Transcript : Expensify, Inc., Q2 2023 Earnings Call, Aug 08, 2023

Presenter Speech

Ryan Schaffer (Executives)

[Abrupt Start] Earnings Call. We're excited to have everyone here today and excited to share with you all the information that we have.

First, on the call today we have myself, Ryan Schaffer, the Chief Financial Officer at Expensify, and we also have our Chief Operations Officer, Anuradha Muralidharan, on the call. Before we get started, let's hear some disclaimers.

Presentation Operator Message

Operator (Operator)

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 these 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 measures to the most comparable GAAP measures.

Presenter Speech

Ryan Schaffer (Executives)

Great. With that, Anu, can you take us away?

Presenter Speech

Anuradha Muralidharan (Executives)

All right. Okay. Let's go to one more slide. Perfect. So hopefully, we need no introduction, but just so we start off on the right foot. Expensify for payments super app. If you are an individual, you can use it to track your personal expenses, you can send and receive payments from your friends and family, you can submit payment requests to your boss.

If you are a business, you can manage your company's spend. You can pay your employees, your vendors, your contractors, and you can keep your accounting ledger up to date super easily using our product. So we aim to be the one-stop shop for all expenses, no matter who you are.

Next slide. I want to talk to you a little bit about our long-term growth strategy. Next slide. So a lot has been said about what differentiates us all the way from the time we went public. But this is one of the key stepping stones or a key foundation of our business. So I want to go over it one more time. Our unique differentiator is our customer acquisition model. As an employee, many employees have a very real pain point when it comes to their business expenses.

They need to stay on top of it, they need to track it, they need to get paid back on time, and really no software application out there is built for the employee first. Expensify is. As a result, employees end up downloading our app for free without having to ask their bosses for permission and end up automating their own workflow, which is to keep track of their expenses and to submit it in a timely fashion to their managers for approval and reinvestment.

And again, it bears mention that the company needn't have adopted the product at all for the employee to do this. Because it solves a very real pain point for the employee, they end up talking about us to their colleagues, to their friends, really anyone that has the same pain point, really anyone that has to track expenses for business purposes. Often, we find that in a company there are several employees that are using Expensify and are submitting to the same manager or different managers, but the company has not yet adopted Expensify. This is our bread and butter. This is how we differentiate ourselves from really every other product out there.

Now the act of submitting your expenses to your manager at a company that has not adopted Expensify is simply sending them an email with your receipts as an attachment. And what we do when this manager receives these expenses is make it very easy for them to adopt the product with a click of a button and pay us. And this is our primary growth driver and is a model that none of our competitors can very easily copy. So that's our business model and that is our unique differentiating strategy.

Now I want to talk to you a little bit about just the core pillars that build up to our growth strategy. So next slide. Now there are lots of puts and takes here, so I will go over them one by one. The very first, the bottom of the pyramid, if you will, or the first step, is the simplest, really, which is acquiring new businesses in order to manage their spend on Expensify. So every time we acquire a new business, we get all their employees and that contributes to growth.

The second is existing businesses, but as they grow, maybe they grow in terms of their employee headcount. Maybe they grow in terms of the usage of Expensify. And what I mean by that is sometimes a company is using us internally for their employees, but then end up expanding their use of Expensify for other use cases, like say paying out their candidates. So you're interviewing candidates, you have certain expenses that you need to reimburse them after their on-site interview. So you would use Expensify for that. So expansion of existing companies using Expensify into different use cases, all of which contributes to a growth in activity. And that growth in activity is a pretty big paid member growth driver for us.

The third is expanding or rather adopting other features on Expensify that also generate cash for us. And the Expensify card is a big one. So when you adopt -- when the company adopts the Expensify card, they end up -- we end up earning interchange on every one of those transactions, and that is a source of cash for the business and a source of growth as a result. And it's not just about the interchange revenue, but it also creates stickiness, it locks it in that subscription revenue, so it's a product -- it's a feature that really helps us to retain and be a better value add to our customers as a result.

