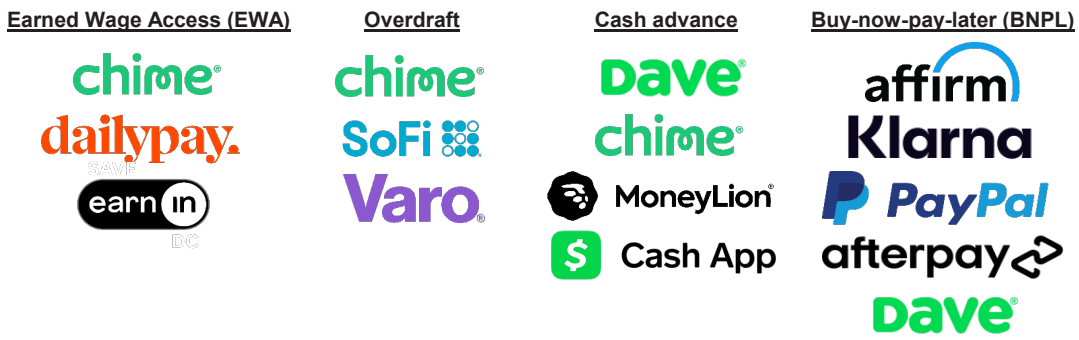


Source: Chime Financial, Inc. company reports

Plenty of Competition, but Differentiated Leaders Pursue Distinct Segments and Tap Bank Charters for Advantage

As previously discussed, short-term consumer liquidity providers' models have evolved in different ways. This informs market orientation, product attributes, business models, and competitive position. In this section, we detail different products and discuss competitive position. We make the overarching observation that the short-term consumer liquidity TAM is large; adoption is low, measured by revenue or gross profit per MAU; and varied offerings targeting different consumer needs create opportunity for more than one winner. While it is true that some products overlap and consumers may use more than one at a time, our sense is that each of these solutions has its distinct appeal. In addition, because third-party data are often used in underwriting, issuers should have a good sense of consumers' indebtedness and spending patterns. It is our view that this will create an underwriting feedback loop allowing companies to effectively target offerings to specific subsegments.

Exhibit 11
Limited Overlap and Differentiated Market Orientation and Product Positioning Will Create Multiple Winners



Note: Dave's BNPL product is in beta.
Source: Company websites, William Blair Equity Research

Push for Bank Charters

We think many digital finance companies' efforts to obtain bank charters potentially alter the competitive landscape. Whereas entry barriers to offering some short-term consumer liquidity products are relatively low (BNPL is higher than data-driven lending, for example, owing to the challenges of standing up a two-sided network), reliance on partners, especially for funding, is nearly ubiquitous. In other words, most digital finance companies have "rent-a-bank" models in which lending partners commit to buy loans, allowing issuers to revolve their books very quickly. Although simple in practice, digital finance companies are often beholden to bank partners during the product development process, as risk committees need to sign off on customer-facing applications. Fintechs also rely on bank partners for consistent capital access as they are not deposit funded. This entails risk around bank-partner reputation, liquidity, and risk appetite, all factors beyond short-term consumer finance issuers' control.

Bank charters are no panacea, in our opinion, and come with onerous initial capital requirements that mean digital finance companies must prove their ability to manage risk for at least two years before beginning to operate at traditional bank capital levels. That said, even considering the lag between obtaining a charter and realizing the benefits of lower funding costs and product autonomy, we think this level of vertical integration builds on market leaders' competitive advantages, which include unaided brand awareness, next-generation tech stacks, leading UX, and deep troves of historical transaction data. We have seen Block, for example, shift all of its funding on balance sheet, and Affirm indicated at a recent analyst day that it plans to hold at least 10% of originations on its bank balance sheet by the end of the projected de novo period in fiscal 2030. We expect other digital finance companies to pursue bank charters, reflecting the competitive advantages of controlling their own destinies.

Earned Wage Access—Underwritten Against a Paycheck

We see EWA as effectively having evolved from payday lending. However, unlike its analog forebear, EWA is a digital solution that does not require writing post-dated checks or standing in line to receive the value of a paycheck, less fees, in cash. Instead, EWA is a truly underwritten product, the credit performance of which is informed by insight into the timing and amount of direct deposit wages. Although some companies, like Chime, are offering EWA to consumers who do not have a primary banking relationship, these loans are still underwritten using historical employment data, are limited by the size of a given paycheck, and are explicitly timed to coincide with a borrower's pay schedule. Importantly, EWA solutions are generally tied to debit cards, which is a powerful way for providers to generate interchange on spend. Regardless of whether the issuer owns the relationship or not, debit accounts are significantly safer and more convenient than cash.

EWA products generally generate revenue via instant transfer fees, which tend to be about $3. Notably, a customer can choose to receive funds for free if they are willing to wait roughly three days for a transfer into their account. While this fee-avoidance option seems appealing, the reality of EWA is that most customers need funds immediately to pay bills or address some other urgent need. Therefore, we think most EWA transactions generate revenue. This is an example of the direct-to-consumer model. EWA is enjoying growing enterprise popularity, in our view, and employers are offering this service as a perk or retention tool. In this setting, employees generally do not incur any EWA costs and employers pay providers on a per-MAU basis.

Key competitors

MyPay (Chime). We consider Chime to be the leader in the EWA segment, even if it is not a pure play. We think the company has about 5 million more users than DailyPay, which we consider its most significant competitor, even though the latter is an enterprise provider. Chime has announced an employer solution and has signed up several enterprises with which it is in various stages of go-live.

