Expensify, Inc. (NASDAQ:EXFY) Q2 2022 Earnings Conference Call August 11, 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

Daniel Jester - BMO Capital Markets

Koji Ikeda - Bank of America

Patrick Walravens - JMP Securities

David Barrett

Well, hello, everyone. Welcome to the Q2 2022 Earnings Call for Expensify. We're very excited to be here, broadcasting live from the Bank of Expensify here in Portland. And so on this call, we have me, I'm David Barrett, the Founder and I of Expensify. We have Ryan, our I; we have Trent from Technical Accounting. Also on the line is Anu, who is our Chief Operating Officer. And so let's get started.

Let's in you could start. Here, we get cool. And so I believe that the new is going to kick us off with a fascinating tail of legalese. So Anu, are you here? And can you just go through this

Anuradha Muralidharan

Yes, can do. 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.

And that’s it back to you, David.

David Barrett

Great. That was fascinating. Thank you so much. All right. So let's get started. As always, we always start with just a review of what makes Expensify special. And so as you might recall or for anyone who's new to the call, there are basically 3 pillars of our success. The first is that we have enormous untapped markets. And so the way that we view it is the management space has been largely untouched. Of these, you add up all of the competition's customers, it adds up to maybe a couple of hundred thousand companies in the world. But there's hundreds of millions of businesses in the world and virtually none of them do anything. And so the way that we view it is the market is almost entirely untapped and is enormous.

Second, we have a unique way to acquire customers it's unlike anyone else in the market that can reach that whole market. And then third, we actually have the ambition of building a platform that can link 1 billion people by their transactions. And so that means, if we think that of Instagram can link 1 billion people with photos, we think that we can link 1 billion people with money. So the market is huge. And when we typically think about it, normally, we think about just the enterprise subset of the market. They’re very sort of like tip of the iceberg, if you will. But the bulk of the market is actually really in the SMB. And so our business model is really focused on acquiring this vast untapped SMB market which has a huge revenue base and it’s basically the best and most profitable part of the market.

And finally, we sort of have 3 or 5 different pillars of how we go after this market. So first, on the outside. Generating leads is basically we have our same advertising like others but we also have a Free Plan that's basically making a very low barrier to entry for any new business, trying to capture businesses at the very earliest stage. So when they're the side or just an idea to get them onboarded into a Free Plan of Expensify, give them reimbursements, corporate cards and things like this. And that puts us in the pole position as the business grows.

So as their needs change, we are the first in line for those needs. We paired that with a very substantial real-time sales capacity. So basically, every Free Plan and every new customer that comes on is assigned basically someone in real time to talk to them in person. Likewise, our top customers receive account managers to help them out basically maximize retention over time. And of course, all of this drives incredibly high margin subscription revenue. And so this is basically our multipronged strategy for capturing this huge, huge market.

As for that acquisition model, as a reminder, it's unlike anyone else in the market. Basically, everyone else in the market has what we call a classic enterprise sales model, the top-down model where you have some sort of commissions, quota-carrying salesperson, write the I or something like this, convince the buyer to buy and then only after all of that the employee actually learn anything. So it's a traditional model. It scales nicely. It only scales the enterprise portion of the market which is, as we said, is the smallest, least interesting part of the market.

We have a model that goes after the whole market using a completely different strategy, where individual employees learned about Expensify from a friend or from our consumer-driven advertising in the outside world, they pull us into the organization and then just start using us internally. We turn every one of their expense reports into a highly targeted marketing message directly to the decision maker. We call it is our bottom of adoption model. We are the only ones to do anything like it in the market.

And it's overwhelmingly driving the success of our business. It's a very unique and differentiated way to acquire customers and that's how we're able to grow in this huge part of the market that everyone else is struggling. When it comes to the actual product itself, again, there's a lot of different players out here. We're the only ones that can make 5 important claims.

