Q3 2023 Earnings Conference Call

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Ryan Schaffer

Hello. Welcome to the Expensify Q3 2023 earnings. I'm Expensify's CFO, Ryan Schaffer; and with me, I have Expensify's COO, Anu Muralidharan.

Operator

Over to the disclaimers. 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. 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 those forward-looking statements.

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. 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.

Please also note that on today's call, management will refer to certain non-GAAP financial measures. 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.

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

Back to you.

Anu Muralidharan

Thank you. All right. So I want to kick this off with a reminder on how our business model works and what our growth strategies are. So first of all, of course, the very simple, acquisition of new customers, new companies that adopt Expensify in order to manage expenses and reimburse employees on our platform.

Then, and kind of our biggest growth generator, is expansion of users, expansion of company size, maybe deploying to other subsidiaries, maybe of existing customers on the platform. And throughout the history of Expensify, this usage expansion among existing customers has been one of our primary growth generators.

Then there's increasing Expensify card adoption, but more generally cross-selling of our various back-office features to the companies that increases both their usage but also generates all manner of other revenue streams for us, of which interchange is on.

Fourth is adding new viral loops and this is really about engaging all of those free users, all the freemium customers on the platform that may not yet have the need for a business expense management software or may not have reached that activation point where they've decided to adopt business expansion -- business expense software, but are using the product for whatever viral use case there might be, such as, maybe paying their friends or family or sending invoices to their few customers or whatnot.

Like the point of this growth generator is really that it engages them way before they become ready to purchase a business expense product. And so when we get ready to make a decision, we are top of mind.

And last but not the least, of course, tapping into international markets. Most of the English-speaking world is fair game for the platform, so long as we have tax capabilities sort of baked in. And of all of our international markets, U.K., Europe, Canada and Australia are pretty big for us. And so leaning into those markets more is also a pretty solid growth generator.

Now, I wanted to remind you what our -- why should you believe in Expensify. What are the 3 key strategies that contribute to our long-term success? One is the market is enormous. Most of it is very untapped. So, it's greenfield, and it's there for the taking.

Two is not any business model can succeed in this sort of market where most of the volume is at the bottom of the market. And what I mean by that is, most of the volume in terms of employees work at very small companies between one employee to maybe 50 or even 100.

And a top-down sales-driven strategy doesn't really work in that segment of the market, because you just don't have that return on investment on each deal. And so -- and also a card-oriented strategy doesn't work quite as well at the very bottom of the market, because there's underwriting challenges.

So you need a subscription-based model, which is able to engage users, end users even before they are ready to make a decision and then you need to enable them to sell Expensify into their companies. That bottom-up subscription-based acquisition model is the one that is primed for success.

And those are really our 3 key strategies, and we talk about that all the time. But this time around, I want to show you some real data because I want to show and not tell.

So this is the latest available census data on just small business as a market. And I, for the sake of this visual, use small business is any company with between one to 250 employees or zero, one being the business owner, to 250 employees.

And you can see here the companies with 2 to 10 employees and then the companies with 11 to 50 employees employ the largest chunk of the market. So most of the end users actually worked at really small companies. And if you even take up to 100, like that's basically almost 70% of the pie.

Why is this important? Because when you have a very small employee base. And that generally seems to be correlated with the annual revenue that these firms make because, of course, when you're smaller, you're making less revenue and as you grow, you scale up and you increase headcount. So here, I want to show you single employee firms, what do they make on average a year per firm, $200,000; firms with 2 to 10, $450,000 so on and so forth.

And I'm then extrapolating to, if that's the revenue this firm made, then can we reliably underwrite them for the card. And part of the challenge isn't that they are making less money and so they are default less, that's just one part of it. The bigger part of the problem is there's not reliable data sources out there that can help you even identify whether this specific company, at this size, is it making positive revenue, are they paying their bills?

It's really challenging to do that. You can use their bank data, but that's, of course, limited in terms of just having the last 90 days of volume. You just can't reliably underwrite them and keep your default risk low.

So a card-driven model kind of has to start at the 50-plus employee base segment of the market, but you have an insane amount of employees and employing volume at the lower levels. So you need something different in order to tap into that segment of the market. And that's really a subscription-driven, bottom-up acquisition model.

Now, this is sort of a peek into what sign-up volume looks like on Expensify in a way that we've never presented to you before. To the very left, you have the total sign ups. And this is -- I used weekly sign up data to get this chart, but it's a very consistent trend. Any week you look, month, year, this has been a very consistent trend on Expensify for a really long time.

So the chart to -- the bar to the very left is totally sign ups. And then I've broke those sign ups down by public e-mails, because generally when someone signs up with a public e-mail, they're looking to use Expensify for themselves. They're not looking for a business use case. That is the vast majority of sign ups.

Then I took private e-mails that couldn't be enriched on Clearbit. And that's, again, as I was talking about in the previous slide, with smaller companies and their underwriting potential it's difficult to enrich VSBs because it's just not so much reliable public data out there about them.