Fourth, using viral capabilities. What I mean by this is the bottom-up growth funnel, which is our unique differentiating strategy, really works if we have various use cases that an individual user will come to Expensify for. The more the individual user is served by Expensify without their company adopting the product, the more we remain top of mind. And as a result, it ends up cultivating this huge free user pipeline for us. And when that free user set, if you will, is thinking about adopting a business product, we are top of mind for them. So viral loops are a huge source of growth and some of the viral products or features, if you will, are invoicing, bill pay, peer-to-peer payments and so forth.

And last, but not the least is global expansion. So I touched on this a little bit before, but companies that adopt Expensify and grow as a company in terms of their headcount and size, end up increasing their activity on Expensify in a directly correlated fashion. And that is a pretty valuable growth driver for us. But as you can imagine, as companies get bigger, they have international entities. They have local bank accounts in those entities and they need to be able to stick with a product that grows with them.

And so, we launched this feature Global Payments, which allows us to withdraw in 5 different currencies and pay out in 200 plus countries in currencies, which enables us to turn on these global payment capabilities for mid to large businesses which have multi-entities. So the ability to support a use case like that allows us to tap into a larger customer base and keep that customer base even as we become bigger. And that is the last but not the least source of revenue and growth for us. So those are the 5 steps, if you will, that build up our growth strategy.

Next slide. I want to go into Q2 updates, business updates for you. And then once I'm done with that, Ryan will follow up with the financial updates.

Next slide. So we talked a lot about the accounting channel. Now I want to remind you of why this channel is important to us. This is the highly strategic channel for us and it is highly strategic because every accountant is like a mega firm. They bring on businesses as clients and they establish good financial processes for their clients. And what we want is to be top of mind to these accountants and deliver a product that they consider competitive because by selling one accountant, we sell hundreds of businesses, if not thousands of businesses over time, and it takes very little acquisition cost from our perspective. So this is a very strategic and if played correctly, a low-cost channel for us.

Now we've talked, I think, about the fact that we're doing ExpensiCon 3, which is a very luxurious but also thought leader conference that is targeting this channel. We did that in May. And what I want to do today is focus a little bit on the results we saw coming out of that conference.

Now the point of the conference is A, branding. Like we want to stay top of mind to these accountants, but also B, to hear from them on what they consider best practices in their industry so that we can keep our product as close as possible to what they consider the gold standard.

Coming out of the conference in May, we became the preferred partner, preferred tool for California Society of CPAs and the Texas Society of CPAs. Now these are really state CPA associations, which set the thought leadership or the gold standards for the industry to all other accountants who in turn onboard companies and set the gold standard for them.

So signing these CPA societies is really like signing the MegaFon of megaphone. So we're very happy about that. We also received a lot of great feedback about the types of features that we need in order to make our product much more competitive in this channel. So some of those, and we're working on all of them, they're all in development and should be coming out pretty soon. Some of them are admin-issued, virtually Expensify cards. And what this is, is the ability for a company to assign a card to a specific vendor, so that they can automate limits and put better controls behind subscription spend.

Two is firm-branded Expensify card. This is basically co-branded cards to our top revenue generating partners. And we want to do this because we want these firms to recommend the card over and above any other corporate card or expense product. And they're much more likely to do that if it is branded to -- co-branded so that it looks like something that they are selling and are more invested in.

And last but not the least, we are doing a 50 basis points revenue share with all these accounting firms because we want them to recommend the card, we want them to recommend Expensify and we want to lock in all of the activity, all of the subscription and all of the card spend as a result at a very low acquisition cost. So we're giving these 50 basis points as sort of a affiliate revenue, if you will, to these funds.

So these are all the things that we learned and coming out of this conference have been implementing in order to sort of supercharge our growth in this channel. Next slide.

I want to talk a little bit about just general growth and awareness. And this slide is focused on general awareness because ultimately what we need to solve for, our top priority, is to increase the number of qualified leads that we get through our sales pipeline. And then we need to use our onboarding specialists to convert them cost-effectively. Because all of these new businesses that we onboard are going to help us grow our paid members ultimately.

So we're investing pretty heavily in SEO and SEM-related optimizations. We're testing new paid advertising channels as well. And we are going to all the relevant conferences in our space. We're using Expensify Chat as the communication platform of choice in these conferences so that we can acquire leads at scale.

And once we acquire all of these qualified leads, we have our onboarding specialists that step in in order to convert them into paid users. And this team of onboarding specialists we've been investing in pretty heavily for almost a year now and they're really sort of stepping into their game. And the conversion rates from qualified leads to paid subscriptions is better than ever.