First, we can support true enterprise customers. We have that enterprise scale. We can go to the very top of the market. But also we have a real consumer-grade design. We can go to the bottom of the market. With the same platform, we can support the side hustle, sort of brand-new all the way up to the Fortune 500 enterprise, IPO requirements and things like this. We have a global reach, so we can support the multi-entity necessities of a public or a large multinational company. We have not just needed a corporate card but also needed a travel. You could just talk to our concierge chat service and book flights, hotels, trains whenever you need.

And then finally, of course, it's also free. Everything in this list, whether it comes to card, travel, all this functionality can start with a free first plan and then grows your needs. We're the only ones that can make these claims. And as we're going to talk about in a bit, the market is shifting and we're more free than free -- or the freest option out there even more now than ever.

So we talk about this idea of 1 billion member opportunity which is easy to roll your eyes at. But the way that we see it is everyone on the planet that's spending money has a consistent set of problems. And so we've built the platform that tries to unite all of these use cases onto a single common platform. It's not just expense management, that's where the best known for. We have everything from an expense management solution, payroll solution, corporate cards, bill processing, invoice processing, travel booking and also a consumer wallet and chat functional, all on a common platform.

And the way that we see it is there's a continuous spectrum between chat on one side, all the way to highly structured expense management in every form of payment is if somewhere on the spectrum. And so we want to own every part along the spectrum because that's how we can extract 3 different types of value. First, many of these use cases are highly viral. If you're talking to people or anything else, every payment involves talking to someone else. Payments and chat are the same thing. And any sort of chat-based conversation has to involve someone else and that creates a viral lift opportunity. We grow because our users talk to other users and other -- especially users in other companies. And thus, we're growing basically in the viral lift of our word-of-mouth bases.

Second is to generate tremendous transactional revenue. I think from cards and things like this, there's always opportunities to shave a little bit off in order to sort of pad our bottom line. And then finally, of course, the bulk of our revenue is our subscription revenue. We have incredibly high margin, recurring mostly on an annual commit revenue. And this provides a tremendous amount of built-in revenue growth from our kind of core revenue or revenue expansion model, if you will, with the transaction revenue on top and all this pre-viral

So we -- by offering a platform that spans the full range of functionality, we can sort of triple dip from the value that we get out of every one. Now pretty much every call, we get some variation upon the question of like, what real, like what's actually different between you guys. And so I think as want to take a second here to talk about that our products and our business is just completely different than everyone else in the market in a few different ways.

Now to start, the market is crazy right now. I don't even notice but it's things or nuts out there, whether it's because, obviously, there's the war in Ukraine which has taken a tremendous amount of oil off the market which is making energy prices skyrocket. There's the blockade. So the food prices are going up. There's a COVID lockdown throughout Asia which is causing all product goods like things are just nuts right now. And no one really benefits in the grand scheme of things from a difficult market. But we do better than most because we're built for a difficult market and it plays to our unique strengths.

So one is, amongst small businesses, default so we hear from others. Like we talk -- when we talk to -- we see all these other card vendors out there and they've worked very hard to acquire all these customers. And these customers are actually struggling. They acquired lens basically these cards and then have dropped tens of thousands of risky customers. I mean I think the most notable example is Brex. Brex had to drop, I think something like 50,000 customers because they just weren't making money off of them and they were too much of a default risk.

Now they've actually started sending those customers over to us because we have a different business model. We can support those customers and we can support them with a wider variety of use cases. To us, they're actually quite valuable. But to them, they've actually retreated into the enterprise space which again is no surprise. They have enterprise sales model. And so shocking it really only works in the enterprise. I think is the bellwether for all of these businesses. Basically, all of them came in with a card realize this market is quite difficult to get to work at scale and I think it's retreating to the enterprise.

And so I think we see this again and again. And so whereas they're really struggling because default rates. Most of our lending goes to existing customers. They're like long term and highly credit work. We have not seen default rates spike. And so this has been a great thing for us. Second is that whereas the interest rates are going up, the interchange that they get is actually not. And so they were unprofitable companies in the first place and their core cost is actually going up. We're different. We have incredibly stable costs.

