

EXFY Q3 2024 Earnings Call Transcript

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[music].

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00:00:13.940 --> 00:00:19.870

Niki: Good afternoon, and welcome to expensify's Q. 3, 2024 earnings call

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00:00:21.300 --> 00:00:33.149

Niki: before we begin. Please note that all the information presented on today's call is unaudited, and during the course of this call management may make forward-looking statements within the meaning of the Federal securities laws.

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00:00:33.220 --> 00:00:44.440

Niki: These statements are based on management's current expectations and beliefs, and involve risks and uncertainties that could cause actual results to differ materially from those described in these forward-looking statements.

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00:00:44.610 --> 00:00:54.119

Niki: Forward-looking statements in the earnings release that we issued today, along with the comments on this call are made only as of today, and will not be updated as actual events unfold.

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00:00:54.410 --> 00:01:07.780

Niki: Please refer to today's press release and our filings with the sec. For a detailed discussion of the risks that could cause actual results to differ materially from those expressed or implied in any forward-looking statements made today.

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00:01:08.040 --> 00:01:14.110

Niki: Please also note that on today's call management will refer to certain non-gaap financial measures.

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Niki: 00:01:14.290 --> 00:01:28.060

while we believe these non-gaap financial measures provide useful information for investors, the presentation of this information is not intended to be considered in isolation, or as a substitute for the financial information presented in accordance with Gaap.

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00:01:28.400 --> 00:01:38.520

Niki: Please refer to today's press release or the investor presentation for a reconciliation of these non-gaap financial measures to their most comparable Gaap measures.

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00:01:39.050 --> 00:01:42.060

Niki: and with that I'll hand it over to Anu to get us started.

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00:01:42.550 --> 00:01:54.560

Anu: Thank you for that intro Niki. I am pretty excited to walk all of you through our 3rd quarter's financial performance and highlights. Notably we've made some pretty key strides towards

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00:01:54.760 --> 00:02:01.720

Anu: stabilizing the business, improving the core fundamentals, and also laying down a stronger foundation for a future growth.

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00:02:01.860 --> 00:02:04.129

Anu: So let's dive into the details.

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00:02:04.840 --> 00:02:10.430

Anu: First, st off revenue in Q. 3. Total revenue came in at 35.4 million.

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00:02:10.440 --> 00:02:20.250

Anu: This is a 6.3% increase quarter over quarter. And we also beat the streets consensus forecast. So we're pretty excited about that. Pretty proud of that.

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00:02:20.380 --> 00:02:28.360

Anu: Now, admittedly, this was a 3% decrease year over year, and that reflects some lingering challenges in the business.

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00:02:28.420 --> 00:02:31.319

Anu: But on near-term momentum

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00:02:31.440 --> 00:02:41.090

Anu: makes us more optimistic about the upcoming quarters, and the new expensify platform is also expected to continue to pick up and contribute towards that revenue growth

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00:02:41.600 --> 00:02:43.170

Anu: in Q, 3

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00:02:43.200 --> 00:02:49.489

Anu: average paid members came in flat quarter over quarter at 684,000,

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00:02:49.530 --> 00:03:13.699

Anu: and that represents a 5% decrease compared to the same period last year. Interchange from the expensify card was 4.6 million, and that was a whopping 48% increase compared to the same period last year, and that is a pretty key highlight this quarter, and I will get into some more details on that in a few slides.

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00:03:13.840 --> 00:03:24.230

Anu: Let's talk a little bit about cash performance. A standout highlight for Q. 3 was our free cash flow performance, which came in at 6.7 million.

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00:03:24.330 --> 00:03:32.339

Anu: Now operating cash flow, which includes the timing of customer funds, came in at 3.7 million.

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00:03:32.500 --> 00:03:38.839

Anu: Net loss was 2.2 million in Q. 3, with non-gaap net income of 5.4 million

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00:03:38.940 --> 00:03:45.850

Anu: last. But perhaps the most exciting is our adjusted Ebitda, which came in at 9.7 million.