We're still working on our outbound sales pipeline. And a lot of these efforts, as a lot of our SEO, SEM, and onboarding specialist efforts are maturing, as a lot of them mature, we will be able to keep giving more and more love to our outbound sales effort in order to sort of make it much more cost effective and scale better as well. So those are all the things we're doing on the sales front. So how are we increasing new business? Next slide.

I want to talk a little bit about how we're driving more loyalty because as I said before, a big driver for growth is existing companies, both increasing their usage and also increasing or rather cross-selling our cards to them, are 2 different ways that we make a lot of money and we grow a lot of our revenue. So what we're doing is giving every company that has 10 plus actors, and really 10 plus employee companies on Expensify represent the lion's share of our revenue, we're giving all of them a dedicated account manager.

And the point of giving them a dedicated account manager is so we can always keep a pulse on the company setup. A lot of companies adopt us when they're small and they end up growing, but they never really go back and modify their setup or review their setup. And as a result, as a company scales, their processes need to scale and no one's looking out for them.

So the point of the account managers would be to keep a health check on these businesses on a quarterly basis to be the first line of defense for them, like if concierge isn't satisfactory, expressing their concerns, to step in and give them white-class support and basically always keep the customer top of mind, so we anticipate their needs and give them the best in class support and service.

And last, but not the least, I touched on this a little bit, we are working very aggressively on global expansion. We launched global reimbursements, global payments, which allows companies to scale with us, which is pretty significant because a lot of our enterprise-sized companies, where companies that we acquired when they were small to medium in size, and what we never want to happen is have these companies, the best of them, grow to be enterprise. And if we lose them because we don't have the capabilities, we basically just let our best customers walk out the door which is not what we want. So global payments is directly targeting these companies so we grow with them and we never lose them.

So, I think with that, I want to hand it over to Ryan. It covers the business updates so far. Thank you too.

Presenter Speech

Ryan Schaffer (Executives)

Great. Thanks Anu. Now let's cover the Q2 financials. Our revenue in Q2 was $38.9 million. Our average paid members were 742,000. That is a decrease from prior period and however, our gross interchange was $2.7 million. We've seen a gross interchange increase by 56% year-over-year, so we're very excited about that.

Next slide. Our operating cash flow was negative $0.4 million. Our free cash flow, which is basically operating cash flow, but we remove the timing of customer funds. We handle a lot of customer money, so we go in and out. So operating cash flow can -- doesn't always tell the full story.

Free cash flow removes all the noise that handling customer funds introduces. So free cash flow is $1.1 million. Our GAAP net loss was $11.3 million. Our non-GAAP net loss was $1 million with adjusted EBITDA of a positive $2.2 million. So we did see a decrease in some of our probability metrics there. We did see some downward pressure on our margin due to some heavy investments we made in Q2, but I'll discuss that shortly.

Next slide, please. As you know, we don't give guidance given the current economic conditions, but we do let you know how the current quarter is going. In July, we saw paid members of 719,000.

Next slide, please. So when we talk about Q2, I'm sure a lot of people are saying, okay, so what happened this quarter? So to summarize Q2, we continue to have a free positive cash flow, or free cash flow that is positive, sorry. And we are reducing our debt. As you saw in the early release, we reduced our debt by a little over $8 million on this quarter. We're making heavy investments in engineering and also sales and marketing, and that's putting downward pressure on our margins in Q2.

But I want to be very clear this does not represent a new higher cost of running the business. These are temporary investments we're making in the short term, and we do expect those margins to improve. So it's not like our margins are suddenly way worse. We've been a profitable company for or a cashflow positive company for a long time, and we intend to remain so, but this quarter, obviously we're seeing that pressure from these heavy investments we've been making.

To use this fourth analogy, I think that we're in a bit of a rebuilding phase right now. We're starting to see transition from our old platform to our new platform. We're making tons of investments in, like I said, engineering and also our sales and marketing to set us up for success in the future. But right now, obviously, things are a little bit tougher. So we do think that we're in a bit of a rebuilding phase. I think that's a question I got in the past. And I do think that that is an accurate description of where we're at right now.