And because of our margin -- or high-margin subscription revenue. So our revenue and our margins are very, very safe because we've been built for a software-first model, if you will. And this drives basically much more capacity for revenue -- protected revenue growth. Third is, when the markets are crazy, transactional revenue can change very quickly because spending habits can move very quickly. And so their business models are entirely based upon the idea of stability of spending habits. And they're getting super spiky.

By our hands, we have auto-renewing annual subscriptions and they just paid monthly automatically on a building card. And so we don't have collections problems and things like that. So again, just a very, very different type of business model. And if you're wondering how is it that we can survive so well in this market, it's because we just have a different business model that's built for a market like this. It's built for the complex and dynamic needs of the SMB marketplace and it wasn't just built to survive in just the summer months. Like when winter has come, we do great.

Likewise, I would say, it's not just about looking at the past with the present. We think that we're the best positioned for the future as well. Over the past couple of years, as you know, we've been investing tremendously in products where everyone else is basically dumping cash into customer acquisition to get these thousands of customers which are worthless to them and then to ditch them, like we've actually just been pocketing our profits and then investing in a substantially improved customer -- or product platform across the board. We think that we were the best before and we think that we're about to bring online is by far better than anything else in the market.

And so we think that we're investing in the future of this market and establishing a firmer position than ever. We've always been a subscription-first business. And so they've basically been focusing on transaction-only models. We've actually, in the past couple of years, have really doubled down our subscription model. I mean, as you know, we've adjusted pricing in. In the past couple of years, we've actually thickened our margins, whereas they are going to have to frantically try to create some kind of subscription product based upon a software model which isn't very good.

We've already basically done the hard work to ensure that our margins are strong before we go into difficult conditions, whereas they're going to have to do all this basically under the gun. And then finally, we've been focusing SMB from the very start. They're discovering there's like many waves of competitors before them that the enterprise sales model doesn't work very well out of the enterprise. And so we've had an SMB-focused business model from day 1. It still works great. And so again, these are just a variety of ways that we're just completely different than the competition out there. And that's why we keep growing and thriving, even everyone else is basically fleeing away.

Second, we've invested a tremendous amount in our own employees. And so you talked to the other companies and I talked to other founders and things like this, like 500 people this month or something like this. I think the key thing is like I can't imagine hiring that many people because that means you have a problem that can only be solved with people. People are the most expensive and to solve problem. We prefer to solve problems either at solve them, so we don't have to solve them again. Solve them through automation or solve them through outsourcing.

And so as a result, we have this very core team that we've retained incredibly well. And it's been recognized awards recently for basically like. For the LTE program -- or LTE share program for how it retains employees invest in them, we're recognized one of the best workplaces and things like this. And this shows up in our employee retention, like in a typical Silicon Valley startup, if you will. The retention is just a couple of years, meaning that if you're working there, if you look to your left, if you look to your right, one of those people just joined and the other one is looking for a job. And so there's no institutional knowledge basically in these companies.

We have such a core a strong foundation of people. Our average person has been here over about 5 years. And our executives has been here over 10 years. And so we have a tremendous amount of stability inside of our company and that will able us to provide stability to our customers as well. Finally here, the accounting channel has always been a big deal for us. And I think that we've talked about it a number of times and we talked about how we're doubling down the accounting channel with account managers with a CPA card and things like this.

But what are the tools that we found the most effective in the long run is just to meet up in person. And we from persons we go to conferences but we think the best way to meet up in person is by hosting our own comments. We did this a couple of times in the past. We're very excited that we're hosting our third Expensify next May. And ExpensiCon is a conference unlike any other. This is not something in Vegas or whatever.