As previously discussed, we see Chime's primary competitive advantage as its primary banking model. Because roughly two-thirds of its customers use Chime as their primary bank, the company benefits from significant direct deposit participation, generating valuable insight and data for EWA underwriting. Whereas an enterprise solution has perfect visibility into employees' pay, which should benefit consolidated credit outcomes, the trade-off is that this model creates little direct issuer engagement. As a result, fees are generated primarily through instant transfer and ATM withdrawals. Chime's blended model is the best of both worlds, in our opinion, combining considerable underwriting data with monetization from everyday spend and the ability to diversify into new products, like instant loans.

DailyPay. We view DailyPay as a formidable enterprise competitor given proven tech integrations and a first-mover advantage. The company has integrations with more than 200 payroll and HCM providers, likely making it the enterprise EWA provider of choice. DailyPay boasts clients employing more than 5 million customers across a variety of industries. Notably, in our view, unlike an enterprise push by Chime, DailyPay's enterprise-centric offering could leave it vulnerable to competition from payroll processors and HCM providers seeking to boost yield by integrating EWA. By contrast, an enterprise choosing Chime presumably has decided that a standalone partner is preferable to a vertically integrated payroll or HCM offering. In addition, we note that 10%-15% of employees at Chime-targeted enterprises are already using the company for direct deposit. As a result, our view is that Chime's stickiness is even greater than DailyPay's, consistent with our historical opinion that single-point fintech solutions often struggle to achieve scale and ubiquity.

EarnIn. We see EarnIn as an example of vertically integrated payroll and EWA provider. The company offers EWA as a benefit alongside its modern payroll and benefits offerings. We think this is an attractive business model, owing to the aforementioned competitive risks at a company like DailyPay. That said, this solution is probably more suitable for SMBs as many enterprises use multiple payroll providers, raising switching costs. EarnIn also integrates other employee financial management solutions, such as planned savings, credit monitoring, etc. This strikes us as a logical approach, although it also highlights the differences between this offering and pure-play EWA competition.

Overdraft Products

Traditionally the purview of banks, and a way to generate fees, overdraft has deservedly earned a bad reputation, in our opinion. Overdraft fees have drawn the ire of legislators and the CFPB, so much so that many banks now offer free protection at least for relatively small dollar amounts. In many cases, however, we think the move toward free overdraft potentially creates new bank customer inconvenience, such as declined payments and missed deadlines that can

trigger biller late fees. Although not as sophisticated as EWA or cash advance products, and playing more of an account retention role, fee-free overdraft that allows customers to overspend accounts, rather than declining transactions, is an important digital finance offering as it boosts engagement and cross-sell.

Key competitors

SpotMe (Chime). Again, we see Chime as a digital finance leader, and perhaps the most important digital bank, because of its diverse and complementary products. Chime's model relies on primary banking relationships and resulting spend-driven interchange revenue. SpotMe slots in as an important retention tool as it creates customer value and improves financial lives. For those customers direct-depositing at least $200 per month, SpotMe covers up to $200 of overdraft with no fees. Chime also offers Boosts, which allow friends and family members to participate in overdraft protection. So, as a standalone product, we do not consider SpotMe particularly differentiated, but in the context of Chime's overall value proposition, we think it enhances the company's market-leading position.

SoFi Fee-Free Overdraft. We have not spent much time discussing SoFi in the context of short-term consumer liquidity because it is a vertically integrated digital bank serving prime credit customers. SoFi's overdraft protection looks more like a traditional bank, but like Chime, we view it as important to customer retention. The company offers two options: 1) overdraft protection, a fee-free product that automatically transfers funds from savings into checking in the event an account is overdrawn; and 2) overdraft coverage, which offers $50 of protection for members direct-depositing at least $1,000 per month. These solutions are not as generous as Chime, which we think reflects SoFi's more affluent customer base, which is less reliant on liquidity and overdraft products.

Varo Money. We highlight Varo because the company's overdraft protection and other products sit between Chime and SoFi. Varo is a digital bank offering high-yield savings, free checking, and some short-term consumer liquidity. It includes free overdraft protection with its checking accounts, but rather than completing insufficient funds transactions up to a certain amount, it takes a more traditional bank approach of declining transactions and not charging a fee. Varo is indicative of where we think the competitive environment is today: there are a few focused participants and a number of companies, like Varo, that apparently want to be everything to everyone. We think this scattershot approach, which incorporates elements of traditional banking friction and high fees with some digital-first capabilities, will relegate providers to the fringes of competitive relevance.

Cash Advance Products

These short-term consumer liquidity products are at the heart of the digital finance value proposition, in our opinion, because they offer consumers a convenient, reliable lifeline, and have the most issuer economic upside. They are also generally tied to payroll cycles, meaning consumers and issuers have good line of sight to repayment likelihood and timing. The tradeoff, of course, is that unsecured credit to subprime borrowers carries significant risk. Although we see high durable ROI—Cash App Borrow runs at about 34%—and low loan balances and short durations limit explicit credit risk, bad credit outcomes are much more likely in cash advance than EWA. These products are also more likely to be scrutinized by regulators, in our opinion, because implied annualized APRs are exaggerated by fixed fees and very short loan lives. We nonetheless see cash advance as the most compelling subsegment of short-term consumer liquidity, because it is in high demand, addresses an enormous and growing TAM, and offers the best unit economics.

Cash advance is clearly the category in which issuers need the best data, systems, loan structure, and habituation, in our view. Convenience is another key factor, because these products effectively compete with credit cards, which offer ultimate convenience—if not consumer-friendly fees—because of open-to-buy features. This is where we believe leaders, like Dave, win, offering consumers instant access to cash with lines that grow with consistent repayment.