However, early reception of our new Expensify platform has been very positive. So we are going to continue to push forward on our ambitious and progressive product roadmap. When we talk about the early reception, David alluded to this in his founder's letter, but we have been using our new expense by platform for conferences as the main communication or social hub for these conferences, and that's kind of been a trial by fire and the reception actually has been really great. So it's been very encouraging to see the positive reception we're getting when people are seeing the new product that we've been building.

Next slide. All right. And now we are going to take your Q&A. Thank you all very much and looking forward to hearing your questions.

Presenter Speech

Anuradha Muralidharan (Executives)

Thank you. All right, so a little bit of a change of scenery here. There is a hurricane rolling through Hawaii, so I'm going to have to sub-in for Ryan. Everybody just strap on, because who knows what's about to happen. I'm going to try to answer all your questions and David's going to support me.

Question and Answer Operator Message

Operator (Operator)

Great. Let's get started. We have Bank of America on the line. Natalie, I believe you're here.

Question

Unknown Analyst (Analysts)

Yes, I am. So I wanted to ask about your investments in sales and marketing. So how do you think about the balance between investing in your SDRs versus your outsourced sales channel? And along with that, what do you hope to gain from that outsourced sales motion? And how do you think about that capacity going forward with at this point in the demand cycle?

Answer

Anuradha Muralidharan (Executives)

Do you mean the balance between investing in out -- sorry, you said SDRs versus what was the other one?

Question

Unknown Analyst (Analysts)

The outsource sales channel that you guys had mentioned.

Answer

Anuradha Muralidharan (Executives)

The onboarding specialists. So SDRs and the onboarding specialists kind of go hand in hand because what SDRs are trying to do is increase the number of leads we get into the pipeline and onboarding specialists are trying to close them. So this was kind of the same trajectory we followed with onboarding specialists where we had, I forget the exact numbers, but twice the number that we needed.

And then we kept working through looking at conversion rates month over month, building out a leaderboard, kind of tracking results on a per-agent basis, but also across the program. And then as we found our stride, we were able to identify low performers and were also able to identify just what the program needs in terms of headcount, and we kept optimizing it. So now, the onboarding specialist program more than pays for itself in terms of business closed.

We are still in the early stages of that same trajectory with our SDR. So I want to say last month we actually went through an exercise where we looked at the total headcount and we cut quite significantly. But so far, till we did that, we didn't really have a framework and a model to be able to do that because the program was still too new and sort of coming into its own.

Ultimately, what we want to do is grow these programs. And that would be a great problem to have really, because what we want to do is increase the number of leads coming into the pipeline to a point that we need more of them. But right now, we're in the process of just sort of pining out the framework, making sure we're staffed for capacity but not overstaffed, and making everything just a little bit more cost effective, and then we know how to sort of grow it from there. Does that answer your question?

Question

Unknown Analyst (Analysts)

Yes.

Question and Answer Operator Message

Operator (Operator)

Up next, we have George from Citi.

Question

Unknown Analyst (Analysts)

Hi. I'm on for Steve. I guess first of all, best wishes to Ryan and the whole state of Hawaii. Hope everyone's going to be safe there. My first question maybe for David is kind of a product philosophical question on text as a sort of a core medium that you run the business through, kind of develop a platform around, obviously there's been a lot of innovation in the AI space, but arguably the biggest has been in the ability to analyze tech specifically. So maybe what new opportunities is that kind of unlock for the company?

Answer

David Barrett (Executives)

So this will start my 1 hour Ted Talk. So I think that this isn't some sort of new thing. Like we started a very, very long time ago with this recognition that payments and chat are the same thing. And if you look at sort of what makes disruptive technology cycles over time, the technologies that are disruptive are those that allow you to get closer to the customer, to lower your cost of acquisition to increase your market size.

And so we think that when you look at the different kinds of technologies out there, it's blockchain or VR or whatever it is, I don't think those really have this disruptive potential because they don't actually achieve a bigger market opportunity at a lower cost of sale. But when you look at things like what's the next inevitable platform that's coming on the pipeline, it's probably going to be some sort of in-ear ear piece where you have an agent-based experience sort of intermediating the internet. And so that experience is going to be voice recognition and it's going to be chat-based. It's not going to be a bunch of buttons and sort of heavy GUI and things like this.