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00:03:46.030 --> 00:03:58.099

Anu: Now, the continued improvement in profitability and free cash flow is driven by 2 things, a higher interchange take rate as we start moving more and more of our spend towards our

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00:03:58.110 --> 00:03:59.980

Anu: new core program.

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00:04:00.020 --> 00:04:10.220

Anu: and also our continued focus on our core cost efficiency which continues to show effects in terms of profitability.

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00:04:10.790 --> 00:04:31.909

Anu: Let's talk a little bit more about free cash, flow and get into our free cash, flow. Guidance a little bit. Now given our very strong performance in terms of our adjusted Ebitda and free cash flow last quarter we increased our free cash flow guidance for the year from 11 to 13 million to 15 to 16 million.

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Anu: This quarter. We are going to do that again. We're going to increase it again, and we are giving you a free cash flow guidance for the year of 19 to 20 million. So again, free cash flow performance, profitability, improvements have been a key highlight this quarter, and we're very proud of the fact that our continued efforts to stabilize the business is showing results

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00:04:54.310 --> 00:04:59.979

Anu: now, as promised. Let's talk a little bit more about those expensify card updates.

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00:05:00.430 --> 00:05:03.410

Anu: This is one of our very exciting growth drivers

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00:05:03.600 --> 00:05:09.750

Anu: expensify card at interchange revenue from expensify card increased 48% year over year.

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00:05:10.090 --> 00:05:26.020

Anu: The launch of the new expensify card program has been very well received, and the migration efforts, if I may say so, has exceeded even our expectations. 94% of our existing card spent has already been migrated to the new program.

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00:05:26.120 --> 00:05:49.670

Anu: which is pretty incredible. Given. It's been less than a year since its launch, and the new program is all new customers on the card are being directly on boarded to the new program. Now, the new program allows us to earn 20% more interchange. So it has a higher take rate, and this is expected to further bolster our revenue growth in the coming quarters.

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00:05:49.790 --> 00:05:55.399

Anu: So let's break down the details of the interchange. This quarter in a little bit more detail.

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00:05:55.810 --> 00:06:01.980

Anu: The existing old program generated a net interchange of 0 point 9 million.

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00:06:02.330 --> 00:06:12.459

Anu: Our new program generated interchange of 3.7 million, and so taken together, total interchange came in at 4.6 million.

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00:06:13.470 --> 00:06:29.709

Anu: We are pretty committed to getting that 94% spend number that's been migrated to the new program up to a hundred percent before the end of year. We have a lot of, you know, irons in the fire, and they're all going pretty well. So we feel

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00:06:30.180 --> 00:06:33.250

Anu: pretty confident that we can hit that 100% number.

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00:06:33.490 --> 00:06:39.870

Anu: Now, last, but not the least, as we do every quarter, we give you a look ahead on paid active uses.

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00:06:40.020 --> 00:06:44.539

Anu: October's paid active users came in at 693,000,

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00:06:44.560 --> 00:06:58.209

Anu: which is a 1% improvement versus the Q. 3 number. And we're pretty excited about that. We are hopeful that the trend continues, and we see a. Much better. Q. 4. In terms of paid members

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00:06:59.940 --> 00:07:01.859

Anu: and subscription revenue.

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00:07:02.660 --> 00:07:08.559

Anu: With that I hand things over to David to talk a little bit about business highlights.

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00:07:08.860 --> 00:07:33.729

David Barrett: Thanks for that, Anu. So at this point is where I typically go through the roadmap and talk about basically the new developments we've had since. But I would say for the Q. 3 quarterly highlights. Right now, I'd like to talk about what we've learned on the road. So, as mentioned last quarter, we put a lot of work into taking the product out to market. And we've been at a couple conferences and got a lot of real world feedback from customers, and the feedback's been great, I think, in the process. We sort of learned some really key things with the value of new expensify.

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00:07:33.730 --> 00:07:39.650

David Barrett: and why it's going to create so much value in this market. We call it kind of the 80 20 advantage. And so, if you really think about it.

