Expensify, Inc. (NASDAQ:EXFY) Q3 2022 Earnings Conference Call November 10, 2022 5:00 PM ET

Company Participants

David Barrett - Founder, President & Chief Executive Officer

Anuradha Muralidharan - Chief Operating Officer

Ryan Schaffer - Chief Financial Officer

Conference Call Participants

Koji Ikeda - Bank of America

Brent Bracelin - Piper Sandler

Daniel Jester - BMO

David Barrett

Welcome to the Q3 2022 Earnings Call for Expensify. We’re excited here, we have our new Chief Operating Officer, Ryan, Chief Financial Officer David, Founder and CEO from Technical Accounting. Before we get started Anu is going to take it away with a bunch of legalese.

Anuradha Muralidharan

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 the reconciliation of these non-GAAP financial measures to the most comparable GAAP measures.

With that, back to David.

David Barrett

Thank you for that fascinating introduction. Alright, keep it real. And so that's what we do. We talk again, about our long term strategy for anyone who's been following along, this is the same thing we've been talking about during the IPO. This strategy is the same. It's designed for all market conditions. And it's the same strategy, we're working through my review how that goes.

Fundamentally, Expensify is based upon three major pillars for long term success. First, we believe the market size is enormous. We think that every business in the world has to do the functions that we do. But only a tiny, tiny fraction of them are currently doing anything. So we view the market as almost entirely untapped. And our strategy is to go after all.

So it's a fundamentally different opportunity and business models in the investment market. Second, we go after with completely different business model. It's fundamentally word of mouth driven, bottom up adoption model where individual employees download the app for free and pull us into the organization. So every employee is a door to every single customer as opposed to just not only CFOs door.

And then fundamentally, we think we can link a billion people through finances in the same way that Instagram link a billion people through people, or through photos, or something like that. And so anyway, big opportunity out there, and we are really gunning for this giant opportunity.

Second, we think that the market is broken up into sort of four major parts. And everyone talks about the enterprise market. And obviously, we're a player up there. But the bulk of the opportunity is really in the SMB and mid markets. And so, we think that our business model is unique, and that we can capture small businesses and then grow with them up to whatever size they go, and we can profit from them from every scale.

And so, the way that we acquire those customers comes in basically, we use advertising our free plan to seed our funnel with small businesses. And then we use our sales and account managers, as well as our partner program, to engage with them and get them to leverage our full functionality. And then all of this is to drive high margin subscription revenue. And so all of this means that we have an incredibly efficient lead generation model, we have a super efficient sales model, and this contributes to our high profit margins.

And the way this workspace, I guess reminder is everyone else in the world has an exclusively top down business model, where they just are calling the CFO of the Fortune 1000, or whatever it is. And then let's see if it makes a decision as a gatekeeper before anyone else in your organization learns that the product. Expensify is different employees learn about Expensify from their friends and colleagues things like this, they will download the app for free without waiting to be asked without asking permission. And we'll just start using us.

This turns every expense report into a highly targeted marketing message directly to the decision maker, who will then roll it out to the rest of the organization. Its a completely different business model than everyone else in the industry. That's how we're able to get completely different results. We think that we have the only product that can reach the full market. And so we can look across the board again.

All this functionality has been around forever. There's a million different players that do different subsets of this, but we think we're the only ones that can do all of that. We can scale up to the real enterprise, support the large requirements, so the large multinational public companies. We can also scale them to consumer grade design and having something that's simple enough for individuals to adopt for sole proprietors and so forth.

We have real global reach work, excuse me, we're already generating revenue in multiple markets around the world. And so this is a natural artifact of our business model. We allow ourselves to be pulled everywhere that has this problem, which coincidentally, is everywhere. We don't just have our own cart product, we also have a native travel booking product as well. And of course, all of this is free.

And so, all of this is basically about building a chat, first pre-accounting solution that provides a wide range of functionality, everything from not just expense management and corporate cards, but also invoicing bill processing, payroll, and so forth; all for nine bucks or six. And so again, this is the same strategy we've been talking about for a long time, we're making very good progress along with that.

The latest is that we think that our chat functionality is really now live and being used by active customers. And so the sum of all of this is that we have sort of three different ways to monetize the users. First, we have viral functionality that provides natural lead generation, as we grow up through the social networks and friends, groups of employees, or transactional revenue through our corporate card and other products.

And then, of course, we have high margin subscription revenue for everything else. And so we're trying to triple dip from all of these different things in order to make sure that we're getting the maximum value every single week. So strategy is unchanged, the market and the world is sometimes complicated and dynamic. But fundamentally, our strategy, we think our differentiation is that we have the luxury of being able to focus on the long term.