The first one we did was in Maui. The second was in So it sets a pretty high bar to beath. But we think we've beaten in Italy, where basically in Borgo I'm clearly not And it's just an incredible spot to be. And the key to ExpensiCon is it's about bringing the best thought leaders in the industry together so they can generally collaborate and talk together. And so the nice thing about the conference is it always pays for itself or at least it has in the past. For basically every time we engage with our thought leaders because they are revenue generators for us, we say, hey, we would love you to come to this conference. In order to do that, you have to get your customers up to a certain point. This is as a consequence. We've been able to pay for the past 6 months before the event even hosts because everyone's taken to get the required them to increase revenue. It's been a very powerful technique.

Second, it's a way to really cement what we call market consensus. Market consensus is ensuring that wherever you look, you see Expensify flag at the top. And that's because when people look to the top accounting firms to set the agenda of the industry and if we have them working with us and we sit down and we talk with their top people, they understand our philosophy and our view of the marketplace, we understand their deep needs. This basically ensures that everyone in the accounting industry is a champion for Expensify. It's been a really powerful thing.

And then third, this has been a key way different inflection points in the accounting industry to really hold out a new vision for how the future is going to be and then get the top leaders and thought leaders and journalists impressed in the industry to buy into that vision and start promoting that vision. And so before we come on, expense management was a highly just manual process. With ExpensiCon 1, we introduced this concept of real-time expansion for us. The idea that you should just scan a receipt and then everything else happens automatically. And so now we take that for granted. But that was something that we had to do and create this concept overall.

Second, for ExpensiCon 2, we introduced a concept of pre accounting. Now this is something that’s been around for a while but it’s never been discussed in the accounting industry. Accountants didn’t even view expense management as part of their job. And so now we’ve worked with the accounting thought leaders to make it clear that no, no, no, all of the work that happens to formalize the accounting information before it gets to account, that’s part of the accounting industry itself. It’s called pre-accounting.

And so now that’s actually a formal concept that is taught in the actual accounting industry to firm our place in the industry and to ensure that we are placed in the industry. So ExpensiCon 3, It’s going to be even better. So we’ll talk more about that in the upcoming months as we lead up to it. But we’re very, very excited for what’s coming up because it’s been fantastic for in the past and we’re extremely confident it can be fantastic for the future as well.

And with that, let me turn it over to Ryan.

Ryan Schaffer

Great. Thank you, David. All right. So excited to go through the numbers with you all. As you can see, Q2, we had a great quarter. We had 754,000 paid members. Our revenue was $43.1 million and on an annualized basis, that's $172 million. I showed this chart last time but now we've extended it. We've updated it before we show that -- we did see a little dip in paid members from Omicron but we saw the end of Q1 that really rebounding and that rebound continued all the way through Q2.

And as you can see, if you just kind of take out that little pink bar there, that is a straight line up into the right. So we are fully recovered. And I think what's really exciting is this is the best quarter in company history. Our previous best quarter was Q1 of 2020 before the pandemic and we are actually above that previous high watermark with a higher price and just a substantially better company than we were then.

The Expensify Card continues to grow at a rapid rate, 142% year-on-year growth and then sequential quarter-over-quarter, 40% growth which is obviously fantastic and we're very excited about that. And then we want to highlight kind of the strengths of our profitability. So our operating cash flow was $15.9 million. Our GAAP net loss was $8 million. That is primarily driven by stock-based comp expense.

If you take that out, our non-GAAP net income was $6.1 million. Our adjusted EBITDA is $11.7 million and that's an adjusted EBITDA margin of 27%. We've seen this slide before but just we reaffirm our guidance, our long-term guidance of 25% to 35% over a multiyear period. We still have a lot of confidence in that, especially given the results we've seen in the last quarter.

And just to summarize the call, we had a strong cash flow and we were profitable. We had the highest quarter for paid member growth, now exceeding pre-COVID numbers. The Expensify Card is up 142% from last year and we believe we're more recession-proof competitors with plenty of momentum.

And with that, we will kick off the Q&A portion.

Question-and-Answer Session

A - Anuradha Muralidharan

First, we have JPMorgan. Do we need to unmute them or something

David Barrett

We'll circle back.