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00:07:39.650 --> 00:07:49.059

David Barrett: what we found is that expense management historically, has only ever been able to automate about 80% of the workflow. And that's basically as much of the workflow. You can automate

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00:07:49.060 --> 00:08:15.159

David Barrett: from the information that's on the transaction itself, either off the credit card transaction or off the receipt. But at some point there's a remaining 20%, and the 20% is where all the actual pain of expense management is. And that's the information that isn't on the transaction itself. It's information they have to go and actually ask a human about, and that asking a human is the part that everyone despises, because that's where you actually have to go nag your employees, or if your employees usually get nagged by your accounting team, and no one likes that part.

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00:08:15.190 --> 00:08:31.839

David Barrett: and that part is because there's information required to code the expense that only a human knows. And so the 1st part of new expensify is trying to automate the process of gathering that 20% by streamlining the conversation around it. And that's why we have this what we call a chat centric design for new expensify.

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00:08:31.840 --> 00:08:49.529

David Barrett: Because historically, you'd think about. If you need to get this information. You do it by emailing someone. And then you're operating at email speed and email, speed is super slow, like, I don't know about your inbox. But if you email me, I'm not even going to see it for days, or maybe weeks. And so anything that you're asking me via email is going to be days or weeks behind.

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00:08:49.530 --> 00:09:14.049

David Barrett: but if you text me or chat me, I'll see it respond instantly. So new expensify's design is about trying to get expense management happen at chat speed. And that's by basically bringing the chat process into the product so that people engage with the product quicker and give faster answers to the humans. So step one of new expensify is just about making that last 20%. The most painful 20% of expense management happen at chat speed, so you can actually close the books faster.

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00:09:14.050 --> 00:09:29.779

David Barrett: But the second part of that is enabling us for the next generation of AI. Now I know that AI is talked about everywhere, and a lot of it's all made up. But this is a really key example of where AI works incredibly well, because most of that, 20% of the discussion is about

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00:09:29.780 --> 00:09:59.080

David Barrett: information which already exists in chat somewhere. And so, for example, imagine, like, you're an accountant, and you see a purchase that's at some club in Vegas, for example, you could look at this and be like, is this obvious fraud, and you have to go track that employee and ask them and say, Well, actually, no, it's for I was at a conference in Vegas, and I took a client out to dinner. So it's actually a very clear expense. Now, normally, you'd have to wait around by emailing them, wondering if there's fraud for days or weeks until that person responds, and the response itself.

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00:09:59.150 --> 00:10:05.530

David Barrett: It might only take a couple of seconds for the person to do. But you have to wait days or weeks for that couple of seconds to be spent

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00:10:05.650 --> 00:10:29.810

David Barrett: with expensify's new design and the chat centric design trying to bring the organizational chat onto the expensify platform that puts us into a position for our AI to see the conversation that happens both before and after the expense and odds are at some place in

that chat conversation they mentioned that they were going to a conference in Vegas, taking a particular client to a particular club. They either said it before, or they probably said it after.

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00:10:29.810 --> 00:10:54.720

David Barrett: And so in the future expensify's AI design is going to be searching, not just the conversations it sends to you, but searching all the conversations that you had leading up to, and after the expense itself, to see if we can answer the question automatically and do the coding automatically. So expensify's goal is not merely to streamline that last 20%, but truly to automate that last 20%. And we're aiming for the world's first, st you know, or industry's 1st 100% automation expense management.

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00:10:54.720 --> 00:10:55.999

David Barrett: We're not there yet.

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00:10:56.000 --> 00:11:19.650

David Barrett: You can start to see how our chat centric design starts to get us there. So maybe to summarize, let's say Q. 3 was a fantastic quarter. It's really showed that the business has remained stable, and that in particular, we'd say new expensify is being powered on the foundation of expensify classic, and the classic foundation is strong. It's profitable, and has provided an incredible resource for building new expensify on top of it.