And so, others are sort of scrambling to adapt. They lost their funding sources, or their economics would get inverted, or whatever it is, fundamentally, everything's the same here at Expensify. We're still focused on the same strategy and still focus on the same vision. And so we're going to talk about that, obviously, the markets been pretty nuts right now, as you can tell, but Expensify is pretty steady. We're still hiring. We remain hiring throughout.

We're still generating cash in despite all of this. We're still focused our energy on the future. And we're also buying back shares, because we believe so strongly in future the business. And so we kind of dive into some of those. One is that we have our sales team to give you an update on some of this. None of this is new, we've been talking about doing it for a long time. But just to kind of give an update on where we are.

We got about 70 salespeople, which are focused on onboarding new customers. And so, this is a group that we've been building for a long time. And we've rolled them out to about a size of fraction of our organic lead source, but we haven't run out of it sort of exhausted our own leads. So the focus right now is about fully engaging our sales team to take care of our existing lead channel.

And then on top of that, in parallel, we are building up as an SDR group that's designed to do outbound calling into getting more leads. And so, the first people we are calling or just conference list, things like this, a natural calling into our 14 years of like failed trials, churned customers, and everyone else that basically is there. And then we're going to do the same list buying everything else.

So yes, a lot of the same tactics are the same as you can see us in the industry. But our lead source is actually quite different. And that's differentiation there. Because we're not calling the same people that everyone else is calling. We're calling people that already knows something about Expensify. So it's a much warmer lead source. And so, we think it's a showing a much better results.

Next is we've mentioned our account management group. So this is a group that, again, we've been growing steadily over time. Right now, customers that account for about 41% of revenue are being actively managed by an account manager. And so, we're still scaling that up, we're targeting about 90% coverage by the end of the year. But this is something that's basically methodically moving up coverage to this.

Now a main function, the account managers obviously do a wide variety of things, they focus on retention, ensuring that every customer set correctly across selling all of our different functionality and so forth. But one particular function that's useful this call is that they're also moving our pay-per-use customers over the annual subscriptions. Now pay-per-use is valuable, and that it's built at a higher rate, but it's volatile.

And especially in market conditions like this, we see higher pay-per-use usage. And so we really want to have slow and steady growth into the future. And I think the key to that is having annual subscriptions and having as much as possible in a steady sort of committed revenue base. And so, the account managers are not just there to accelerate expansion of existing customers and retain them, but also stabilize revenue to get out of them.

Next, we'll talk with the accounting channel. Again, we've talked about accounting channel million times. It's been important. It remains important. About 50% of the revenue that we get from the accounting channel is now being overseen we will call a partner manager. And so, the partner managers are dedicated points of contact to talk directly to the accounting firms and then provide on site training. We'll talk with accountants and things like this.

And so, again, we're expanding this out. The goal is of course, to get full, complete coverage. We're working our way up to this. There's a lot of accountants out there and work with tons and tons of them. And so one consequence of this was kind of interesting is that as we engage more directly and proactively with the accounting firms, we're finding a lot of accountants in these firms that have not yet actually gone through our training and don't really know much about Expensify.

They might even have Expensify clients, basically under management, but they've never taken the time to get what we call Expensify approved, it's going through our Expensify university, and so forth. And so a lot of this has been finding a bunch of opportunity where there are existing accounts that use Expensify, but just haven't gone through a training and haven't gotten our certification. And that means that they haven't been giving their approved accounting discount to clients.

And so, as we're kind of cleaning up a lot of this is head to revenue impact, which Ryan's going to talk about in a bit. But fundamentally, department managers are about building out deep loyalty in this industry, such that we can extract the maximum lead generation retention of long term. And we've mentioned that we're building up towards our event called ExpensiCon. ExpensiCon is a time when we can really demonstrate how much we care about these accounting channels, as well as spend really close time to understand their needs and respond to those needs. And so ExpensiCon can be made, it's been very exciting to this industry, and we can keep pushing towards it.

Next, we've been talking about all of our engineering is really focused on building a next generation platform. And so, this is what we talked about when we're of the many ways we're focused on the future, is that we feel that fundamentally the future is going to be owned by whoever has the most robust free accounting platform that can do all this functionality in a highly seamless way.

Everyone else out there is scrambling to stand up basically their existing products, probably given the economy, maybe we'll see some acquisitions in there, as people try to sort of Frankenstein together their own platforms or basically a bunch of different products that kind of assembled his checkboxes that might work in a top down sales manner, where basically someone is buying based off of a checklist. But that sort of fragmented product experience doesn't work in a bottom up manner. They have to be a highly integrated experience.

And we're the only ones who has the luxury of being able to devote our engineering resources based on this long term vision, because we're convinced that the long term market is going to be owned by whoever can capture the viral dynamic of this market. And that can only happen for highly integrated products. And so, where we are right now is our chat platform is really robust. And it's being used on a daily basis with live customers in all these different teams we talked about.