So, if you bucket the sign ups into public e-mails and private emails that couldn't be enriched, you could make the assumption -- educated guess, that all the public e-mails are likely individuals and all the unenrichable private e-mails are likely very small business. That then leaves 15% of sign ups that are actually private e-mails that could be enriched, that are decision makers that are looking to adopt Expensify for business.

What's insane about this is, this has always been the trend. All of the growth that we've ever seen has come from that 15% of sign ups, creating a free trial and converting to a paid product. This is actually exciting news, because that 76% and 9%, we do try to engage them on the existing products with individual use cases. But the existing product isn't perfectly optimized for individual use cases, although they do have them. It's much more optimized as a business expense product for a decision-maker to adopt, onboard and deploy the product to their company.

So, we have a large majority of inbound interest that we are very ineffectively engaging today on the existing product. Now what do we need to do to capitalize on this momentum? And I want to talk about this in this format of how does the user go through this journey as a free customer -- as a freemium customer, if you will.

So first, they discover the product, then they sign up. These 2 things, we are doing really well. Like we have a lot of brand cache. We have done a very good job of telling end-users you can adopt the product. Your company does not need to approve it. You can use it to scan receipts and organize yourself. And so that's working. And we've done it for 10-plus years now and it continues to pay off. That's a huge investment that's already returning dividends.

But we need to activate them. And what does activate mean? Activation is that moment where a free user has an aha moment, where they use the product to do something, it works, it makes their life easier and now they're on the hook. That needs to improve.

While we do, do that, which is why we still see such enormous inbound interest on the existing product. Like I said, it's not optimized for it. So discovering the features that create that aha moment is just not as intuitive, not has smooth as it could be.

And then once they have the aha moment and they create a free trial, we need to convert. And once we convert, we need to actually scale their usage. Both of those also we've traditionally done really well, we continue to do really well. Our free trial to paid adoption conversion metrics are kind of best-in-class for SaaS free trial products, free trial based adoption products. And so we continue to improve that.

And we've talked a lot with you about our onboarding specialists and how we are increasing visibility to onboarding specialists when you create a free trial. So we want to keep improving that number, the percentage of free trial to paid adoption, and we already have the infrastructure to do that. That's a project that's well underway.

And then scaling is a matter of retaining your customers. Because ultimately, you don't decide when they add seats, because that's for their business to decide when they hire more employees. But 2 ways that we could scale better, which we are working on.

One is retain those customers. So when the economy picks back up and they start hiring, they automatically start growing on our platform. But two, is create use cases for the company that actually makes more of their employees active, and that's the intention behind having a collaboration chat platform that the company can adopt, so they don't need other app in order to collaborate across the company with their employees.

Introducing things like invoicing bill pay and payroll, which activates more of the company and scale their usage on Expensify and allows us to grow.

So for the rest of this presentation, I want to talk a little bit about the activation step. And I want to show you how we do that better with our new product, Expensify 2.0, which we've been teasing for a long time. It's been a long time coming, but we are kind of at the cusp of launching it to real users, and we have a lot of activation we did at conferences this year that are starting to pay off. So I want to talk a little bit more about that, and I want to continue the trend of showing, but not telling.

So without further ado, I'm going to show you a little video that gives you sneak peek into the product that is very nearly ready for launch.

[Audio/Video Presentation]

Anu Muralidharan

All right. So I hope that is as exciting to you as it is to us. Because the entire point is to engage the end user as soon as they come into the product and to give them so many different use cases that enhance their experience, enhance their lives, make their most painful tasks easier such that we activate them sooner rather than later.

So on this slide, I want to go into this end user flow in a little bit more detail. And this specific flow is actually going to launch, maybe as soon as next week.

So imagine an employee that isn't trying to adopt Expensify for their company, is just trying to make their process of maintaining these receipts, submitting to their employer a little bit easier.

So they come into Expensify, that screen on the far left is where they would land when they sign up. So on that screen, they can create a new chat, find their manager, and within the chat interface with their managers -- so, now we're the third markup -- they can click that green button at the bottom, and that takes them to the screen, the fourth screen from the left and request money.

Now, they can request money by manually entering the amount or they can scan a receipt or it can be a distance related expense, whatever, the options -- all of the same options that existed or exists on our current product will exist here.

So for the sake of this, let's just -- let's take this example, let's go with the manual version. So the $20 for gas, click send, and now their manager asks this money request from them.

How does the manager receive this? So assuming the manager is not an existing customer, which if they are, then they will receive it in both e-mail and in app notification. But for the sake of this example, let's assume they're not. They see this e-mail.

So it's really clear [Alice] is requesting $20. Like the call to action is really clear. They come in, the e-mail is designed in a manner that kind of invites them to click on it. So when they click on it, they can sign up into the app and pay this employee immediately. So manager clicks on it, they are dropped into the in-app experience, into the direct message with [Alice] and the hit pay.

Now, it's possible that some VSBs are not looking to adopt an expense product for the entire company just yet, all they want to do is pay this employee and that's the end of it. They maybe don't have a business bank account yet. So if that's the case, they can choose to just pay with their personal bank account or debit card, and it would feel like any other P2P transaction.