Key competitors

ExtraCash (Dave). ExtraCash is the short-term consumer liquidity category killer, in our opinion, situating Dave as a clear digital finance leader. CashAI, the company's leading machine-learning-based underwriting tool, has a proven track record of superior loss outcomes, with 121-day charge-offs currently trending toward 1%. Although loan loss provision accounting worries have dogged CashAI version upgrades, as we discuss in the digital finance accounting section on page 23, the model's performance has followed the trend in exhibit 1, which shows the benefits of customer habituation. We are bullish on CashAI, owing to superior data and a growing number of inputs with each version, and we also like the company's pure-play short-term liquidity positioning. The company does not try to be all things to all consumers, and Dave's lack of insistence on direct deposit eliminates a major source of friction.

Importantly, we think there is excess demand for ExtraCash advances, considering steady average loan size growth and apparent lack of demand elasticity around monthly subscriptions and rising advance fees. Again, while regulatory risk is probably the largest exogenous concern, we note that MTM, volume, and gross profit growth have all followed pricing higher, which we see as a testament to Dave's successful market positioning.

Instant Loans (Chime). Instant loans are a new product for Chime, and the company is rolling it out on the heels of MyPay success. This product is still small, as $180 million in first quarter 2026 originations was just less than 10% of ExtraCash volume. We expect instant loans to scale rapidly as Chime integrates direct deposit data and leans on Chime Prime customers— those about which it ostensibly knows the most—to power growth. Chime Prime customers automatically qualify for instant loans, which makes sense to us considering a $3,000 monthly direct deposit requirement. These customers are probably near the top of Chime's income demographic and are likely the most engaged as they participate in rewards, high-APY savings, and other perks.

Unlike ExtraCash loans, which have a roughly 14-day duration, Chime's instant loans can have up to 12-month durations, with longer loans offered to repeat customers in another nod to the power of habituation in driving above-market ROIC. While we see instant loans as having strong convenience, the necessity of establishing a direct deposit relationship makes them less accessible than ExtraCash, but perhaps more central to Chime's value proposition than competing products.

Instacash (MoneyLion). Instacash compares favorably with ExtraCash in some respects, even as it is buried in MoneyLion's full-service digital bank offering. Similar to Varo, we think MoneyLion is trying to be everything to everybody, which has proved a difficult model to scale because we contend it too closely resembles traditional banks. Unlike ExtraCash, Instacash offers customers a completely free option, albeit with the caveat that funds will be available within two to five business days for external accounts or one to two business days for RoarMoney accounts. This is a competitive disadvantage, in our opinion, as it once again ties direct deposit to convenience and price. If an Instacash customer wants funds immediately, they will pay $7 on a $90-$100 advance to deposit directly to a RoarMoney account and $9 for an external account. This contrasts with ExtraCash, which can be instantly disbursed for free into a Dave debit account. Total fees on such a transaction would be about 5%, versus roughly 7% for Instacash.

MoneyLion also offers longer-duration, high-balance personal loans, like SoFi. We reiterate our view that specialization, data-intensity, habituation, and focus are important competitive advantages that all-encompassing digital finance providers likely do not enjoy.

Various small competitors. The Apple App Store is replete with companies offering instant cash advances, albeit with a variety of fees and requirements. We see offers of free advances with relatively steep monthly subscription fees (Brigit advertises a $9-$16 subscription) on top of instant transfer fees, and plenty of providers offering early paycheck access if not EWA. While we are wary

of low entry barriers and relatively capital-light models, our view is that ease-of-use, convenience, clear fee structures, proven scale, and leading unaided brand awareness are key tenets of competitive differentiation and economic growth durability.

BNPL

As previously discussed, we consider BNPL a form of short-term consumer liquidity, albeit associated directly with purchases of both discretionary and nondiscretionary goods and services. We like BNPL because in its purest form, it offers consumers budgeting tools similar to debit with a credit toggle for larger or discretionary purchases. Durations vary. Loans with 0% APR and interest can be six months or longer, while Pay in X loans tend to be one to three months. BNPL is also different from cash advance in that these loans are issued whenever a consumer is approved, they do not require direct deposit, and there are no fees for instant cash access. As a result, BNPL is not tied to payroll cycles, which means that issuers need superior underwriting discipline, data integration, and habituation to support meaningfully below-bank credit losses.

Notably, of the four largest market participants, Affirm is the only one with a long track record of data-driven underwriting. Pay in X loans, which are only about 30% of Affirm's GMV but are nearly 100% of other competitors' volume, are not truly underwritten products. Instead, the MDR model is meant to absorb losses and gross margin is dependent on delivering a consistent merchant value proposition. Although BNPL remains a comparatively tiny share of U.S. carded retail volume, creating opportunities for more than one winner, our view is that Affirm's versatility enhances its competitive stature. Similarly, many merchants will likely offer more than one BNPL option because this increases conversion and is additive to consumer choice. Rather than creating competitive risk, we think that multiple BNPL choices will lift the category, allowing BNPL to take share from cards.

Key competitors

Affirm. As mentioned, we see Affirm as the BNPL leader, owing to best-in-class products, underwriting, partners, tech integrations, and product innovation. We submit that the company's de facto exclusive relationship with Amazon and its exclusive relationship with Shopify highlight those partners' conviction that Affirm's underwritten solutions generate superior conversion and economics. We also note that Affirm continues to grow at Walmart, even after that customer moved to a relationship with Klarna that includes the company's fair financing (underwritten) solution. We contend that this speaks to Affirm's product differentiation and economic value-add. Affirm has reported above-market GMV growth for several consecutive quarters, supporting our bullish view. We note that in the March quarter, the company posted 35% GMV growth (mostly U.S.), only a bit slower than Klarna's 39%, despite having about 60% more volume. Our view is for accelerating GMV growth as the company broadens distribution and widens its geographic footprint.