So for example, our SDRS, when they're calling to a customer, they're not just calling on the phone, they're actually creating what's called an Expensify workspace, and then they're reaching out to them via Expensify. So the conversation of basically learning what the product is happening on the product. Likewise, when there's a lead, the demo happens in the platform. And they can -- our sales team can actually sit down and work with them on the platform to configure their product to make sure that it's going to perfect for the needs.

The handoff to an account manager likewise happens inside of the product. We have a chat room made with all of the administrators in the finance team. So they can talk about the configuration and then our account manager can talk alongside with them. And then of course, finally, the partner managers. When we are working with these accounting firms we will create chat room for the entire partnership, basically on our platform. So we can directly engage with all the accountants in platform about how to promote or Expensify. It's a super seamless integrated experience that we're very, very proud of.

So that's in live in youth today. Next up, we're really working on bringing a level of polish and a stability to the mobile experience such that we can advance towards using this for employees. Again, it's a long term roadmap we've talked about again, and again. The roadmap hasn't changed. It's very, very exciting and making good progress in the long run.

And then finally, let's talk about payroll. You may have seen that actually, we've launched payroll, it's live. Now we've been using it ourselves for like almost two years now. And now we're onboarding customers onto it. Now, we're still really constrained that we haven't gotten all of our money transmission licenses. We're still working on New York, Texas, Hawaii, Massachusetts. So there's so -- we can't support every single customer, especially customers that have across multiple states. But it's a very powerful solution. We're very proud.

In fact, the solution has been refined for a lot of very sophisticated needs, the kind of needs that we need as a large public company. And most of our engineering focus on the payroll product is about simplifying it down for the smaller businesses that have hourly workers that have different payroll requirements, scheduling requirements, tend on that kind of contractors and so forth. So payrolls live, it's in markets. And so, we're excited about that. But again, we expect this to be something that grows over time.

And so maybe, not really the product but something we're very excited about is that by that, so we think that right now is a great time to be buying Expensify shares. We think that so much that we got authorized for a $50 million share repurchase in May. In September, we made our first purchase of $4 million and now actually starting tomorrow morning, sort of open and market, we're going to be buying back up to $6 million, basically as quickly as we can.

And so -- and then we still use $40 million for opportunistic buybacks as we go. Now, we've said that we're going to do buybacks. We think that a great. We have a business that generates a ton of cash. And this cash is not competing with our customer acquisition. Every thing we have is fully funded in terms of our growth initiatives, we feel are fully funded. And yet we still make more money. And so we think a great way to return that value back to shareholders is by repurchasing shares.

This is a strategy that's not -- that we intend to do consistently over time. And so, we've demonstrated it a couple of times now. This is something you're going to see again, and again, going forward.

And with that, I'll turn it over to Ryan.

Ryan Schaffer

Great. Let's talk about the numbers. So we had an increase in paid members in Q3, 761,000. Also, I want to talk a little about the free plan. Now, we're not going to give updates every quarter. But we said we'd update you when we hit some milestones. So we crossed the 15,000 customer milestone for the free plan. So there's 15,000 different companies currently using the free plan.

Revenue was $42.5 million, which is a very slight decrease from last quarter, and I'll talk about that next slide. And on an annualized basis, our revenue was $170 million. So in Q3 we did see some downward pressure on our ARPU beliefs. But that is expected and we believe it'd be temporary.

So David mentioned our partner managers engaging with our accountants. We're finding that. While there's a ton of accounts using Expensify, not all of them are part of the program. So as we engage with them, we're getting them enrolled in the program, so they get our preferred pricing, so that does put some downward pressure on the ARPU. But we ultimately believe that to be a good thing, because we see that accounts within the program grow our business way faster than accounts outside of the program. So this is a good long term change.

Also, we saw some currency headwinds, just due to the strength of the U.S. dollar, and also the Expensify card. So card volumes growing. You've probably seen that in the release, but also our cashback is contra revenue. So as the interchange grows, cashback also grows, and as the contra revenue pulls down the revenue number.

However, as we've talked about, every call, our interchange is still not categorizes revenue, yet. We believe it will be shortly but not yet. So basically, you're getting all the downside of cashback, which pulls down revenue, but we don't get to -- we don't have it being pushed back up by the actual interchange. So it's still cash coming into the business, but in terms of how it's being presented, it doesn't push up revenue.

And also a third thing, we're seeing more and more actual card holders and card holders do a discount on their Expensify subscription. Again, they generate more cash through the interchange than they would in the discount. So it is a net positive, but we have a couple of things pulling it down. But without interchange pushing back up, that just creates downward pressure. So it's a little confusing, but the actual net-net is that everything's growing, we're adding cash and things are good.