But if we choose to pay with the business bank account, then we know that their business that is at a stage that might be ready to adopt the product. So first, we'll take them to connect their business bank account, of course, and complete the action they came here to complete.

But after that, we will take that expense. We will create a workspace for this manager, and we add the employee and the manager to that workspace, and we put the expense into that workspace as well.

So in this screen, you can see, we've kind of created the workspace. We've put the manager and the employee in there, and then we've moved the expense over and we leave breadcrumbs on the direct track between 2 of them to let them know what we've done.

So right here, behind the scenes, in a very intuitive and smooth fashion, we've upgraded their experience to be a business use case and then concierge and the assigned onboarding specialists we continue that conversation with them to see how they can onboard the rest of the company, what their needs are. Does this fit where they are today, because this is not an irreversible action. It just encourages them down a path that we think is best practice.

So that's the product. And like I said, we've been talking about it for a long time. The entire point of building it is, I want to put in perspective to engage this vast amount of inbound momentum we already have from end users and very small businesses, and we need to find a way to activate their experience sooner rather than later, and we are optimizing the new product to do exactly that.

And we believe that, of course, the first iteration of anything is going to have a lot of opportunities for growth. But we believe that as we continue iterating, tweaking and refining that workflow, we are going to activate the bottom of the market in a much more effective manner than anybody else can.

And this isn't about competitors really, like sure, we can do better than competitors. But this is about unseeding inertia. This is about taking the greenfield opportunity, and that's still where our sites are firmly set.

I want to do a brief Q3 business update and then I'll hand over to Ryan. So this quarter, we've remained pretty focused on SEO and paid digital advertising. And the reason we put that at the very top of this slide is because, as I said, we have all this inbound momentum. We're trying to capitalize the inbound momentum on Expensify 2.0. But we could always use more inbound momentum.

But as we go to the bottom of the market, it is not for the taking using a sales driven strategy. And so the more dialed in our organic efforts are, and the more we can bring down that cost per click on our digital efforts, the better we can capitalize on that bottom of the market and do some momentum. And so that's really our number one priority.

We've been to several key conferences and events. That's because we continue to grow our presence among the approved accountant communities, so the accountants that onboard small businesses, and that's still pretty relevant as you go to the bottom of the market.

Because when someone starts a business, they are really focused on how to grow that business and they outsource all of the back office to these accountants, so it remains a pretty key channel. So we've done a bunch of conferences, and we've used those conferences to demo beta experiences on Expensify 2.0, which we call activations, in order to get some early feedback on how the product does in terms of engaging the end users, because all of that learning is going to help us launch something, which is that much more effective.

And last but not the least, a pretty important update. So keeping with the theme of everything I've been talking about in terms of which segment of the market is interesting and what are the unit economics of that segment, we've decided that the ROI is just not there to go after these segments with outbound salespeople.

And, we talked about this a lot, but we didn't want to throw it away without experimenting with this idea. So we tried it out It works in the middle to top of the market, but the ROI that we're seeing with our digital advertising efforts is so much higher and so much more of a fit in terms of where we want to go, that this doesn't seem like a good area to keep putting money into. So we've sunset that.

We've remained very invested in our onboarding specialists. They're doing a fantastic job of converting free trials. We want to keep increasing that number because that just increases the ROI of all the efforts upstream as well, which is a key focus.

And then platform updates, we, like I said, in the previous slide, the accounting partners remain very vital to the business, both in terms of middle market, but also small businesses, so we continue to invest in them. Whenever they deploy the Expensify card for their clients, we give them 50 basis points as affiliate revenue.

Some of them keep that. Their business model allows them to keep that, others don't. And those that don't pass it through to their customer, so it still makes its way down channel to either partner or the end user, and all of that is very good for loyalty and mentioned.

The net interchange we got from the Expensify card increased 16% quarter-on-quarter, 65% year-over-year. It's our shining beacon of hope. It's growing amidst all the chaos in the market. And so, now the effort that we've been invested in in terms of getting that interchange to revenues, almost near fruition. Ryan will talk more about that in his update.

We've built a feature called Insights. It's actually, kind of a little trick. We always had it. It was buried in the expenses page into one of the views, so nobody used it. But everybody asked -- people are always asking for it. So, some product manager in our company came up with this genius idea, to pull it out and put it in the left hand nav. And now it's being used by a lot of companies. So easy win right there on our existing platform.

And then last but not the least, we launched P2P. We launched it at Money2020. Now you can actually go on new Expensify 2.0 and you can sign up and you can chat with a friend, but also send and receive money from them in app, which was a pretty big deal.

We are using our own MTLs on about 90% of that. Like, we still have 2 states New York being one of them, a pretty major one, to get our MTLs on, and we use our bank's license for those. But that's a pretty big one, a pretty big win. Sometimes you work on something for so long that when you finally have it, you almost forget how difficult the journey was, but it's been a long time coming. We're very proud of that.