Anuradha Muralidharan

Okay. All right. Citi, perhaps. Okay. I can just mute some -- No, I can't do that. Mark, do you want to try to unmute yourself? Okay, there you go. Mark?

Unidentified Analyst

Can you hear me?

David Barrett

Yes.

Unidentified Analyst

Ryan, let me just start with you. Given the pretty good solid 2Q results and I think that's 2 consecutive quarters of good results here. So is the company thinking of reinstating or any plans to reinstate financial guidance?

Ryan Schaffer

So not at this time. As David mentioned, it's kind of a wild time, I think, in the economy, right?

David Barrett

I think I said it was nuts.

Ryan Schaffer

Yes. So we have -- we're going to recession or we're already in recession but at the same time, a job support just came out that was better than expected. So it's kind of difficult to anticipate exactly what's coming out. So at this point in time, we're sticking to our long-term guidance. But we do believe that the -- our current trends are going to continue.

David Barrett

Yes.

Unidentified Analyst

Great. And then, David, a question for you. I think in the last quarter's call or maybe the call before that, I think you mentioned that the firm is looking to add some outbound -- kind of an outbound sales motion to your sales processes. We're actually going to call prospective customers. I realize it's still early days with that but I was wondering if you could just bring us up to speed on up-to-date on your outbound efforts?

David Barrett

Great question. So I -- we staffed up that part of the team. So we have all of them basically onboarded and trained in all of that. And right now, we're focused primarily on just giving the best possible support to our inbound leads. And so that's where our focus is right now. The expectation is that once we've sort of worked everyone through the training process through our inbound leads and then also especially as we deal with additional leads through the accounting channel which we've been engaging a lot more in, then I would say with the excess capacity, then we would be turning to outbound. We haven't really turned out on that much yet. That's more of like, again, sort of a future plan but we have everyone very busy talking to our so far.

Anuradha Muralidharan

I believe Dan raised this time next. Dan, do you want to go?

Daniel Jester

I do. Can you hear me?

David Barrett

Yes. Hi, Dan.

Daniel Jester

So in terms of the growth profile of the business, the last maybe year or two, you really benefited from some of the change in pricing. And I noticed that sort of the latest quarter, the revenue per user has started to stabilize. So when you think about the 20% to 25% -- or sorry, the 25% to 35% growth over the long term, is that going to be driven predominantly by adding new clients? Or is sort of price and mix still going to be something that could be an uplift there?

Ryan Schaffer

Yes. Great question. So I agree it's starting to stabilize. So the price change has been finished for a full year now. So since then, any increase in like a per user revenue, any increase in that has been people not signing up for the annual subscription. They've been exceeding their subscriptions and that's built at a higher rate. And so when we see the growth of our customers, they will generally exceed their subscriptions. We collect a higher rate on those. And then at some point, it stabilizes out where they're renewing their annual subscriptions with the higher rates. And I think what we saw was a large growth in our existing subscriptions which was pushing up that price. And I think we've talked about this in the past, where it's kind of cyclical they will exceed it to some certain point, they'll realize, wow, I'm really exceeding my subscription, all of our receipts remind them that they can decrease their price by signing up by increasing their annual subscription.

So, I think it kind of -- it will ebb and flow a little bit as people like seeded and then kind of realize what's happening and then sign up for the annual subscription. And to be clear, we'd rather have them on the annual subscription versus just kind of this paper use thing. So that's I think that is kind of stabilizing. And it could go up more but we don't really anticipate that happening.

David Barrett

Maybe to build on that, I think that the -- it's a reflection of kind of the volatility and sort of sentiment of our customer base if they're like not willing to make an annual commitment. Now again, we take at a higher price but I think that they're willing to pay a higher price in order to avoid making commitment. I think you can infer some kind of customer or some sort of like market anxiety around the future as well. Going back to our comments about like things are still pretty nuts in this marketplace. And so, I think we have a business model which can take advantage of that volatility but we can still read that there's still a lot of volatility in the market.