Speaking of Expensify card. Year-on-year interchange growth was 115% and our gross interchange was just under $2 million and $1.9 million. So, I want to talk a little about cash flows. Our operating cash flow was negative $0.9 million, but I wanted to talk about free cash flow this quarter, because operating cash flow includes customer funds, customers move a lot of money through our system, and due to the timing of payments, and when the quarter ends, that actually can distort the number a little bit.

Usually it's very consistent, but due to the timing, the customer funds actually pushed operating cash flow negative. So when you look at actual free cash flow, and you pull out customer funds. So, no customer money, just pure money that we've generated. We saw positive $4.7 million for Q3.

On a GAAP net loss basis. $8.2 million. Non-GAAP net income, which is net loss with taking out stock based comp, you get a positive $5.1 million. Adjusted EBITDA was $9 million with an adjusted EBITDA margin of 21%, which is quite strong.

We maintain our long term guidance on a multi year basis. We still believe that we can grow 25% to 35%. Obviously, the economy is a little challenging now, but we still believe on a multi year period that this is the right measure.

So to summarize Q3, we think the business is extremely healthy. We have strong free cash flow and we're profitable on adjusted EBITDA basis. Our paid members continue to grow. Expensify cards up 115% last year and we're seeing very strong enthusiasm from our customers for product roadmap, which is chat payroll.

And just to leave you with some good news here. So Q3 was a little slow, but we don't normally do this, but we thought that we would like give you a little teaser on how Q4 is doing. So, October was our best month ever again. So, in October, we had 783,000 paid members. And we expect revenue to come in between 14.3 and 14.7, just for the month of October.

So we don't give guidance. But given kind of the volatility in the market, we thought we'd throw your bone and give me a little teaser on how Q4 is doing so far. So that's all for the slides.

Now we'll jump over to Q&A. I think Anu you want to take it away?

Question-and-Answer Session

A - Anuradha Muralidharan

So first up, we have JP Morgan, Raquel [ph]. If you're on, you can go.

Unidentified Analyst

Good afternoon, guys. Thanks for taking my question. I want a little more color on how average trade members came in this quarter. would you guys say it was within your internal expectations? And then is that number kind of coming in softer than 2Q, a function of some additive churn softer sales? How would you kind of categorize that?

Ryan Schaffer

Yes. Great question, Raquel. So, as you can actually see, so this chart is broken up monthly. So one thing that we're noticing when the market is -- that the volatility of the pay-per-use can swing a little bit more than we'd like, which is why we have this focus on account managers. Previously, we didn't really have account managers really engaging with our clients that much. And now we're really making that a focus. And a big goal of that initiative is to convert more pay-per-use users to subscription which should reduce any volatility that we see, or at least lessen the volatility that we're seeing. And we view that as a good thing. So, you can see that Q3 came in a little softer than expected versus the end of Q2, but it also kind of rubber banded right back and better than it was before in October. And as we get more and more of our users as percentage on subscription revenue, we should see that volatility decrease.

Unidentified Analyst

And just to follow-up for me on gross margins, also coming in a little bit softer. I think we spoke about in prior quarters, that also being a function of you guys adding more account managers. So not looking for guidance here. But would it be fair to say that given you're trying to kind of ramp that up that would continue and persist into 4Q and beyond?

David Barrett

That's a good question. So, yes, I think that we will continue expanding account manager program that will obviously have a cost with it. But I'd say, I wouldn't expect it to be a super significant cost fundamentally. The team we feel is pretty fully staffed. I think that right now we're not focused on, we don't, it's less about hiring more people, and more about increasing the efficiency in the engagement with the people we currently have. And so, I wouldn't view it as because we have x-percent coverage right now, that's going to be twice as much to get more. I think it's more about -- we have plenty of time, it's really about just increasing the -- improving the efficiency of the processes that we have internally.

Unidentified Analyst

Thank you guys. Appreciate it.

David Barrett

Thank you.

Anuradha Muralidharan

Next we have Koji from Bank of America.

Koji Ikeda

Hey, guys, thanks for taking the questions. I wanted to ask kind of on the new SDRs in the capacity that you're doing the account management teams. So when we look at the third quarter results, is it fair to assume that the costs associated with those, the increase capacity, there's that all incorporated within the third quarter results? Or should we anticipate more of that to come?

Ryan Schaffer

Basically you're saying, were they all hired at the end or were they at the beginning in the quarter is that basically.

Koji Ikeda

Is the third quarter a good representation of the increased capacity from the cost perspective?

Ryan Schaffer

Well, going forward, we should see more SDRS.

David Barrett

Yes. We should see more SDRS. But because that's still the less -- the least mature of those organizations. But I would say the guides and the account managers are pretty mature at this point. Now as the SDRS scale up their ability to generate more leads, at some point will outpace the capacity of our existing team, and then that will cause more sort of sales hiring. But we still need this -- we would have to scale up the SDR team first, before we need to scale up the sales team, I would say.