Klarna. Klarna is the only other scaled pure-play BNPL provider. With its roots in Europe, where the company has achieved ubiquity, especially in the Nordics, owing to little carded competition, the company has moved aggressively into the U.S. market. Our view is that Klarna has met with mixed success despite above-market GMV growth that rivals Affirm. The company has been a marketing juggernaut, signing the likes of Walmart, H&M, Uber, Saks Fifth Avenue, Sephora, and others. The company recently surpassed one million merchants and is enjoying accelerating merchant growth. That said, its stock has lagged Affirm (down 29.8% year-to-date versus Affirm up 6.8%) as Klarna grapples with rising loss provisions and has achieved just a roughly 110-basis-point RLTC margin, compared with Affirm consistently around 4%. We nonetheless anticipate that Klarna will be a formidable competitor and an important driver of product adoption.

PayPal. Much like Afterpay, which we discuss below, our view is that PayPal's BNPL initiatives are more of a means to an end than a broader commitment to the tender type. Put differently, we think the company sees BNPL as a way to enhance its transaction dollar margin by improving

engagement and monetization. This makes sense to us, but it likely limits the company's ambitions vis-à-vis the pure-play participants. Although the company discloses TPV sporadically, recent data points indicated roughly 20% growth, lagging the pure-play providers by a wide margin. Our view is that this relatively slower growth reflects BNPL's positioning as an adjunct solution, rather than a primary offering, and it is consistent with PayPal's likely conservative credit priorities. We do not expect PayPal to aggressively pursue an underwritten product, nor do we foresee it vertically integrating by obtaining a bank charter. That said, greater BNPL ubiquity bodes well for the entire category, in our opinion.

Afterpay (Block). Similar to PayPal, we think Block is integrating BNPL to drive Cash App customer engagement and monetization. The recent launch of a post-pay offering (underwritten) integrated into the Cash Card suggests that the company is emphasizing BNPL, alongside Borrow, as an important long-term gross profit driver. This likely positions the company as a more committed BNPL provider than PayPal, in our view, but it remains a relatively adjunct offering compared with the pure-play companies in the space. We nonetheless consider Afterpay a serious BNPL competitor, considering 59 million MAUs and nearly 10 million primary banking customers. Block does not disclose Afterpay GMV, but we highlight that first quarter 2026 Cash App consumer loan volume rose 82%. We believe much of this growth was powered by Borrow, but we anticipate that BNPL will be an important contributor to above-market growth in Block's overall short-term consumer liquidity offering.

Accounting Worries Overblown

We suspect that digital finance stocks have experienced uneven year-to-date performance as investors worry about consumer credit health, grapple with the fact that most of these companies have not seen a true credit cycle, and struggle with accounting differences compared with traditional banks. We recognize that digital finance accounting is often not in keeping with CECL, and in cases where companies strictly employ CECL accounting, rapid loan growth, short durations, and the habituation process can create unusual looking loss provision patterns and reported loan loss reserves. As discussed, our view is that "different" isn't "bad," even as many traditional financials investors are loathe to acknowledge anything other than what they are used to seeing at legacy banks. More importantly, we argue that unique characteristics of short-term consumer liquidity products, including low balances, short durations, and the benefits of borrower habituation mitigate long-tail credit risk. Issuers' ability to adjust underwriting in near real-time means a greater risk to growth, versus credit costs, in our view, and we think shares of digital finance leaders materially price in this aspect of cyclical risk.

This section discusses specific accounting differences between traditional financial companies and digital finance. Our sense is that these are primary factors investors consider—and digital finance detractors highlight—when analyzing the space.

Held for Sale and Associated Loan Marks Versus Held for Investment Accounting
This distinction, and the investor debate it elicits, is probably the most elemental aspect of digital finance accounting, even though not all companies in our universe have loan marks. Generally speaking, credit issuers use held for investment accounting even in cases where loans might ultimately be sold prior to maturity. We understand adherence to this approach, especially by traditional banks, following bad underwriting and credit underperformance in past cycles. ***Held for investment loan accounting is foundational to CECL, and its premise is simple: it is more conservative to put a new loan on the books at a discount and accrete value—most likely a premium—through the P&L statement as the loan matures.*** Even though this approach risks misvaluing a loan just as much as held for sale accounting, it is unambiguously more conservative

in almost any credit environment. Simply put, CECL accounting requires a bank to make a life-of-loan loss assumption upon origination, recognizing the difference between par and book value as a provision expense on the income statement. As the loan matures, this discount is accreted through the P&L, augmenting interest income. If a loan is sold, the difference between its carrying cost and sale price is recorded as a gain.

Under held for sale accounting, an issuer will make several assumptions underpinning the price at which a loan is booked. These include: 1) average coupon; 2) expected loan duration, depicted by conditional prepayment speed; 3) life-of-loan losses; 4) an observed market or benchmark rate, which is generally the SOFR duration that matches the loan; and 5) a subjective discount rate meant to reflect the cost of alternative investments. These assumptions result in a loan value—generally a premium—which is recorded on the books as a gain on sale. This premium is amortized through the P&L as an expense over the life of the loan, creating what is known as a "pull to par" for loans held to maturity, rather than sold. There are puts and takes to this approach, in our view, and we think it is most readily used for relatively shorter duration loans. Whereas detractors argue that front-end-loading gains is inappropriate and risky, we think this approach more accurately reflects the value of a loan, enforcing a kind of market discipline that CECL accounting does not. Importantly, there is no mechanism under GAAP by which accounting can be changed to CECL from gain on sale even in cases where a loan is reclassified. This is an important aspect of the bear case in SoFi that many detractors overstate or fail to understand.