So I think it's inevitable that the industry transitions towards more of an agent-based approach, and it's going to be based on voice and chat. And this is something we've recognized for a very, very long time. That's why we invested so heavily in our Concierge AI from the very start, recognizing that the future is about basically picking a high-capacity agent that can do a wide variety of things for you. Now there's a bunch of things out there like that Siri, Google assistant and so forth. Those are highly individualized consumer tools. So don't work in a context of sort of business collaboration.

So we're trying to build basically the next assistant that can span not just the individual consumer cases, but also help you in your most professional and difficult sort of collaboration environments. This is a long-term vision, obviously. And so, but it's a long-term vision that doesn't happen by accident. If you are investing your entire product around a heavy, GUI-based interface, you're not positioning yourself to the next generation of technology. We've been pushing everything towards simple tax-based communications with our customers, and all of our workflows are sort of rebuilt for this coming agent-based revolution.

And so we think the large language models and ChatGPTs and things like this were inevitable. Can't say that we predicted it would happen like right now, but we knew it was going to happen eventually. And so, I think that we've tried to recognize the opportunities that's come. But we've already incorporated ChatGPT in sort of in small use cases throughout the product and so it has been growing more and more. So yes, we think that the all this sort of large language model functionality is coming. We've been seeing this coming for a very long time. We've been trying to build the entire product suite around this kind of technology and the next technology to come.

Question

Unknown Analyst (Analysts)

Awesome. That's super interesting, super helpful. And then on competition, I think you kind of alluded to this in your letter, a few of your competitors with new product announcements and some discounting programs. In your more high frequency sort of KPIs around go to market, obviously a lot of this stuff is brand new, but have you noticed anything show up in the numbers?

Answer

David Barrett (Executives)

Maybe I'd kind of defer to Anu for some of this, but I'd say, I mean, the numbers are complicated. There's a lot of customers you can kind of see whatever you want to if you look close enough. But I would say in the broad strokes of things, I don't think that much has really changed. Fundamentally, it's still a difficult economic environment, bankruptcies are through the roof, we see -- we talk to customers all the time they're just going under and so it's still just a difficult environment overall.

Obviously, there's competitive environments dynamics out there, which sort of complicate things further. When you have people just dumping products at a loss into your marketplace, it complicates things and distorts things. But that's also not really new either. I would say, I don't think we've really gotten back to the pre-pandemic normal. Now when exactly that happens, we don't really know, but I would say it's still a very complicated environment. I don't know if Anu had anything else to add on that.

Answer

Anuradha Muralidharan (Executives)

Yes. I mean, I think the Niyo card providers come up a lot and I think the marketing and the growth in that industry both have done a very good job of making it look like they are our direct competitors on one-to-one on every customer. That's just not the reality because if you take a wide swab of small businesses in America, they would never qualify for a corporate card because they just don't have the creditworthiness, they don't have the kind of cash balances they would need in order to have a line of credit that is going to keep their entire business spend flowing smoothly.

So we still see a wide range of companies that don't want a corporate card or wouldn't qualify for a corporate card using reimbursables. So their business is sort of a subset of our business. And although they offer their product for free, when you adopt a card, if you take the number of businesses that are never going to qualify, they still need a software product that scales from being a small company to a medium to big company in terms of functionality and range of features.

So we don't necessarily go head-to-head with them on every sale. So the fact that they are cheaper doesn't apply in every situation. So I don't know if that's where your question is going in terms of Ramp and Brex and they're introducing a subscription fee. I mean it helps now even on the card side, like they're a little more expensive than they used to be, which we welcome because it's at least an even playing field and we all get to actually run a real business as opposed to just lose money. So that's good, but it's also not relevant in every sale.

Question and Answer Operator Message

Operator (Operator)

Next we have Aaron from JMP.

Question

Unknown Analyst (Analysts)

How do you think about factors that are within your control versus outside of your control to get this business back to growth? And with that, how much of a priority is getting the business back to growth over the medium term, say 1 to 2 years relative to just heads down investing in the long term right now?