So I think that's it for platform updates, product updates, and just a conversation about business strategy. I'll hand it over to Ryan for financials.

Ryan Schaffer

All right. Thank you, Anu. All right. So let's talk about the numbers. So revenue was $36.5 million, which is a 14% decrease from the same period last year. That's driven by a number of things. One is a decrease in activity and our user base. And Anu just spoke about user expansion being one of the biggest growth drivers for Expensify.

And in recent periods, we've actually seen the growth expansion decrease, that's in the 12, 13-plus years of the company, that's really only happened twice and once with in COVID and once it's right now. So in the history of the company, generally, our customers once they onboard, they stay and they grow. What we're seeing now is a decrease in activity from our customers, which is causing a headwind to revenue.

Another issue -- and one thing I want to mention is that, we are seeing subscriptions rise. We're doing a great job. Anu mentioned our onboarding specialists, all of our conversion efforts, we're adding subscriptions. So our subscription base is growing, but the activity-based portion of our users have been decreasing due to economic headwinds, high interest rates. It's just tough for our customer segment right now.

So that's provided -- accredited challenging environment for revenue growth. But there's also some other -- another factor there. Is that the card is growing so well and so fast and cashback is contra revenue. So if the card grows more and more, it pulls down revenue. And I'm going to talk a little bit about that because we have a solution that we're very excited about.

Moving on, our paid members were 719,000 and our net interchange was $3.1 million, which is a 65% increase year-on-year and a 16% increase quarter-over-quarter. So we're quite proud of about that.

Our operating cash flow was a negative $5.1 million that is including customer funds. Our free cash flow was negative $7.1 million that excludes customer funds. Our GAAP net loss was $17 million. Our non-GAAP net loss was $6.7 million, and our adjusted EBITDA was negative $3.5 million.

All right. So interchange. Get this question every quarter, it's my favorite topic, I'm going to be sad when I can't talk about it anymore. But we're going to talk about it right now.

So we expect to start issuing our new Expensify cards with the new revenue treatment before the end of the year. Now as a reminder, if you haven't been tuning into all these quarterly updates, Expensify is stepping in as the program manager for the Expensify card. So there's a couple benefits to that.

One is that we get 20% more interchange. Right now, we get about 2%. We'll be getting 2.4% because we're not sharing it with our current program manager. We'll be able to keep that ourselves. But also, and the most exciting -- I mean, more interchange is exciting.

But well, what I'm very excited about is that the accounting treatment is different under this new program, and in that we will be able to count our interchange as revenue. Right now, it is contra expense and cost of revenue. So we still get the cash, but the accounting treatment is really not what, I think, most people expect, and it has this weird dynamic where, as the card continues to succeed, it is pulling down revenue and not adding the revenue.

So accounting treatment wise, it's still the same amount of cash into the business, excluding -- obviously, we're getting 20% more interchange. But going forward, we will be able to count the interchange from the card as revenue, so it'll no longer pull it down, it'll push it up. So that will be, I think, a welcome change, for many, and I can't stop talking about this every quarter.

So this transition from the old card program to the new card program, for all members is expected to start very soon, in Q4, And we're going to -- we expect to be finished by end of year 2024. We're giving them some time to transition over because the last thing you want to do is anger all of your customers by saying, All right, knife switch. All your cards are off. You got to use this new card. So we're going to gracefully transition them over a several quarter period, but we expect that to be done by the end of year 2024.

All right. So now I want to talk about expense reductions. Reducing our internal expenses is an area of focus for us right now. We're adapting to the current economic conditions. The percentage of customers, this is based on our internal data, who are citing their business closing or their business downsizing as the reason for reducing their subscription size is jumped nearly 50% from earlier this year. So that's a pretty big jump.

And I think it's telling on the conditions out there for SMB customers. It's a challenging environment, and they are our customers, so their challenge kind of makes its way to us. So it's tough out there, but as Anu said, we have a lot of plans and we're really excited for the future. But there is some headwinds to growth there.

How are we adjusting to that? We're controlling our internal costs. So you might have seen in our release, we've reduced our debt by $36 million in October. That's, reducing our projected Q4 and fiscal year 2024 expense by about a $1 million in Q4 -- a little under $1 million in Q4, and $3.8 million for fiscal year 2024. So that's just an expense we don't need. The money was sitting in the bank. So just costing us, substantially. So we've paid that down, so that should increase our cash efficiency.

We've also done a series of internal expense cuts, and, we expect to reduce our operating costs by $15 million in 2024. These changes combined, give us confidence that we will be cash flow positive for 2024 and beyond.

Now, we show -- share this every quarter. Basically, we don't give guidance on next quarter, but we do tell you how this current quarter is going. So for Q4, some good news, we actually saw, a nice jump in paid members in October. Like I said, our subscription members are increasing. We're doing a lot of good things there, a lot of good news. But the decrease in paid members from the activity based paper use -- user segment has, been outstripping that. That is not the case for October. So we are seeing an uptick in paid members in October, so we're very excited about that.