Exhibit 12
Digital Finance Companies Employ Varying Loan Accounting Frameworks

	Held for Investment*	Held for Sale	Cash Gain-on-Sale
affirm	✓		✓
chime	✓		
Dave	✓		
SoFi	✓	✓	✓
block	✓		

*Chime marks certain loans sitting on partner bank balance sheets via its product obligation liability. Improving or deteriorating credit performance of loans sitting on partner books can create positive/negative loan marks.
Source: William Blair Equity Research

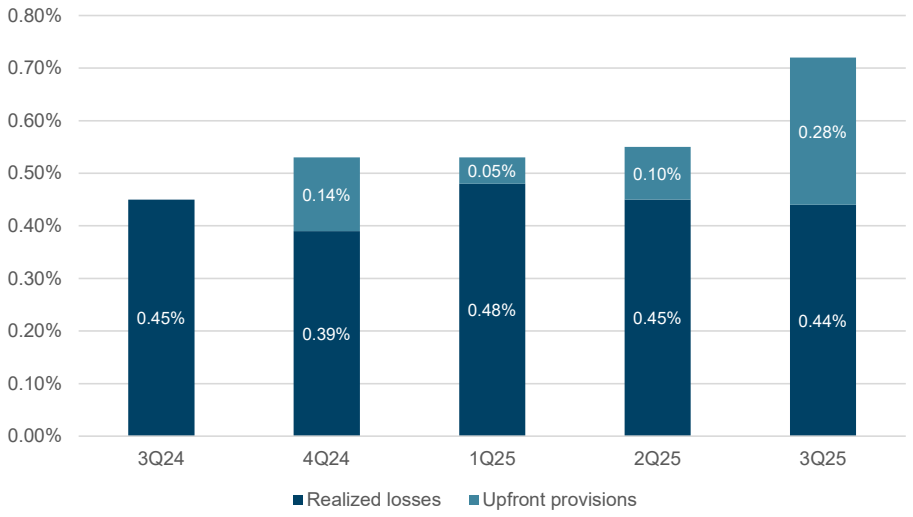
Interestingly, held for sale accounting can affect results of companies that do not intentionally employ it. Unlike SoFi, which classifies all loans as held for sale, resulting in a varying degree of periodic loan marks, some digital finance companies, like Chime, which fund via bank partners, are forced to mark longer duration loans sitting on partners' balance sheets. While this is simply appropriate GAAP accounting, it has unwittingly generated some investor pushback, in our opinion. We see this as a kind of unintended consequence of short loan lives and borrower habituation. For example, Chime recorded a roughly $42 million 2025 expense associated with a change in the fair value of its product obligation liability. This expense reflected negative marks on MyPay loans and instant loans held on bank partner books, driven by above-trend loss rates that were to be expected of a maturing product. By first quarter 2026, MyPay loss rates had fallen to about 1% from 1.75% a year earlier. Although MyPay loans have short durations, origination timing means that there will always be balances outstanding at the end of a quarter, and in first quarter 2026, improving charge-offs resulted in a $26.5 million positive mark. While this would ordinarily be considered positive, in our view,

the market determined that this mark was the only reason Chime exceeded EBITDA guidance, and uncertainty about future loan marks drove the stock lower on quality-of-earnings concerns. We find this type of volatility irrational but recognize that this is a point of investor scrutiny.

Loan Loss Provision Timing Versus Actual Underlying Credit Performance

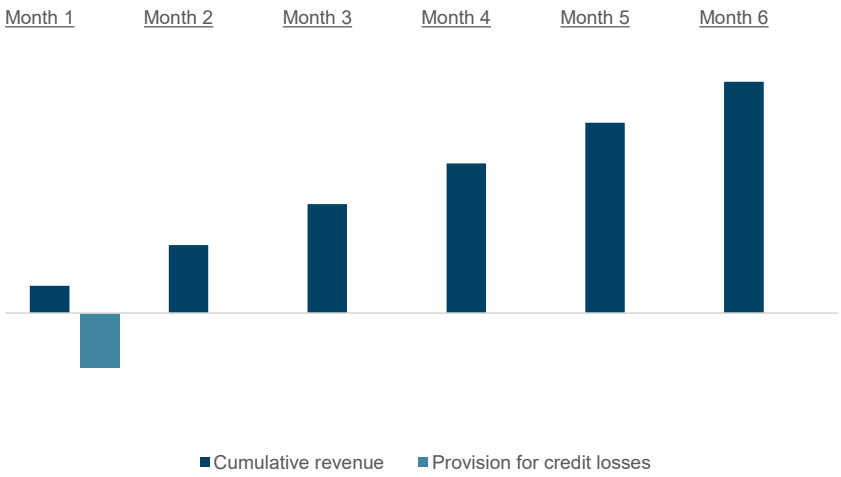
When investors look for reasons to be negative, they often find them, in our experience. Such has been the case with loss provision timing. As previously described, under CECL accounting, issuers must record a loan loss provision expense at the time of origination. Therefore, it is mathematically unavoidable that an early-stage, fast-growing loan book will experience outsized loan loss provision growth as it spools up, particularly as actual losses have not yet benefited from borrower habituation. These outsized provisions are often poorly communicated by management teams, in our view, and can surprise investors. For example, when Klarna reported third (and fourth) quarter 2025 results, the stock gapped lower, apparently spurred by a surge in loss provisions well ahead of actual loss experience and Street expectations. The company went so far as to publish the information in exhibits 13 and 14, illustrating the effects of provision expense timing versus actual life-of-loan loss expectations. As the company noted (see exhibit 13), upfront provisions spiked to 28 basis points of GMV, up 18 basis points sequentially, even as realized losses remained stable.