Daniel Jester

Okay. And then, just maybe on the volatility theme, can you talk a little bit about in terms of -- you mentioned your competitors in a really tough spot. You're obviously very profitable and have strong cash flow. How are you thinking about maybe potentially using some of your strong profitability to maybe go and accelerate customer acquisition? Or is that not a plan given the macroeconomic volatility you've cited?

Ryan Schaffer

So we are putting more money into our sales motion, as we've discussed. Now in the past, as I said, we feel like we're kind of saturated on advertising. So we're pulling that back kind of optimizing running tests on the marketing standpoint. But in terms of excess cash, I think we're looking at commissions and things like that and seeing how we can play with that on the sales side.

David Barrett

And perhaps also on the conference line, something like ExpensiCon is an example of though it's designed, obviously, to pay for itself, it's still a big swing. And so I think that we can use our extra cash to sort of invest more aggressively into the conference space. We go to a ton of conferences, we're going to more conferences and we're showing up in a much bigger conferences and we're doing more in direct engagement, accounting firms and so forth. So there's a lot kind of behind the scenes that there's ways to spend money through these sort of quieter channels that we think are very effective.

Ryan Schaffer

Actually, I just want to take this opportunity to talk a little bit about the marketing spend a little bit. So we have dramatically increased. So I said last quarter that we have -- we're kind of decreasing our advertising spend but we've actually really ramped up our conference spend which we feel really good about kind of the return there. We've been going to conferences for a long time. We have a good kind of conference execution strategy. And in Q3, we actually ended picking up a lot more conferences than what we were thinking. So we actually should see S&M be relatively the same in Q3 as in Q2 but that's a shift in where the dollars are going.

Anuradha Muralidharan

Koji, you're up next.

Koji Ikeda

I wanted to ask you a little bit about a theoretical question here, thinking about the long-term targets of 25% to 35% growth. Just really trying to think what needs to happen in the end markets for you to kind of hit the high end of that 35% growth? Is it a function of just spending more? Or does something need to happen some sort of inflection in the end markets where you hit that 35% target?

Ryan Schaffer

Great question. So I think there's a couple of things. We've got a couple of irons in the fire, I guess, right? So we are building our new kind of more consumer-focused platform which we think is basically designed from the bottom up to just be viral left and right which we think is going to accelerate word of mouth. Another thing is the Expensify Card. Now remember, that's not in revenue right now. We expect to move that into revenue in the near-term future. But one thing I wanted to talk about that we haven't spoken about yet is the impact of cash back. So right now, we're in kind of a weird situation with the card where the interchange is not considered revenue even though will be soon but cash back is -- we are offering cash back. And cash back is considered a -- it's contra revenue. So it actually decreases revenue. So we are getting the downside of cash back but not the upside of interchange revenue which shortly when we have all this kind of ironed out, that should be a lift on revenue as well.

Koji Ikeda

Got it. And then just one follow-up for me. Thinking about the Expensify Card and as the revenue increases on that and the payment volumes increase on that, I do recall you guys used to talk about how if there is threshold met in the type of spend, the ARPU goes down or the subscriber fee goes down, are you beginning to see that? And how should we be thinking about that as we model out ARPU and our subscribers and Expensify Card going forward?

Ryan Schaffer

Yes, so we -- yes, I mean, as the -- as more and more people adopt the card and they're using it regularly, we do give them a discount on that price. That discounting price is offset by the increase in interchange. We'd rather pay someone or someone pay us the lower rate and generate the interchange because we net out more in that scenario. But going forward, we're already seeing it. Being going forward, we expect to see it more but it's still compared to the overall amount of members, I'd say it's not super meaningful. But if we do our jobs right, we should see -- we should start to see that come up kind of in the ARPU But I wouldn't model it to be drastic in the near term.

Anuradha Muralidharan

Yes. To just stopping here, Koji, I think the effect on ARPU, you'll probably start to see it like quarter-over-quarter. Like if you look at the implied ARPU right now and if you take it quarter-over-quarter, you're probably seeing a very consistent number, give or take a few cents. So you're probably going to see a trend rather than some sort of like sudden change. So as we see that trend, if it's materially going down and on a consistent basis, let's talk more about it but right now, I don't think we're seeing that yet.