Summarize Q3. Our net interchange increased 16% quarter-over-quarter, 65% year-over-year. The Expensify card continues to grow. We remain in a rebuilding phase as we continue transition to our new platform in Q4. Anu spent a lot of time talking about all the benefits of that, so we're very excited to get that out in the wild.

The early reception to this new platform, as we've been kind of going around to conferences, doing activations, demoing it, has been very positive. And, we continue to push forward on our ambitious and aggressive roadmap. And, internally, we're focusing on eliminating costs, and we expect to be free cash flow positive in 2024 and, and beyond.

Now we'll take you to the Q&A. Thank you all for joining us. And let's hear from some analysts. Thank you.

Question-and-Answer Session

Operator

Wait. We're going to switch over. Do we have Citi on the line to start us off?

Steve Enders

You have Steve Enders from Citi. I appreciate you all taking the question today. I guess maybe to start here, I just want to ask on -- I think there was a comment in the letter that said that you're seeing clear skies emerging. I guess, what's giving that view? And I guess, what are you seeing out there that maybe is leading to that outlook. Can you maybe just kind of clarify that comment?

Ryan Schaffer

Yes. Great question. Also good to hear from you. I think there's a couple of things. First, we're starting to see some, I think, green shoots data that is giving us some optimism going forward.

One thing we have at our ExpensiCon 3 conference this year and since then, we've seen a big uptick in the production from the accounting space. I think that's a positive factor. Also, obviously, the card continues to grow. The accounting treatment, while it's not a difference in cash. It's cloudy side of the accounting.

The revenue treatment, so pretty soon here, we're going to be getting the actual revenue benefit from the card, which is something we've discussed a long time. So that's just -- that can't help. But be positive with, the card is adding to revenue instead of pulling down through cashback.

And then also, our new platform is very close to going live for our customers, and that is something we've been working on for years. And so we are very optimistic in all the R&D investment we've made, in that over the last several years and the impact that's going to help in business. Do you have anything else to add to that?

Anu Muralidharan

No. That sums it up. We're just excited to start really testing and improving the virality and word-of-mouth that comes with putting customers on Expensify 2.0.

Steve Enders

Okay. Great. And then on the expense reduction, for -- going into next year. I guess, what are the areas that maybe we should see those cuts taking place? Like, what is the spend that might be being pulled back? And I guess, as we think about that, should we see any impact going into getting -- going into 4Q for the OpEx cuts?

Ryan Schaffer

Great question. So for Q4, some of these cuts have been mid quarter. So I would expect, a slight reduction, but it's kind of -- you don't really start to see, I think, until Q1. But in terms of where it's going, it's going into, S&M -- reduction S&M, a reduction -- G&A. And also, reduction in R&D. But I want to touch on that a little bit. There's not a reflection on a decrease in actual development. As you know, we have a robust, open source community, and we compensate those people. And, we have basically done surge pricing on the community in order to gather a whole bunch of interest. And at this point, we have thousands of people working in on -- in the community, and we are pulling back on those prices. And so it's not a decrease in output, but it's an increase in efficiency there.

Operator

Can you repeat that? Did we have any more questions from Citi? Next up, we have JPMorgan.

Unidentified Analyst

First of all, I wanted to, ask about the dynamic with regards to your customers and, specifically, with regards to PPU, and the subscription based payments. Have you been able to reduce the ratio of PPU to a more normalized historic level? And that would be would you be willing to share what it is today?

Ryan Schaffer

So, great question. Thank you for it. It has decreased. I think, if you recall, just for people maybe that haven't been tuning into all the earnings, are -- we have two different types of billing, paid users, we have subscription users. They're billed every month, and that is at a discounted rate. And then we have activity based users that are billed at a higher rate. If anyone exceeds -- if a company exceeds their subscriptions, they get billed at the higher activity based rate.

We saw a huge influx of growth and, therefore, subscription overages and our pay per use, which is what we call our activity based billing. Our pay per use users spiked to about 35% of all users, which is, quite high. Historically, it's been around 20%. So almost doubled. And in the last couple of quarters, we have seen those numbers come down.

And so to answer your question, currently, they are at, I believe, 28% of that. Now that's a combination of our efforts to migrate people over to subscription users. But also we have seen as we've touched on in the presentation, just a decrease in, activity across users. So it's kind of a combo of both.

Unidentified Analyst

And, another follow-up, with regards to the investments that you've been making. We've obviously seen, a pretty heavy investments on the OpEx side, but, also significant expansion of your COGS, which led to a decline of -- reduction of gross margin versus historic levels. Is there a level that you feel would be a more normalized long term target for gross margins, once you launch the new Expensify platform?

Ryan Schaffer

That's a great question. So I don't have an exact number to give you right now. But in terms of COGS, we are expecting that decrease in '24. And we'll -- we're in a dynamic environment right now. So we are -- I think that's probably the extent I'm going to say that. We expect it to go down, but I don't have a hard number for you right now. We are being very agile right now with how things are going.

Operator

Next, we have Piper Sandler on the line.