Exhibit 13
Klarna Illustrates Provision Expense Timing Versus Realized Current Period Loan Losses
(Provision for credit losses as % of GMV)



Note: Upfront provisions primarily reflect expected losses at origination as well as changes in credit risk of on-book loans
Source: Klarna Inc. company reports

Exhibit 14
Klarna Illustrates Provision Expense Timing Versus Actual Life of Loan Losses



Note: Illustrative impact of accounting treatment for fair financing loans retained on Klarna's balance sheet
Source: Klarna Inc. company reports

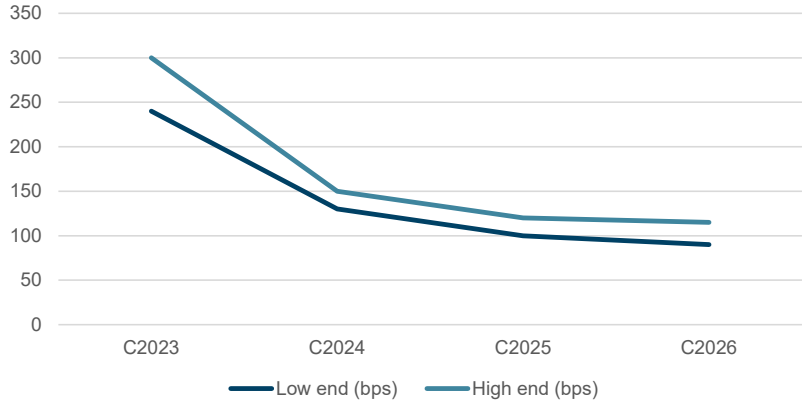
Management highlighted this timing effect in exhibit 14, and it is entirely in keeping with the foregoing discussion. Investors sold the stock on these gross profit misses, however, either because they were adversely surprised by higher-than-expected losses or they conflated higher provision expense with rising life-of-loan credit risk. Although the latter is certainly a plausible explanation, in our opinion, considering the company's short track record, we think optics played a larger role. This highlights the extent to which financials investors still overly penalize shares of digital finance companies for accounting that does not closely resemble that of traditional banks. ***We contend this creates an opportunity in shares of our favorite digital finance names.***

Cash Gain on Sale Mix Raises Worries About Capital Markets Volatility

Unlike assumption-driven loan marks, some digital finance companies recognize cash gains when they sell loans into the secondary market. Loan buyers are diverse, including insurance companies, hedge funds, and private credit providers. More mature digital finance companies, like Affirm, have also become seasoned ABS issuers, and a combination of whole loan sales and ABS transactions drives significant *cash* quarterly gain on sale. For example, Affirm typically funds loans through three channels: ABS, warehouse and forward flow. These represent roughly 24%, 30%, and 46% of funding, respectively. So, about 70% of the company's loan volume generates cash gains. Even as Affirm has enjoyed steadily tightening ABS spreads and better loan sale execution, owing to impressively consistent credit outcomes, we think investors worry that capital markets interruption could dent gain on sale. This concern seems materially overblown, in our opinion, especially considering loans held to maturity on the company's balance sheet offer better ROE compared with sold loans. We nonetheless understand that Wall Street often values near-term performance and outcome certainty above long-term funding diversification and durability.

Given the foregoing, we appreciate that some investors have pushed back on gain on sale, which rose from about 8.5% of fiscal 2024 net revenue to an estimated 13.9% in fiscal 2026 (this metric peaked at 16.5% in second quarter 2026 and fell to 12.2% in third quarter). That said, we think well-conceived and diversified off-balance-sheet funding models are more durable through the cycle than many investors appreciate. Again, using the Affirm example, we highlight that the company has 150 unique ABS investors, having added 35 in the last two years. The company has issued more than $7 billion in notes while spreads have tightened significantly (see exhibit 15).

Exhibit 15
We See Tightening Spreads on Affirm's ABS Deals Validating Its Funding Model



Note: Exhibit reconstructed from Affirm investor day presentation materials. Data is approximated.
Source: Affirm Inc. company reports

Regarding forward flow, we note similar diversification and a strong track record. Affirm boasts 20 unique institutional loan buyers comprising insurers, pension funds, asset managers, and investment banks. The company faces limited redemption risk as forward flow partners' capital is locked up until the facility matures. In addition, we think Affirm has diligently managed interest rate risk through a mix of fixed and floating rate funding, and the facility's two-year weighted average maturity offers good visibility. Although we contend that moderating gain on sale as a percentage of revenue would probably be an incremental multiple positive, we contend that investor hand-wringing over potential capital markets disruption is overstating true risk.

Regulatory Risk Lingers

We would be remiss to discount the headline regulatory risk surrounding short-term liquidity providers. As with any financial services company—and even more so given the focus on subprime and lower-income consumers—regulators have historically been keenly focused on excessive fees, deceptive marketing practices, partner bank usage, and data security issues. We recognize that regulatory risk is hard to anticipate, but our view is that digital finance companies offer products that are superior to historical alternatives even as they tend to get lumped in with legacy providers. While a potential shift in political power following the midterm elections may renew regulatory scrutiny, we think well-disclosed fees, the structural nature of these products, and rising secular demand will keep this pressure at bay. ***We contend that contrary to many investors' belief, bank cards are more predatory than short-term consumer liquidity because they lock consumers in a cycle of debt, rather than offering financial freedom.***

One of the biggest bear talking points is whether certain short-term liquidity products should be offered in states with usury caps, given high imputed APRs. We simply do not think annualizing APRs on products with 14-day average durations is appropriate. While we expect many consumers to be repeat borrowers, APRs would assume borrowers roll over their advance for 26 consecutive pay cycles, greatly exaggerating the perceived cost of a single, small dollar transaction. Consumers in need of emergency funds are often forced to choose between addressing a pressing financial issue and maintaining their livelihood. We argue that simple fee structures, like Dave's $500 for a flat 5% fee due in 2 weeks, are far easier for a distressed consumer to understand and budget around. The management of these loans is enhanced by repayment timing that revolves around pay cycles.

Even more importantly, we argue that these products are structured such that consumers are not trapped in a cycle of debt. For example, 98% of Dave's originations are given to existing customers, but MTMs are typically unique month-over-month. We think this suggests episodic usage of short-term liquidity products, or true emergency liquidity bridges.