Answer

David Barrett (Executives)

I'm not sure exactly, you know, I know if you take a crack at this one as well. That's a hard question.I don't think that there's a conscious effort to like, de-prioritize short-term versus long-term. I think there's a path forward and there's kind of only one path. I think it's a bumpy path given sort of some of the dynamics we just talked about. But I think fundamentally my view is there is a huge, huge opportunity out there. We're the only ones kind of trying to get it.

Now it's not like you sacrifice the short term to go after the long term in my mind. But I do think that to get back to that sort of sustainable growth, we have to execute on a wide variety of things. Yes, there is a product opportunity that has to be mastered but also I think as Anu was mentioning we've been really getting tracking good code on the sort of paid acquisition side for marketing. We're optimizing the FDRs. We're basically working with our sales teams.

And so we're, it's really a full-court press. And I would say one nice thing about having sort of a profitable business underneath us is that we can invest in a wide range of these opportunities simultaneously. And so we don't have to make a lot of kind of the tricky trade-off decisions. Like should we invest in product or should we invest in marketing? It's like well we can just do both.

And so I would say I think we're to the maximum degree we're trying to invest in all of these different sort of aspects simultaneously. Now I think it's a challenge to kind of just manage all this at the same time. There's a lot going on internally. But I would say fundamentally, I don't think we view it as a trade-off between short- and short- or at least I don't view it as a trade-off between short- and long-term. I view it like we have a path in front of us. That path solves for both of those and we just need to push forward as fast as possible. Anu?

Answer

Anuradha Muralidharan (Executives)

Yes, I agree. So I think Ryan referred to it as we're in the rebuilding phase. And so, a lot of what we are working on with Expensify 2.0, New Expensify, like a track forward expense management app. It's kind of forward-looking, right? Like, it's trying to expand the target audience, if you will. Right now, we go after a set of customers. We're trying to expand that dramatically by sort of innovating on our product. And that's the median to long-term roadmap.

But short-term, the product that we have perfectly caters to the target audience that we're going after, like we don't have a product problem at all. But what we do have, what we, what is kind of out of our control to answer your question really directly, is we can't control the macroeconomic environment. We can't control the fact that most companies are struggling for funding. They're not growing.

And so, it's taking away one of our primary growth drivers, which I talked about, which is companies just naturally growing once they've adopted Expensify, and as a result, naturally increasing their usage. Like that tailwind is sort of suffering right now. And we're trying to make up for that loss of tailwind by, with more aggressive paid marketing opportunities, with more aggressive outbound calling, so on and so forth.

So that's the short term sort of growth push. And the product that we have is more than sufficient for us to sort of keep making inroads in that sort of channel. And long term, we're trying to expand our target audience dramatically and that's where a lot of our product and engineering resources are going right now. And you know, we don't have a crystal ball, but hopefully all of it sort of pays off within proportion of each other. And then we can come out of this when the economy sort of comes back as well, like sort of like a Phoenix is the hope.

Question

Unknown Analyst (Analysts)

And then just a quick housekeeping follow-up. Usually in the financial outlook section of the press release there's a sentence reaffirming the long-term 25% to 35% revenue growth guidance. I don't see it today. I just want to ask if you guys are reaffirming or withdrawing long-term guidance?

Answer

Anuradha Muralidharan (Executives)

Yes. So I'm not going to be able to do it as much justice as Ryan would have, but I'll say this for a few quarters now, since the day we went public really, we have not been in sort of normal or stable economic conditions. And for a few quarters now, we keep reaffirming that long-term guidance, and we keep getting questions all around and they're fair, when will this long-term guidance actually be true since we haven't been close to the long-term guidance in terms of growth.

So we actually took all of your feedback and removed it because we just don't know what we don't know. We haven't been in stable condition since 2020 with this or that or the other. Like first there was a pandemic, then there was concerns of the global recession, then there was a global recession. There still is, like I'm fuzzy on the details, but very chaotic. So we've removed it and then once we sort of hit stability again, we will be able to reaffirm it, but we don't want to keep giving you outdated long-term guidance, if you will. So that's the reason we took it away.

Question and Answer Operator Message

Operator (Operator)

Next we have Loop. Do you have anybody on the line?

Question

Unknown Analyst (Analysts)

This is Ankit Sangvi on behalf of Mark Schappel. So my question is regarding your, one of your recent sales initiative at the company is focusing on subscription users instead of pay per users. So could you provide an update on how that initiative is progressing?