Koji Ikeda

Yes. Got it. Okay. And then I wanted to spend a moment on this slide right here that you have this October best month ever again. I mean, 780,000. That's a pretty good number, considering the fact that it does feel like the economy and overall SMB sentiment is a little bit worse off today than it was maybe in previous months. So maybe talk a little bit about what you're seeing out there that is driving that subscriber growth in October? Thanks guys.

Ryan Schaffer

Yes. So the volatility of pay per use kind of makes story a little confusing, right? So we're adding customers throughout the entire quarter. But because pay-per-use, if people are expensing less than that number can go down. So as you can see, at the end of Q2 and then at the start of Q3 we saw that actually decrease and that's not a turn off of any of customers. That's just a kind of a decrease is an activity amongst our existing customers. But we continue to add customers throughout the whole time. So I'd say that when SMBs are struggling, we could see some lower activity, which is why we've really -- we're addressing that by with the account managers and in this focus on moving more people to subscription because we want to reduce the volatility that pay per use introduces into our revenue.

Koji Ikeda

Got it. Thanks, Ryan. Thanks so much for taking the questions.

Anuradha Muralidharan

Next up, we have George from Citi.

Unidentified Analyst

Hi. Thanks for taking the question. I'm [Indiscernible].

Anuradha Muralidharan

George, we can barely hear you.

Unidentified Analyst

Hello. Can you hear me okay.

Ryan Schaffer

We're just going to listen very carefully.

Unidentified Analyst

Is does got any better.

Ryan Schaffer

No, but go for it.

Unidentified Analyst

Okay, sorry. I'll try to speak up a little bit. Just wanted to add on the growth equation between user growth and ARPU. Which one you feel is more macro sensitive and which one you feel is a little more under kind of your guys' control?

Ryan Schaffer

Which is more under our control. ARPU or user growth, ARPU, I guess.

Anuradha Muralidharan

Well, uses as the macro sensitivity.

Ryan Schaffer

Macro sensitivity. I see.

Anuradha Muralidharan

And this is definitely important leading indicator. ARPU, like we're not -- we influenced ARPU via price change, for instance, or we influence ARPU, but over time, the mix of our business changes, like if more people choose subscriptions versus pay-per-use, if more people go to the free plan versus not. But paid members generally reacts faster, like expansion within existing companies, or contraction or new customers, et cetera. That's are more sensitive metric.

David Barrett

So maybe we have -- maybe I didn't understand this question. But we have, I would say more control over paid members, because ARPU, there's the volatility of what percentage of our company is going to exceed their subscription in overages. So that's, I'd say, we're trying to rein in the volatility of the pay-per-use segment by getting more people on subscription. So I'd say, we have less control over that, which is why we are rolling out the account managers and taking this because we want to reduce that volatility.

Ryan Schaffer

Yes. I would love more control over both.

David Barrett

Yes.

Unidentified Analyst

Got it. Thank you for the color there. And then one follow up on the macro sensitivity piece. Have you seen any change in customer behavior on either up tearing, or down tearing? Thank you.

David Barrett

Good question. So, no, we have not, we just looked at this. So that the mix of people on the collect plan or control plan has been consistent. We haven't seen any change there.

Ryan Schaffer

Yes. And one reason to think about that is, it's not that you choose to upgrade as you liked the product more rather you upgrade as your company gets more sophisticated. And so, there's really not a downgrade case where it's like, I just don't want to like these features as much. It's kind of like your business just needs these features. And so, you just kind of have to stick with it. So you do upgrade over time, but it's more of a ratchet function. And it's also a slow function as a basis as your business itself matures.

David Barrett

Like, if you laid off half your staff, you wouldn't downgrade your plan.

Ryan Schaffer

That's a great way to think about it.

David Barrett

The business requirements are actually still the same.

Ryan Schaffer

Yes. That's a great way to think about it.

Anuradha Muralidharan

Cool. Next up we have --

Unidentified Analyst

Thank you.

Anuradha Muralidharan

Sorry, I couldn't hear you. I didn't mean to speak over here. Next up, we have Brent from Piper Sandler.

Brent Bracelin

Hey, guys, can you hear me?

David Barrett

Yes.

Ryan Schaffer

Yes.

Brent Bracelin

Awesome. Yes, this is [Indiscernible] jumping in for Brent. So I just wanted to double click on the factors that we saw influence revenue growth this quarter. You call that a lot of things kind of internally, around the subscription management change. What can you point to in terms of macro level factors that may or may not be influencing customer activity during the quarter? Anything just kind of more macro level recessionary headwinds that might have influenced activity?