Despite our view that APRs greatly exaggerate perceived borrowing costs, there is concern that companies like Dave will be mandated to disclose APRs. We see a very low likelihood of this happening given ExtraCash is structured as a bank-originated overdraft product that charges service fees as opposed to interest income. We also note that several of the largest banks in the country still charge over $30 in overdraft fees per instance, which is multiples of Dave's fees (see exhibit 16). Separately, there has been discussion about potential credit card interest rate caps floated by President Trump earlier this year. Apart from significantly restricting consumer credit access as issuers look to protect margin, we think this type of legislation would drive excess demand for Dave's offerings given its structural advantage as an overdraft product.

Exhibit 16
Incumbents Charge Excess Fees as They Cannot Profitably Serve This Demographic

	CHASE	WELLS FARGO	usbank	PNC
Overdraft cost to access $100	$34	$35	$36	$36
Annual bank account maintenance fees	$180	$180	$144	$84
Minimum balance to avoid account maintenance fees	$1,500	$1,500	$1,500	$500

Source: Dave Inc. company reports

Over the last several years, we have also seen a rise in partner bank usage as fintechs leverage third-party charters to offer their digitally forward services. Given partner banks bear the regulatory burden, reliant fintechs are beholden to their partner bank platforms, including for KYC and AML and access to capital. This third-party reliance creates business disruption risk, in our opinion, especially in cases where mature, compliant fintechs share third-party bank relationships with less reliable competitors. Evolve Bank and Trust is a high-profile example of a partner bank that came under severe scrutiny following the failure of a major fintech customer and received enforcement actions from "material failures" around risk management, AML, and its consumer compliance programs. While Affirm and Dave both have had existing relationships with Evolve, they have taken a diversified partner strategy to mitigate sole vendor dependency. For example, Affirm partners with Celtic Bank and Lead Bank to originate loans, whereas Evolve acts as the card issuing bank for Affirm Card. Dave has also added Coastal Community Bank as a partner to originate advances. We note that Chime leverages both Stride and Bancorp Bank to offer its products. While the historical trend has leaned toward leveraging bank partners, we anticipate that as these companies mature, many will move toward owning a charter to have greater control over their own destiny and roadmap (see discussion on page 18). Block is a good example of a vertically integrated bank lender, and Affirm has recently applied for a bank charter.

Digital Finance Structural Winners and Losers

As in any market disruption cycle, first-movers with tech stack advantages and superior value propositions at scale tend to take material share. Unlike recent fintech bull markets, such as the high-profile 2021 cycle, which was marked by pre-profit companies with poorly differentiated point solutions, we contend that our favorite digital finance companies are structurally transformative, offer meaningfully superior products and customer experiences compared with traditional banks, and have proven operating leverage, credit performance, and funding capacity through a variety of macro environments. In many ways we see fintech continuing to absorb many 2021 IPO companies that probably should never have been public in the first place. While industry consolidation is slow, it is ongoing and inevitable, in our opinion, as many of these poorly differentiated fintechs have gained profitability, are generating FCF, have cash-rich balance sheets, and have seen valuations compress to a point where they are clearly worth more as private investments than they are to public equity buyers.

In this context, we contend that leading digital finance companies in our coverage, including Affirm, Block, Chime, Dave, and SoFi (in alphabetical order), are durable structural economic share gainers. ***This is the single most important public company valuation, in our opinion, and these leaders materially distinguish themselves from legacy fintechs of all sizes, in our view.***

In addition to a huge TAM, we have discussed the ways in which digital finance leaders have evolved along different paths and have developed differentiated models that will allow them to take economic share in adjacent and sometimes-overlapping markets. This is another key difference between today's best-in-breed fintechs and 2021-cycle IPOs.

Winners

Digital Finance Leaders

We have enumerated the reasons we are bullish on leading digital finance companies: 1) superior UX and consumer experiences; 2) a "fair shake" for consumers—e.g., high-APY savings accounts, low or no fee products, fast and affordable access to short-term liquidity products, budgeting tools, financial and investing advice, and credit building solutions; 3) next-gen tech stacks supporting radical cost-to-serve advantages; and 4) perhaps most importantly, a means of avoiding or eliminating the scourge of revolving credit, the result of which is often high fees and a cycle of adverse financial outcomes.

Importantly, our favorite names deliver these consumer advantages in different ways along varying vectors. This means there is no one-size-fits-all solution. ***Given this consideration, and the huge addressable TAM, we see room for multiple winners and think the market's early stage lessens the risk of real or perceived adverse zero-sum game dynamics, which we think have pressured traditional fintech valuations.***

We believe **Affirm** is the easiest stock for fintech investors to own today. While we are hard pressed to rank our favorite names given their distinct solutions and opportunities, we think Affirm comes out ahead owing to its established track record and BNPL leadership. We think Affirm has years of above-average GMV, revenue, RLTC, and FCF ROIC growth to come as BNPL takes share in the $9 trillion domestic carded payments TAM. Our view is that Affirm's proven growth algorithm, which has powered 35%-plus GMV growth and consistent operating leverage, is underpinned by superior technology, product roadmap, leading merchant partners and distribution, data-driven underwriting, and durable funding.

We contend that ***Chime*** is the most misunderstood digital fintech we follow. Whereas the complexity of SoFi's business model has likely pressured valuation, Chime's underperformance seems to belie its relatively simply business model and exemplary post-IPO financial performance. Our view is that the stock will enjoy long-term multiple expansion accompanying consistent execution, including our expectations for at least 20% transaction profit growth and much faster EBITDA expansion as the company scales. Our view is that investor education—*which is the purpose of this report!*—regarding the attractiveness of the company's lending products and the durability of its accounting will combine with best-in-class EBITDA and FCF compounding to drive a much higher valuation.