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00:11:19.650 --> 00:11:39.020

David Barrett: As you can see, we've increased our free cash flow guidance once again and again we just keep finding more and more efficiencies in the organization. And that's been really really powerful for us. The expensify card itself almost fully deployed, I think, as you mentioned, much faster than we really expected, and we still feel very confident that we're on track for full deployment by the end of year, in 2024

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David Barrett: new extensify is in market. It's a real product. It is generating revenue, and we're going to be the 1st in the market. We think, to get to that. What we think is going to be the new bar, 100% automation and expense management by bringing the chat centric flow into the product itself and then finally expensify travel is actually, it's in market as well. It's making revenue, and we're getting great reception.

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00:12:01.440 --> 00:12:13.150

David Barrett: So again, it's been a fantastic quarter, built on a few different fantastic quarters coming up to this. And so we have a strong foundation. Things are really good, and we're very, very proud of this quarter. So with that, I think we'll turn it over to questions.

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00:12:16.260 --> 00:12:21.720

Niki: Fantastic. I believe, Eric, you're here from Jmp. We'll get started with your question.

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00:12:24.750 --> 00:12:30.450

Aaron Kimson: Yeah, that's great. Thank you. Guys so much. I guess the 1st question just off your last comment. There, Dave.

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00:12:30.530 --> 00:12:41.880

Aaron Kimson: for expensive by travel. You know any idea on what the revenue contribution is today? And how do you? How big a piece of the business do you think that can become over time.

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00:12:42.070 --> 00:13:05.010

David Barrett: Well, I think it can become quite big, because I mean travel and expense. Teeny is the entire category. And so I think that we're seeing that it's just becoming sort of table stakes for expense management in general. And so every one of our customers, I think, has basically travel requirements. And so I think it has the potential for actually offering quite a lot of lift. Now we're still getting started with it. We're rolling it out. We've got great early traction, but I don't think we have anything we're sort of ready to share at this point.

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00:13:05.960 --> 00:13:29.779

Aaron Kimson: Okay, that's helpful. And then switching to capital allocation. So the company bought back 646,000 shares from from Dave at 2, 34 share on August 28, th and that was the only stock the company bought back in 3. Q. Can you help us think about how you plan to manage the buyback, going forward between repurchasing shares and private transactions like that one versus buying shares in the public market, where your stock is super liquid.

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00:13:30.720 --> 00:13:48.319

David Barrett: I'd be curious for a new thoughts on this, but my quick thoughts are. I think, that we're very opportunistic. I mean, we've built up quite a cash reserve that we can use and deploy very quickly, and so I don't think we know exactly the best way to deploy it in the future. But, as we've shown, we're pretty flexible, and I think we're investigating all opportunities. But I knew I'd be curious what you think of that.

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00:13:48.490 --> 00:14:17.650

Anu: Yeah, I agree, we're pretty bullish on the company. We, you know, a lot of what my business or like financial highlights focused on was really just getting the core fundamentals to a really strong place. And and now that we are in that place where we feel like the business is kicking off cash and doing it reliably. And we're optimistic in terms of growth. I think in the future quarters we should be a little more Bullish in terms of doing buybacks, but we don't have anything concrete to share just yet.

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00:14:18.700 --> 00:14:20.200

Aaron Kimson: Okay. Thank you guys.

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Niki: Perfect Steven, I believe you're here with city.

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00:14:26.420 --> 00:14:54.049

Steven Enders: Hey? Great thanks for taking the taking the questions here. I guess I wanna ask on on the sub user side and and good to see that, you know. See that ticking up and and stabilize. And I guess I'm curious if you have an idea of maybe what's helping support that that tick up like? Is is there something that you feel like you've done that's helping drive that number in the right direction? Or does it feel like the the macro is getting better. Just kind of how would you

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00:14:54.080 --> 00:14:56.910

Steven Enders: kind of articulate? Maybe. What's going on there.

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00:14:58.470 --> 00:15:08.378

Anu: Yeah, I can take this. So you know, we are like, I was saying, we're pretty optimistic going into the future quarters as new expensify.