Answer

Anuradha Muralidharan (Executives)

Yes. So just to clarify we always focused on subscription users like since the -- I think in 2018 we launched annual subscriptions and the point of that was always to give ourselves a more stable ARR revenue stream because pay-per-use users can always just walk out the door the next month, like it doesn't create a stable business model. So we've always been focused on that.

Now during the pandemic, that pay-per-use number was the lowest it had ever been since the launch of annual subs. And then coming out of the pandemic, it sort of shot up a little bit above the healthy range that we've seen in the past. So we've been working pretty aggressively to remind and see the thing with this is although they pay us a higher per seat fee, which is good for revenue, it's not good for retention if it gets to an unhealthy degree, because at some point, the customer is going to pay attention to their bill, and then they're going to think that Expensify is too expensive, which is not the brand or not the perception we're shooting for.

So we got a little more proactive and more obvious, if you will, about the savings opportunities so that people are sort of paying attention to their subscription size and correcting it as needed. And that sort of brought down that pay-per-use number. So we consider 30% to be sort of in the healthy range. It used to be during the pandemic sort of in the 20% to 25% range, and then it shot up all the way to 35, and now it's back down to 30. And I think it'll sort of hover in this ballpark. We're not doing anything dramatically different to try to drive it down further.

Question

Unknown Analyst (Analysts)

Okay. And if I can fit one more about -- you don't give margin guidance, but should we expect a similar margin in the second half, like higher marketing expense, similar margin?

Answer

Anuradha Muralidharan (Executives)

Yes. I think Ryan had sort of touched on this in his presentation that we've always prided ourselves on being a cash positive company. Like we're a real business that makes money and we will always be very disciplined about keeping those fundamentals. Now we've experimented with various sort of initiatives from a marketing perspective. Like last year, we did a lot of out-of-home advertising. This year, we're doing a lot of paid digital marketing. We did ExpensiCon, which was our conference on which we spent a lot of -- we spent significant amount of marketing dollars in Q2, went towards that.

And then we've also been investing in the sales channel with SDRs and onboarding specialists. We are entering a period of trying to cost-optimize all of this. So without giving specific margin guidance, I think you should see all of these optimizations start to show up in our results, and we are hopeful that we can start to tighten up our margins a little bit more going into the second half of the year.

Question and Answer Operator Message

Operator (Operator)

Next we have Daniel Jester, I believe you're on the line here. Daniel, can you hear me?

Question

Daniel Jester (Analysts)

Yes. You've got Dan here. So I want to ask about -- so you touched on the growth situation a few different ways, and I just want to make sure I understand all the points. So if you think about the quarter, you had -- it sounds like a deceleration in the pace of new clients being added to the platform. You also have less overages because you're trying to right size customers into the right description profile so that they don't have those extra fees. But you didn't touch on retention and what you're seeing there. So first of all, I just want to make sure I understand those factors. And if you could spend a moment on what you're seeing on retention, that'd be very helpful too.

Answer

Anuradha Muralidharan (Executives)

Yes. David, I'll kick it off. And then if you have anything to add, please feel free to interrupt me. So of course the 3 drivers are new customer acquisition, existing customer expansion, and then retention. So the number one driver of paid member growth has always been the second existing customer user expansion. And I haven't looked at the numbers precisely, but in the ballpark, new customer acquisition and retention has not changed dramatically. So it's sort of trending similarly and has for a few quarters now, maybe even a year.

But the piece that is different is existing customer user expansion because -- and of course, this is just informed guesses, but the macroeconomic environment is not very conducive towards company expansions. Companies are not necessarily growing their headcount, so that seems to make sense that their usage on Expensify isn't growing as much as it does under normal market conditions.

And then, of course, we've been, both we've been trying to get pay-per-use down, but also in an environment where companies are not spending as much, pay-per-use is just naturally going to be down because they don't need overages as they're not spending all that much. So the subscription size is actually sufficient for them. So those 2 things are the significant drivers of downward pressure. So existing customers not expanding as much and then people use not being as -- or not growing or not being as high.