Dave is perhaps the most distinctive name in our coverage given the company's commitment to short-term consumer liquidity solutions with less regard for the need to build primary banking relationships. The company's leading machine learning underwriting algorithm, CashAI, is purpose-built for short-term, high velocity, low balance consumer liquidity solutions and we see the company driving higher engagement and monetization via Dave Card and its new Flex BNPL product. Although we think the stock will carry a moderate discount to Affirm (despite recent valuation convergence), owing to less recurring debit spend, we think Dave has greater long-term monetization potential and perhaps more optionality as it introduces new CashAI generations.

Block is the most diversified digital finance company we follow, and the most traditional. The company has been around for almost 20 years, although the model has transitioned to digitally underwritten lending solutions, which account for about 60% of gross profit, versus its founding mission of transforming the POS. Importantly, we expect accelerating Square GPV and gross profit growth to coincide with impressive Cash App Borrow, BNPL, and Square lending expansion to drive above-average consolidated gross profit, EBIT, and FCF ROIC compounding. Whereas Cash App has four to six times more MAU than peers, its relatively low monetization speaks to its different evolution. We also note that Cash App's P2P origins suggest monetization will remain below next-gen digital finance companies, even as superior financial performance should drive appreciable multiple expansion.

SoFi is not a true short-term consumer liquidity provider, but it is a key beneficiary of the structural trends favoring digital finance providers versus traditional banks. We accordingly include it in this write-up of our best ideas and clear structural winners. SoFi is more focused on longer-duration personal loans and other types of traditional credit. It is also oriented toward prime borrowers, which is different from other companies we cover. That said, SoFi is completely committed to a similar goal: getting consumers out of predatory revolving credit card debt and advancing their financial well-being. So, while the company will monetize differently, and likely has a smaller comparative TAM (roughly 50 million versus 185 million for credit quality consumers), we think its holistic financial offerings, encompassing spending, savings, borrowing, financial planning, investment, and money movement, should have a larger long-term revenue opportunity. SoFi should also be able to generate above-industry EBITDA margin and FCF conversion, factors supporting our view toward multiple expansion.

Losers

Traditional Banks

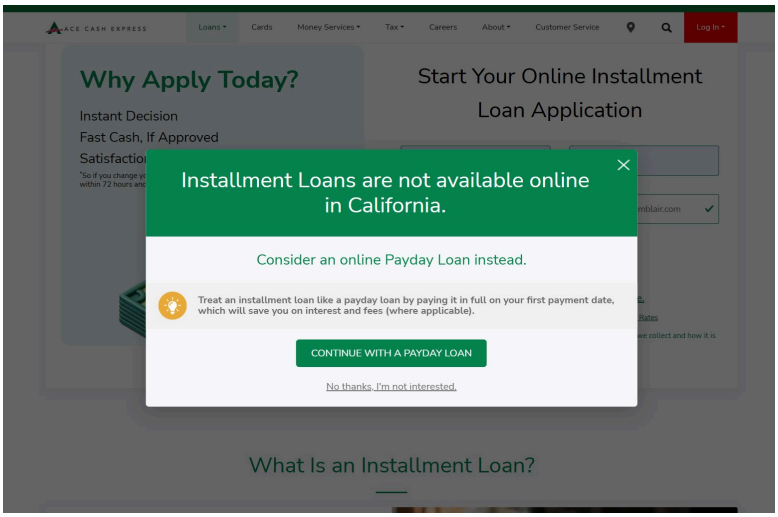
The discussion of losers is fairly straightforward; traditional banks will suffer market share and economic share losses, in our opinion, and we see few paths for redemption. We assert that traditional banks have simply lost the consumer value thread, and they have little incentive, desire,

or ability to change their models. Their businesses are increasingly designed to serve prime borrowers with higher incomes from which they can generate annual card fees and cross-sell other financial products, including mortgage, investing, etc. These offerings can only be profitable for high-spending customers who carry relatively large balances, in our opinion, even as traditional banks do not pay interest and offer inexcusably bad customer service and experiences. In addition to the intractability of these legacy models, our view is that antiquated tech stacks and inferior, unimaginative management prevent banks from in many cases understanding how dire their competitive position has become.

Payday Lenders

Although many investors want to lump short-term consumer liquidity providers in with more predatory payday lending companies, we think the comparison misses the point. Although both companies notionally serve the same demographic with a comparable value proposition, digital finance leaders generally eschew garbage fees, offer near-instant liquidity access, have leading UX and tech stacks, offer easy bank account repayment integration, and support mobile experiences. Even as payday lenders increasingly offer digital spend solutions, they are not addressing more important consumer financial needs, such as credit building, budgeting, education, BNPL, or investing. Payday lenders still mostly operate out of storefronts, and we note that one of the market leaders, Ace Cash Express, is only licensed in 22 states. When we applied for an Ace Cash installment loan in California, we were met with the dialog box shown in exhibit 17:

Exhibit 17
State-Level Licensing Requirements Hinder Payday Loan Competitiveness



Source: ACE Cash Express company website

This says it all, in our opinion. We recognize that some will argue that short-term consumer liquidity providers will face rising regulatory scrutiny. However, we note that clear disclosure, superior consumer experiences, asset-light models, and structural consumer demand suggest a compelling long-term risk/reward versus traditional payday lenders.

The prices (as of 6/26) of the common stock of other public companies mentioned in this report follow:

Affirm (Outperform)	$81.79
Amazon (Outperform)	$240.14
Apple	$281.74
Block (Outperform)	$78.02
Chime (Outperform)	$21.00
Dave (Outperform)	$371.62
Klarna	$20.24
PayPal (Market Perform)	$44.38
Shopify (Outperform)	$114.21
SoFi (Outperform)	$18.19
Synchrony Financial	$78.37
Uber (Outperform)	$75.50
Visa (Outperform)	$341.65
Walmart	$114.60

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