Unidentified Analyst

It's [Hannah] on for Brent tonight. Just a few questions for me. First one for you Anu. Just what is left to bring that new Expensify 2.0 to market?

Anu Muralidharan

Did you -- sorry, just didn't catch the exact question. What is the timeline, is that your question?

Unidentified Analyst

What is left to be done on your end before it goes to market?

Anu Muralidharan

Yes. Basically, the way we approach launching anything, which is very much applicable to 2.0 as well, is to take an iterative approach because we don't want rebuild everything, and then launch everything in one go, because that would just delay getting it out to the user. Right?

So what we've been doing through the course of 2023 is taking little features that are ready and launching them at conferences to beta audiences. And that's been going pretty well. But it's kind of piecemeal to just make sure that iteratively what we're developing is working as intended.

What we're going to do quite possibly this month, if not as soon as next week, is launch the complete viral bottom up adoption flow to the market. And what I mean by that is an end user signs up to Expensify 2.0, is immediately presented with the options to either start chatting with somebody or send or request money from them, which are really like the major end user use cases.

And if they start a conversation with someone and send a money request, and that someone is actually a manager at a company, then they will -- I mean, no matter who you are, they get dropped into the product and they can pay your money request.

But then if they choose to pay using a business bank account, we are able to identify them as a company decision maker. And therefore, we create a workspace for them in the background and move that money request into that workspace and put both the submitter and the payer or approver as it is called in our existing product lingo into that workspace. So they're ready to start collaborating in that work space environment.

And doing all that automatically gives them an onboarding specialist. And, of course, there's always concierge. And both conversations with both of those parties is also in that user's left hand nav. Keeping everything sort of really in one place and in a very accessible and a very intuitive way. And this is really our first real world experience to looking at how the product takes to seeing how customers use it and start conversations with them about how to improve it based on their very real world experience.

So that's what we're very excited about. And then the fast followers -- and I'm not comfortable giving you timelines just yet. But the fast followers from there will be how do we upgrade from the entry level plan to a more advanced plan as the company matures or maybe is actually big and we upgraded them based on the assumption that they're starter and then they quickly get to upgrade to a more advanced plan based on their use case.

More collaboration based use cases, like, maybe it's a very small business or maybe even a site project. Like, maybe it's a group trip you're planning or maybe it's a community center like planning events. Like, those kinds of use cases, creating groups without needing a workspace and collaborating, paying, and splitting expenses. These are all things we iteratively keep pushing. And the intention behind it is, of course, to get real world data on each of them so we can start to really tease the ideal design for this product.

And then along the way, we'll start migrating existing users, but all of that comes later.

Unidentified Analyst

Super helpful. And then for you, Ryan, it was encouraging to see that paid member number uptick to 730,000 in October. I guess how much of that would you attribute to seasonality, maybe, and how much would you attribute to maybe improving demand fundamentals out there?

Ryan Schaffer

I think it's it could be an element of both. So I like I mentioned, our subscriptions are increasing. I think we're doing a great job of increasing subscriptions. It's just been competing with a decrease in activity. So there's certainly a top line push, from our side that's competing with the activity or reduction of in our customer base. But in October we saw that subscriptions continue to go up and also, our pay per use users, we saw an increase there too. So it's -- I think it's an element of both.

When we don't have the reductions, the decrease in activity fighting against the increase in subscriptions…

Anu Muralidharan

We grow.

Ryan Schaffer

We're growth happy.

Operator

Next, we have Lake Street Capital.

Unidentified Analyst

Just curious to know the -- you mentioned the, the Shareholder Letter mentions the pricing of competitors. Have you seen any -- just even anecdotally -- have you seen that pricing improve -- your relatively cheaper pricing, improve your adoption versus competitors?

Ryan Schaffer

Yes. So I think that -- maybe to give us more context to everyone on the call. So the environment that -- the environment has been challenging over the last couple of years because we've seen some well-funded startups raise a lot of money in a 0 interest environment and, spend that money.

And now that we've been in a higher interest environment for some time, we're starting to see that they have to respond and their business model doesn't make sense anymore. So what we're seeing is our competitors introduce paid plans. These are people who were charging nothing for their product against our paid product. And which is -- that's just a challenging, head-to-head. Right?

But what we have seen recently, which we're encouraged by is that they are trying to start charging, because businesses charging for their software makes a ton of sense. Right? There's a reason people charge for that for it. So the competitive environment is shifting over the next 12 months in a way that we think is very favorable to us.

And also, it's important to note that they seem to be charging on a per see basis where we have a mix of subscription and activity. And, we think that we're going to end up being a less expensive on a blended, per seat basis. So we think the competitive environment is going to be easing up here in a couple quarters, so that's also another positive indicator that we're looking at when we look at the future.

Unidentified Analyst

Okay. And then the -- you had the balance sheet movement where you decided to pay off the $36 million of debt. Do we plan to be a cash burner in Q4 based on the current forecast?

Ryan Schaffer

It's kind of guidance. But, I'd say we expect to burn less, and we expect not to burn in 2024.