Answer

David Barrett (Executives)

I would say, just to reiterate what Anu said, I think that what's the big challenge is that our growth has historically been driven by expansion of existing customers, and that has just been sort of the challenging environment because these macro effects. I don't think there's been anything else like significantly this change since then.

Question

Daniel Jester (Analysts)

Okay. And then on the new platform, you've been talking about this for several years, so it's great that it's now live and being used. Can you help us think about the trajectory for which you have your current customer base transition to the new platform? And ultimately, what kind of friction or not does that transition typically entail do you think? Thank you very much.

Answer

David Barrett (Executives)

And so I'd say, yes, step one, the first 90% of the work is to build it. And then the second 90% is to get everyone to use it kind of thing. And so I'd say that the challenge here is we have a lot of technology, it's really good. It works in sort of these isolated use cases around chat. I think we've mentioned how it's been really, really great rolling it out to this conference circuit because the primary value, like what differentiates kind of our chat platform from others is that it requires such a low barrier to adoption.

It doesn't require an account, doesn't require IT permission, doesn't require a password. You just basically click a, you scan a QR code and you start using it, for example. And this is a testament to kind of our massive kind of like social network style back-end architecture. It's built on these giant servers and blockchain, all this kind of stuff. So the technology is getting really proven. It's built on this, by this huge open source army of like 1500 developers.

It's the same code base across all these different platforms. It's just this really powerful new technology. And so we've been working on it for a long time, but it's really proving itself out in these early use cases. Now the challenge of course, is how do you get existing customers from our classic platform onto the new platform? And that's a very active topic of discussion, as you can imagine. And I think that's basically through some form of deep linking and hybridization.

So basically, as we identify use cases that will work for some sets of customers, we promote those use cases to existing customers that say, hey, you could use the new platform for smart scanning for your requirements, whatever it might be. And then we can link them over there, we can push them over there and so forth. This is going to be a slow process. It's going to take time to actually get all of our customers who are already comfortable in life, our existing classic products, to understand the benefits of this newer product and to kind of rewrite some of the older workflows into it.

This is kind of an invasive answer, but because we don't exactly know. A lot of this comes down to we view this as a collaborative engagement with our customers. And we don't exactly know what their feedback is, but we know that we are getting it, that we're responding to it, and we're gradually pulling people over. So it's not going to be an overnight sort of nice switch. It's not like there's a sort of like a risk that customers are going to reject it or something like this.

We're building it in collaboration with our customers. And I think it was mentioned, it's something like ExpensiCon is where we can test this out. And so it's not just us working on an ivory tower. We're working with the top accounting partners in the world to build these tools out for their needs and then we're verifying it with them as we go. So I would say again, that's not a very specific answer. It's kind of the best I got. That is something that we're going to roll out over time.

Question

Daniel Jester (Analysts)

And maybe if I can squeeze 1 more in about the co-branding of the cards. Can you just talk about how that would actually work from a logistics perspective and maybe talk about your relationship with your own card provider and does it make -- does it allow for that type of opportunity?

Answer

Anuradha Muralidharan (Executives)

Yes, so this is actually it's very off the shelves so we basically include the branding of the firm itself on the same card base that we have today. And it doesn't really -- we don't really, I mean, I don't know how in depth of an answer you want. I could nerd out all day long, but it basically doesn't require us to order a fresh batch of cards or anything. So it doesn't increase our cost. It's a customizable field that we're able to send via API. So which is great.

Like when we started looking into it, we were insured, so we were thinking about how much would we need to put minimums on the firms in order to have this, because we'd have to order a bunch of stock and what would that cost, but actually it's way simpler than that, so we'd be able to get this off the shelf and going pretty quickly. And it just is a very light branding for the firm, but still makes it their own, which just cultivates that much more loyalty. So it's worth doing. And we're not doing it for every firm, we're doing it for our largest firms. We want to test it out first. And then if it has legs, we might extend it a little bit more down market to other firms, but all TBD.

Question and Answer Operator Message

Operator (Operator)

Well that rounds out our live Q&A. Thank you to everyone who joined. If you have any follow-up questions, please feel free to email them to investors at Expensify.com. And with that, we'll see you next quarter.

Answer

Anuradha Muralidharan (Executives)

Bye, everyone. Thank you.

Answer

David Barrett (Executives)

Thanks. Bye-bye.