David Barrett

I think with the obviously inflation high. People watch the news, right. So this hurts SMBs by more than anyone else. I think I just saw something in Bloomberg that, like 30% of SMBs are having trouble paying the rent. So I'd say that the reaction, how that translates us is in a -- we're seeing our customers be less active as a percentage of their employees and if they're on subscription, they pay the same rate. But if they have a -- they're mostly pay-per-use use, so they have some percentage of their users on pay-per-use use, and those employees aren't using the program, because they're not expensing something or not traveling or whatever they're doing, because money's tight, then we see their activity go down. So we're not seeing it turn off. But we are seeing -- what we did see in Q3 was an overall kind of decrease in the number of pay-per-use users.

Ryan Schaffer

Yes. And let me build on that, just say a little bit of that. I think the SMB is also I think, to a degree affected by sort of the overall sentiment and emotion of macro economic sort of policy, and geopolitics and things like that. So it's like, every -- if you look at this chart, which is kind of convenient to have in the screen, every time we're below that green line, something huge happened in the world. So like the first time it was like COVID, and then like, we kind of pick back up. Then Omicron, and then pick back up, and then you can even see this most recent one. It's like Russia invades Ukraine. And I think that's -- it takes the world's or time to react to these huge, huge as monumental changes happening. And I think everyone just pauses a little bit.

Again, they don't turn off. They're just like, wow, we're just going to pull back a little bit to reassess what's going on. And then a few months later, it's like, okay, okay, we're good now. And so, I feel like, a big part of this is also about, again, the business model performs when the economy is -- it performs in a stable fashion, when the macroeconomic situation is stable, when something comes and gives a big, like kick in the stomach to like the world, it takes time for everyone to absorb that. And that's, I would say, when our model underperforms this green line, but normally we just keep going.

Brent Bracelin

Got it.

David Barrett

So it's not, it's not all doom and gloom.

Ryan Schaffer

Yes. I mean, yes, exactly. I feel like, yes, we're people have absorbed the impact, we understand essentially, it's like, what is it. Like, how do we coexist with a Russian invasion with the -- and the massive inflation and so forth. People are like, okay, I get it. I've adjusted my business. I've done the things I need to do. And now it can get back to growth. And I think that's why we're seeing such a good October.

Brent Bracelin

Okay. Yes. Very helpful color there. I guess last one from me, just on that pay-per-use use topic. I'm not sure if you've disclosed this, or if you can give any additional color here. But how much business today roughly, is pay-per-use versus subscription? And is there a steady state mix of where you'd like that to be over the long term? Thank you.

David Barrett

Yes. Good question. So pre-COVID It was in the lower to mid 20% of users. And what that generally means is if you have 100 employees roughly your subscription is probably at 75 and you had 25 and over to 25 places like a generally what that means. Since COVID, we have seen that number come up to lower 30%, which is higher than it's ever been, which is I think in the IPO, people asked like how bit high is it going to go? And we said, well, it's never been 30. So it probably won't hit 30. So, we've been under 30 for several quarters now. So we are stepping in, and we're going to address that. And we're with the account manager, we're going to try to do this big push for subscription, because it's gotten, I think, bigger than we ever expected it to. And as it gets bigger, the volatility gets more, that's not really what we want to happen. So we're stepping into and addressing them.

Anuradha Muralidharan

And it's a retention challenge to like the subscription gets too expensive for the customer, which is how -

David Barrett

Yes.

Anuradha Muralidharan

Cool. Moving on to Daniel from BMO, please.

Daniel Jester

So, Ryan, maybe you can spend some time talking about what exactly were the timing issues on the settlement? Like, did the quarter end on a Friday and you didn't settle or I guess, like, what does that mean conceptually, the timing issues?

Ryan Schaffer

Yes. So it's not the issue. So this is something that's always been in the business. But as customer funds go in and out, that's recorded on our balance sheet, how much we have in how much we're owed that type of thing. And it's you're not being consistent. But occasionally it can -- if more cash goes in or out, it changes this number, which is -- so you see operating cash flow isn't negative, but why we've cleaned it up, which is why we're talking about free cash flow. And we'll be reporting on this going forward, because we've seen that it had presented itself negatively, and it doesn't really tell the whole story, right. So the company generated almost $5 million in free cash flow, but operating cash flow doesn't tell that story because it is distorted by customer funds, which has no real impact on our cash position, or the strength of the business or anything like that. So we're going to just -- we'll be showing free cash flow going forward to make it less confusing to everybody.

Daniel Jester

Okay. And then can you remind us about how you approach risk management? I mean, clearly SMBs are under stress. You mentioned that for several quarters now. How do you make sure that that stress doesn't flow through to your business in terms of bad debt or anything of that? Thank you.