Operator

Next, we have Morgan Stanley. Give another second here. Maybe some muting issues. If not, we can come back at the end. Okay. Next, we have JMP Capital. Aaron, I believe I see you on the line.

Aaron Kimson

So I appreciate the total customer account that you started giving in the 10-Qs in the first quarter this year. We don't have it for 3Q yet, but it's kind of been declining, right, from, yes, 1Q, 2Q. So I'm just wondering, can you distinguish what you're seeing a little bit between your VSB customers with one to 9 employees? And then your SMB customers with 10 to 500 employees. And is there any color you can give there since the time of the IPO on the relative portion of business that comes from kind of each of VSB, SMB, mid-market and enterprise.

Ryan Schaffer

Great question. So we've seen -- and this has been kind of consistent since COVID, really, is that the larger the company, the better they weather the storm. So we've seen a -- our smallest customers get hit harder than our larger customers. And, that -- that's both with in going out of business or also just reductions.

So I think that -- I think we've said this before, and it -- those trends are holding true that the -- there's more customers. Ones and twos are certainly, not doing as well as they have historically, and the larger customers are more or less the same, or at least not, seemingly impacted to the degree that the under 10 the employees are.

Anu Muralidharan

But that's the mix -- I think you're asking, like, has the mix changed? Largely, the mix is still very -- is still the same. Like, it's excuse ever so slightly higher now versus at the time of IPO, but it's still not shifted enough to change our mix by any means. So the mix itself, I'd say it's largely still the same.

Ryan Schaffer

Yes. Definitely -- how the segments rank. Like if that the smaller customers are struggling more, so they become a smaller piece of revenue, but they were always the smallest.

Anu Muralidharan

Exactly.

Ryan Schaffer

1 to 2 is always the smallest size.

Anu Muralidharan

And then the acquisition funnel is also -- like, basically, you acquire the same mix as well. So when you lose, you lose the same mix. You lose smaller customers more than larger customers, and then you also acquire smaller customers more than larger customers, and we haven't seen any dramatic shift there.

Aaron Kimson

That's very helpful. And then secondly, congrats on the interchange reclassification. I know that's been a while coming. So 2 things there. How should we think about the linearity of the adoption of the new Expensify cards and the one time boost to revenue that's going to provide as we go through 2024?

And then will you continue to break out total interchange revenue during the transition so we keep tracking that growth that growth rate when some is GAAP revenue and some is not.

Ryan Schaffer

Yes. Great question. So in terms of how the adoption is going to go, it is tough to predict that, because we don't -- we're not going to force people. We're going to basically give them a deadline, because you need to shift by this date and, It's kind of a 2 phase approach. We need them to accept the new card terms, and then their old cards will turn off after a certain point.

So If I had a guess, and this is, I guess, we will probably see a lot of people can wait until, like, the last day that we force them, just because of human inertia. So I would think that at least 50% are in the second half. Is that your…

Anu Muralidharan

I think so. So there's basically a decent amount of the portfolio their cards will expire naturally next year. So when it expires, we'll just send them the new card. So we don't have to ask them to change their cards.

And then to Ryan's point, everybody else has to voluntarily activate the new card. And if they have this card on file at various vendors, they need to change them. So that's always a painful exercise for the customer.

So after the first round of trying to get them to move over depending upon the reception. There are various things we could do, like, motivate them with a reward to switch over. Like, we might explore things like that. Because ultimately, we are incentivized to get everybody on one program so we can stop reporting 2 interchange lines, because things are about to get worse before they get better for this accounting treatment.

But, yes, we'll continue to have a separate interchange line -- cash back line, so it makes you guys' modeling job easier, to the extent that any of this is easy. But want -- and we try our best to get everybody migrated as soon as possible, but by the end of next year at the latest.

Operator

Next we have Dan Jester from BMO.

Daniel Jester

Maybe to stick with the card. It was great to see -- so that sequential improvement, in the growth rate for the card. As you think about what's being successful there, is that more customers signing up for the card? Or is that you getting a greater wallet share of transaction, and the customers who had previously adopted the card?

Anu Muralidharan

That's a great question. No. The, amount of spend per domain on average is actually very stable. So almost all of those gains are new card adopting companies. For a minute, I thought where you were going to go was ask if those companies are all new Expensify adopters as well? And the answer to that is, no, it's a mix of existing Expensify customers adopting the card as well as new customers adopting the card out of the gate. So that's kind of how it breaks down.

Daniel Jester

And then a new -- in the past, you've talked about the strategy here about having your customers earn enough in cash back to offset their subscription fees. Are we seeing customers there yet and sort of, like, how close are we to that becoming a reality, especially as we go into next year with some of your, you know, competitors maybe in a bit of a different pricing environment?

Anu Muralidharan

Great question. And, actually, come to think of it something we just, like, should have mentioned in the deck somewhere, but we didn't. But we -- of the things that we did we, [I think presented in] October, so it's Q4. Did we lose them? Oh, I thought there was like a -- okay. Never mind.