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00:15:09.190 --> 00:15:10.320

Anu: sort of

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00:15:10.330 --> 00:15:19.989

Anu: ramps up more and more, and we start to send more and more of our traffic there. That, you know, conversion is gonna perform much better, and new customer growth is gonna do better. But

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00:15:20.300 --> 00:15:23.469

Anu: and I think we've talked about this in the past quarters.

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00:15:23.570 --> 00:15:34.599

Anu: The really big driver for paid member growth in general over the years has always been existing customers increasing their usage on expensify.

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00:15:34.730 --> 00:15:50.410

Anu: and they were only really they were really only 2 years that that particular metric was stressed. That was in 2020 peak covid, and then 2023, and largely when customers are still using the product. But they're not expanding.

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00:15:50.410 --> 00:16:09.849

Anu: It's and we've looked at the correlation between that and churn. Try to try to see if it's maybe an early indicator, but it isn't largely, it seems, driven by Macro. So we all know that last year, and even, you know, some parts of this year have been. There's been a lot of news about layoffs. Companies aren't

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00:16:10.000 --> 00:16:16.089

Anu: expanding overall. So that kind of makes sense that that metric is stressed.

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00:16:16.440 --> 00:16:22.569

Anu: And we'll talk about this more next quarter, so that we have a full year's worth of data. But we're seeing some

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00:16:23.146 --> 00:16:31.540

Anu: of that existing customer usage expansion sort of rebounding. So I think that's definitely, giving us some tailwinds.

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00:16:32.590 --> 00:16:35.586

Steven Enders: Okay. Alright, that makes that that makes sense

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00:16:36.040 --> 00:16:55.190

Steven Enders: And then maybe on on the go to market side. And I know there's been some, I guess, evolution of of what that looks like through through this year. So you know, how are you kind of seeing the the most recent kind of changes resonating. And how are you kind of viewing the efficacy of some of those? Some of those investments.

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00:16:56.660 --> 00:16:58.990

Anu: You mean on the new platform, specifically.

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00:16:58.990 --> 00:17:05.720

Steven Enders: Yeah, just just in terms of the the go to market in, in the, in the trying to capture new users and and customers and all that.

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00:17:06.390 --> 00:17:34.229

Anu: Yeah. So we've always had the most amount of success with organic channels. So like SEO word of mouth just the strength of our brand. So we see a vast majority of our new signups, and even just visitors coming directly to us. And that kind of continues. And you know, it's a really good leading indicator always that we are never starved for leads. So we continue to keep on

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00:17:34.250 --> 00:18:01.090

Anu: doubling down on improving conversion, like improving sales efficiency, but also the products ability to convert better and better with our new platform, we still we still in early days what we're doing is sending all of the smaller leads to our new platform in order to really dial in conversion, so that we can keep what's working, improve what's new, and then start to redirect all of our new leads to the new platform.

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00:18:01.090 --> 00:18:13.480

Anu: and that effort is probably gonna take us the next few quarters, and we'll have, you know, more substantial numbers or specific numbers for you down the line. But overall, I think our go to market, and that's

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00:18:13.500 --> 00:18:21.060

Anu: part of why we're able businesses able to kick off cash so effectively is because we

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00:18:21.200 --> 00:18:28.030

Anu: are doing really well in organic channels and in word of mouth and continuing to focus on conversion. So

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00:18:28.460 --> 00:18:33.359

Anu: that's sort of still the focus of our go to market efforts. Did that answer your question?

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00:18:33.610 --> 00:18:40.409

David Barrett: And maybe I could add to that a little bit, I would say, I think that I agree with everything, and you just said, and I would say, a big part of the go to market.

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00:18:40.687 --> 00:18:59.229

David Barrett: Strategy is building a product that just inspires leads and customers more. And just to give kind of like one anecdotal example. So we go to a sweet world every year. And we go with basically the same pitch, same product and things like this, and it's always been a very, very good conference for us, because Netsuite is a major partner of ours. We do very well on that channel.