Ryan Schaffer

So we have two different types of settlement for the Expensify card. We have daily settlement and monthly. Daily settlement is a incredibly safe, very low risk mode of settlement. What it basically means is you swipe your card, we will sending you basically 24 hours of credit, and then you pay us back the next day, and then we pay Visa using the funds that you just -- we just collected from you. So the timing of how much the length of time that we're extending credit is very low. And that's we've seen that any losses there are exceedingly small. Now monthly settlement is higher risk, but we also we've moved billions and billions of dollars over the last 10 years. So we've gotten really good at risk management.

So we have a number of actually, I haven't any. I know that and you talk about this, but [Indiscernible] we have a number of fraud detectors in place. But yes, I would say monthly settlement is a little bit higher risk than daily settlement. But we're not seeing any uptick at all in terms of defaults, but Anu if you want to add to that.

Anuradha Muralidharan

Yes, sure. So the first thing is, by and large, most of our card customers are on daily settlement. We launched monthly, we still didn't see a huge amount of customers go from daily to monthly.

And then we're also seeing an overwhelming basis new card adopting companies stay on daily. So, I think monthly has the fact that it's available, it helps us compete in the market with other card providers, because we are apples-to-apples. But it seems to have been a rumor that we needed monthly in order to serve the marketplace, which was always a theory now it's been proven. So that's one. But in terms of who gets monthly settlement? Who's eligible to stay on monthly settlement?

Think of it as if we have a greater degree of visibility into their finances, which we do through variety of ways, flat balance, flat assets, like these are some ways through which we know what's going on in their bank account. The greater the degree of visibility we have, the bigger your limit can be and the greater access to monthly settlements you can keep and maintain. That's how we sort of play around with our risk. And at the same time that we want to be risk averse. We also want to offer a good user experience. So we're always learning that every month we learn from delinquencies that we see we have adopted various ways of collecting all within the law, but creatively holding out usage of our platform over getting feedback. And they've all been largely quite successful for us knock on wood, but we're always watching the space because you bring up a good point, as we go into recessionary market, we want to be careful with this.

Ryan Schaffer

I think just one more point. The purpose of the Expensify card is not to extend credit to companies that don't have resources to support it. We are just giving them an avenue to spend the money they already have. So it's not as risky. It's just an efficient method to disperse the cash that they already have. So it's not like people are running their business off of their Expensify card and that they need the credit in order to make rent or anything like that. We monitor bank balances. And we always make sure that they have enough cash to pay off their, their card, or we decrease their limit.

David Barrett

And maybe just add a finer point in that on the reason why companies like off the cuff it seems like everyone would want monthly settlement, because it's like, why wouldn't you want to borrow a month's worth of credit? It just seems like there's like no downside to that. But we'd say most companies have the money, they don't actually need the credit. And so we say, well, if you do daily settlement, we can offer you much, much higher limits, because it's so much lower risk for us. And so, it's a question of, do you want to optimize for timing of cash flow? Or do an optimize for the highest level of spent? And most customers are like, well, actually, I have the money, I don't really care about the cash flow, I would like the highest possible limit. And that's one reason why everyone goes for the daily options, because it's fundamentally just a better experience for the customer. And it's low risk for us.

Daniel Jester

Got you. Thanks for all the color. And maybe if I can squeeze in one more, Ryan. What's the latest timeline in terms of cleaning up the financial reporting with regards to the Marqeta contract in the interchange fees?

Ryan Schaffer

Great question. So we are so close. And I was really -- I knew you're going to ask this. And I really wanted to tell you it was done. But -- so the latest update is we believe currently, hopefully, by the end of the year, we believe hopefully, right? Hopefully, by the end of the year, we will be rolling out the new cards that will have the new treatment. One thing that's important to note is once the new treatment is accepted by everyone by the auditors, all that stuff, we'd still need to record. So we will spend probably a quarter or two sending out the new cards with the new treatment. But we believe that we can start sending out these cards by end of the year, but we'll have more update, another update next earnings call. I really thought I was going to have at this time and we're not quite there, but we're very close.

Daniel Jester

All right, thanks, everyone.

Ryan Schaffer

Thank you.

Anuradha Muralidharan

Cool. So next we have Pat from JMP. Pat are you on?

Unidentified Analyst

Ramsey [ph] on for Pat. Thanks so much for the questions. First, your culture. I'm sort of seen or evolved and how do you expect to maintain that culture as you continue to grow? And quick follow-up. Thank you.

David Barrett

Can you repeat that?

Unidentified Analyst

Yes.

David Barrett

The I'm sorry. Can you just repeat that question one more time? It's something about how do we tend to maintain the culture?

Unidentified Analyst

Yes. I just want to talk about the culture you've created Expensify? How do you seen it evolve? And how do you expect to maintain that culture, you tend to continue to grow?