So we basically put out this product enhancement on our existing product, which takes the cashback you earned and kind of credits it towards your subscription bill. So that your subscription bill that you end up paying is minus your cashback. So you charge the lower amount, because you're already going to receive that cashback anyway. So instead of due doing 2 transactions being netted.

But as part of that, we did something more, which is we showed every customer on Expensify based on the amount of money that the -- their employees are expensing through their policies. We took that amount, and we basically said if all of this was on the Expensify card, this is the amount of cashback you would have made, and that shows up now on the home page. And if you click on that, it basically tells you how we got that number. But also if you had gotten that cashback, what every user, seat on Expensify would have cost you in net terms.

So a lot of customers it's zero, for a lot of customers it's $3, for some customers $6, so on and so forth. But it allows every customer to look at the unique value that they can get in terms of cheaper Expensify best plans -- cheaper Expensify by just adopting the company card. And the intention behind it was to get more people to actually take the card, get that lower price.

Because when you see them at a price point that they consider a steal, your chances of retaining them are so much higher and just every customer you retain is -- because every new customer you're gaining costs you, I think, the conventional wisdom is twice as much as an existing customer. So that's kind of the motive behind doing all that. So we are hoping we'll see more benefits from doing it. We just launched it last week.

Ryan Schaffer

It's a big upgrade to the education demonstration of the value Expensify has and, fighting any [FUD] that might be out there about our relative cost to others. I think if you actually do an analysis, Expensify is way less expensive compared to some of our competitors.

Daniel Jester

Got you. And then just one last one if I can squeeze in. So for 2024, we should assume that there's going to be customers using new Expensify when it gets launched, but you're still going to be having customers use the old Expensify. Is that a correct assumption?

Anu Muralidharan

That's right. No night switches. We won't be forcing anybody into anything. What we want to do is really get as many new customers as possible adopting it from the bottom up, because that just tells us what the experience is truly like without the baggage of change.

Alongside that, we'll have [Technical Difficulty]. So for anybody that wants to try the new product, they can click on the link and switch their experience over. But they can switch back if that's what they want. Like, it just allows them to try it. When they switch back, we have an initiative to ask them what they didn't like about it so we can improve it.

So it's been ongoing effort of getting feedback from both new customers, but also existing customers who are proactive enough to switch. And once we get to a point where we can save with certainty that the new product performs really well and has a better experience, retains better, converts better, then we contemplate how we want to sunset the existing product. We're aways from that decision point.

Operator

Next up we have Loop Capital.

Unidentified Analyst

So, Ryan, I was wondering if you could just go into a little bit more detail around why the company, is sunsetting the SDR program, the out the outbound sales?

Ryan Schaffer

Great question. So as you know, we've historically grown bottom up, product led growth and when things slowed down with, like, COVID and kind of the tumultuous atmosphere in the last couple of years, we dialed up more of our sales efforts. We had a kind of a 2 pronged approach there. We have outbound, and then we also have a group of onboarding specialists.

These are people that we didn't historically have. And we've been -- we've allowed those programs to mature a bit so we can properly analyze. It's tough to make a decision in the first 3 months of something that we've given enough time. And then, we just analyze the economics of what is -- how -- what is the output of an SDR, how much do they cost? Versus AdWords. How many how many leads does a dollar and marker? Not just AdWords. A lot of stuff. But what is a dollar of marketing…

Anu Muralidharan

Paid AdWords.

Ryan Schaffer

Right, get us versus a dollar towards in outbound. Sales representative and the economics that we're seeing. We made some really big improvements kind of in our in our marketing efficiency. So the -- we've just determined -- it wasn't a very hard decision. So we just determined that dollar spent in column A is way more than -- way better bang for a buck than a dollar spend in column B. So that's how we made that decision.

Unidentified Analyst

Okay. Great. And then, yes, I realized the company doesn't publish retention metrics, but I was wondering if you can just comment on churn in the business and how that's trending? I mean, is it relatively consistent with the decline in paid members?

Ryan Schaffer

No. We because we're seeing paid customers stay with us, decrease their activity. So the -- a decrease in users is not like a one to one correlation in decrease in customers because customers are staying with us, but their activity is decreasing.

Anu Muralidharan

And that's the biggest swing. That's always the thing that is responsible for growth, and it's always the thing that is responsible for lack of growth. Because there's a base of -- at last count 45,000 companies, 50,000 companies that pay us, so that's a big base.

So if you onboard, I don't know, even 3,000 -- I'm making these numbers up. If you onboard even 3,000 companies, their first couple of months, they're not going to deploy it to the entire company. They will start team by team. So no amount of new acquisition will ever be big enough compared to usage expansion in my existing customers because the base of customers is very diversified and quite large. I'm guessing it does.

Operator

Next, we have FT Partners. Matthew, are you still on the line? Okay. Well, we will see you in the follow-up calls then.

Operator

That is everybody.

Ryan Schaffer

All right. Thank you all very much for joining us.

Anu Muralidharan

Appreciate it.

Ryan Schaffer

We'll see you next quarter.

Anu Muralidharan

Bye.

Operator

Good bye.