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00:18:59.240 --> 00:19:28.299

David Barrett: And so we went to the same conference with the same size Booth. But this year we were pitching new expensify rather than expensify classic, and that produced about 61% more leads out of that conference. Again, everything was the same except for the platform. And so I think we see that the major strategy for long term growth is really just to launch a platform that inspires and captures the imagination of customers better, which translates into more viral lead generation through word of mouth and higher conversion.

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00:19:28.340 --> 00:19:36.210

David Barrett: And so I think these are very cost, effective ways to increase the conversion of our existing organic lead structure, and then double down on those organic leads.

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00:19:37.730 --> 00:19:46.589

Steven Enders: Okay, that's that's great. That's that's helpful context. And a a great example there. So appreciate that and appreciate you. Taking my questions here.

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00:19:49.000 --> 00:19:53.279

Niki: Fabulous. Eric, from Lake Street. Capital! I believe you're able to join us.

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Eric Martinuzzi: Yeah. Had a question regarding the interchange from travel traction. You know, he had obviously a nice shift here. Q. 2 to q, 3 are we seeing any green shoots in interchange from the travel offering that you guys have? And if not, when should we see that.

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00:20:12.760 --> 00:20:19.270

Anu: I don't think we're breaking it out in that degree of detail. And you know, if I'm being honest, do you mean like

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00:20:19.920 --> 00:20:22.220

Anu: travel as a product

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00:20:22.700 --> 00:20:30.220

Anu: doesn't always like a customer that is using travel as a product isn't always using our card. So there's

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00:20:30.520 --> 00:20:34.999

Anu: I'm not sure what the connection is between those 2 from an interchange perspective.

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00:20:35.430 --> 00:20:38.639

Eric Martinuzzi: Yeah, it was just, you know, to the extent they're using the card to book.

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00:20:38.640 --> 00:20:39.540

Anu: Oh, man.

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00:20:39.800 --> 00:20:45.590

Anu: yeah, I think that is probably not meaningful, because that's a pretty

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00:20:46.557 --> 00:20:53.709

Anu: subset of what we would look at, both in terms of card spend travel and travels, total spend on card.

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00:20:54.060 --> 00:21:17.420

David Barrett: Yeah, maybe I would say, one of the I think advantages that we have in the marketplace is our card agnosticism, that we support all 3rd party cord feed card feeds. And so I think it's great, and I think things do work best when you use the expensify card in conjunction

with Corp expensify travel. But there's no requirement to. And so certainly, I think a lot of our expense travel customers just continue using their existing corporate card program. And that's fine. We make money other way.

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00:21:17.940 --> 00:21:27.348

Eric Martinuzzi: Okay? And then second question is regarding the increase in the free cash flow. I I joined the call late, but were there other? Were there

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00:21:28.580 --> 00:21:41.439

Eric Martinuzzi: cost efforts taken to the point where you had maybe a reduction in force? Or are these more on the the cost of good side where you're continuing to squeeze cost out of the the business.

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00:21:41.800 --> 00:21:52.239

Anu: Ye? Yeah, it's the latter. We didn't have any workforce decrease, or anything like that. We are continuing to operationally get more efficient.

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00:21:52.310 --> 00:21:58.640

Anu: and that is the second driver. So there was the higher interchange take rate, but also operational efficiencies

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00:21:58.910 --> 00:22:00.660

Anu: taken together

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00:22:00.990 --> 00:22:03.789

Anu: gave us a higher free cash flow, margin.

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00:22:04.140 --> 00:22:04.780

Eric Martinuzzi: Got it.

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00:22:04.890 --> 00:22:06.520

Eric Martinuzzi: Thanks for taking my questions.

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00:22:08.120 --> 00:22:10.710

Niki: Fantastic. That was everyone we have on the call. Live.

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00:22:12.810 --> 00:22:20.030

David Barrett: Great, hey? Well, it's been a real pleasure. Thank you so much for joining us for this call. We're very excited about this quarter's results, and we can't wait to talk to you next quarter.

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00:22:21.060 --> 00:22:22.210

Anu: Thanks. Everyone.