David Barrett

Yes, great question. So, I mean, Expensify is special place. And -- but that Expensify doesn't happen by accident. Everything we've done has been pretty methodical to construct an environment that really empowers everyone to deliver their absolute best. And so the question is, how do you maintain that over time? I think it's because we're not sacrificing every day. And that sounds obvious, but like you talk to any founder. And they were like, yes, I want to build a business I want to stay at forever. But then they just build a business that sucks that they just don't like, and they're like -- and so overtime most businesses just compromise every day on the culture and cannibalize basically the business. We haven't done that. We're very, very methodically invested in our employees and in that culture and preserving the pillars of it, like so one example would be, our LT share structure.

Now, when we were going public, we were like, wow, this seems like you are really going overboard in order to create incentives for employees to be focused in long term. Market on the up and up, everything's perfect. Why would you even care? Everything's always going to be good. I said, well, maybe things aren't always be good. Like when I started Expensify, it was at the bottom of the greatest depression since the great depression. And so it's we've seen hard times in the past, and we know the importance of a team that's willing to look past, the temporary sort of distractions and noise of the market and stay focused in the long term.

And so our LT share structure is just one example of why our employees, they're just focused on the long term. They see the same numbers that you're seeing, but they looking at that green line. And they're like, yes, cool, green line is good. The green line is up into the right. And sure, maybe not every single month, maybe not every single quarter. But if you look at the trends, well, the trends are overwhelmingly clear. And so, we're all very committed to this future. We believe in the strategy. And we like each other, because we work hard to hire the right people. We invest in our people. We do extensive performance management to get everyone up to the edge, get the best out of everyone. So there's no single thing I would say that we're pointing for how we intend to scale it.

But there's maybe I guess, I would say there's no reason we couldn't scale it. There's nothing that we're doing that isn't designed to scale. Because we've been built from day one to be a long term business. And so, we've only put in place cultural components that scale profitably indefinitely. And so I'd say this is the reason we're able to do it, is because we made a point to do it. And we never give up on that.

Ryan Schaffer

So we also we hire methodically and slowly, which means that when the market turns on a dime, and goes bad, you don't have to lay off 20% of your company, which can't be good for morale. So, we have enough, more than enough people and we're growing. And we're not worried by this, by downturn. We're doing the same thing today that we were doing that the plan was couple of months ago, and the strategy hasn't changed.

David Barrett

Yes, I mean, like this strategy works. Generally every month is our best month. Now that's not 100% true, but it's 90% true. It's mostly true. And so. I'd say it's a strategy that works, and we believe in it, and we're going to keep investing in it.

Unidentified Analyst

Thanks so much, guys. Appreciate it.

Anuradha Muralidharan

Last but not least, Mark from Loop Capital.

Unidentified Analyst

Hi. Can you hear me okay?

David Barrett

Yes. Great. Thank you.

Ryan Schaffer

Hey Mark.

Unidentified Analyst

Hey. So, thanks for taking my question. And Ryan, question for you. Last year, during Q4, during the December quarter, the company saw an influx of over subscriptions from pay-per-use customers. And I'm wondering if you expect any reoccurrence of that in [Indiscernible]?

Ryan Schaffer

Great Yes. That is a very good question. Because last year, October was a little soft. And so it's November, but December was gangbusters. And right now we're seeing a strong October. November is looking good. I don't know about December. It is -- I can't tell you if December is going to be good or not. I would say, the October performance is probably all the guidance. We're willing to give on in terms of Q4. It looks good, but I can't say whether we're going to have gangbusters December not, because the pay-per- use could fluctuate. And I generally we see people come in and a year more people than normal to submit. But that's the downside of the pay-per-use. You pay more, but they're, they're less reliable. So we're working on increasing the reliability of that.

Unidentified Analyst

Okay, great. And then, on the margin front I know that you don't provide specific margin guidance at this time. But it kind of a high level, just give us a sense of how we should be thinking about how the firm balances revenue growth versus operating margins?

Ryan Schaffer

So I would say, margins will probably stay similar. We might see a temporary downtick as we scale up some of our other teams, but I think long term we're going to see margins improve, similar to when we introduced our Concierge system, we saw margins go down and then go way up as the efficiency of that increased. We're applying everything we've learned from our customer support concierge system. And we're applying that to our sales motion. So I think we'll see a similar increase in efficiency over time, but we're still in the early days of that. So I'd say for the near term is probably going to be similar-ish, and then long term will get better.

Unidentified Analyst

Great, thank you.

Ryan Schaffer

Thank you.

Anuradha Muralidharan

That's it. We are good.

David Barrett

Great. Well, thank you so much. It's always a pleasure talking to you all. And so I guess we'll talk again another quarter. So great day.

Ryan Schaffer

Thank you.

Anuradha Muralidharan

Thank you.