Maybe -- sorry, if I didn't say your name correctly.

Unidentified Analyst

Yes, just jumping on for Brent here from Piper Sandler. So just two from us. As we start to think about the potential for belt tightening around budgets for travel and expenses, given the macro situation, can you talk a little bit about what you're seeing from your vantage point? If you are seeing kind of dynamics start to change, where would it be kind of most pronounced, either from a customer size or a vertical perspective? And then I have just one follow-up.

David Barrett

I mean I would say I think that everything on crazy with pandemic. And I don’t know that anything is like really stabilized since then. Like I don’t know if there’s a consistent baseline to compare it to. It’s basically like things start to look good, then Omicron comes. Things are just good, then like war or like whatever it is.

Ryan Schaffer

You have to compare it to like 2019...

David Barrett

Or something like that, yes.

Unidentified Analyst

So I mean we've seen business travel increase. In general, spend is down from where it was a pre-pandemic like it's absolutely less on just per customer basis. But in terms of verticals, I don't …

David Barrett

I in that particular fashion. I don't know if you have any insight into that?

Ryan Schaffer

No.

Unidentified Analyst

Okay. Okay. Sounds good. And then as you mentioned, the macro situation has kind of layered in an additional layer of uncertainty and crazy similar to the way that COVID and Omicron did. And so with that understanding, are you able to -- I know you don't offer guidance but are you able to give any directional visibility into how card interchange or may be paid member adoption that's kind of been trending in July? Or is it kind of too early for that?

Ryan Schaffer

So...

David Barrett

This is a lot of guidance…

Ryan Schaffer

This is like guidance. I'd say that barring any -- I don't know, a huge flare from monkeypox or something to the level of COVID or something, we're expecting the trends that we've seen in the last several months to continue. And so again, that's probably the extent of what we're prepared to say there.

Anuradha Muralidharan

Next?

Unidentified Analyst

I just wanted some more color on kind of the gross margin contraction we saw this quarter and kind of what drove your cost of revenue up? And I know you don't give guidance but how we should think about it going into the back half of the year?

Ryan Schaffer

Yes. Good question. So a couple of things going in cost of revenue. I mean, several costs are like OCR in all of our receipts. So when we see increase of that, that can increase cost of revenue. Also, we have an increase in the contractors that we use to support our customers. So that's also in cost of revenue. And then card processing, like the actual ordering the fiscal cards, the merchant fees that we pay, stuff like that. So I think that's probably driving that the most.

David Barrett

Yes. And plus also like we -- I think I mentioned that we added more account managers for a wider range of our customers.

Ryan Schaffer

Yes, that's the answer.

David Barrett

Yes. And so I think that's probably the -- I would say we're still experimenting exactly which customers are going to get them which aren't. I think that we're pretty much fully rolled out at this point but I don’t know if we’re going to roll out further or not. I don’t know the current stats of that.

Ryan Schaffer

Yes. So maybe just you ask for color, so we'll give you some extra color. So the -- what we've done in the past is our concierge engine is a hybrid of a human and AI and we've been able to get incredibly efficient to kind of leveraging those 2. I'd say we've kind of -- we're experts at that. And we first did that with just customer support, so not account management, just you ask a question and someone either the machine answers it or a person assisted by the machine answers. And then we have -- we’re currently expanding that into sales which is currently doing inbound sales but the intention is still. So using outbound sales with that concierge engine. And recently, we are adding account managers which is just a higher degree of customer service from what we provided and that increase in account managers is probably the only new thing, I’d say.

Anuradha Muralidharan

Pat, you're up next.

Patrick Walravens

So David, I'm super interested by your slide about a more difficult market highlights are unique strengths and especially the default risk, right? So I would just love you to go a little deeper into that you haven't seen default rings spike than your competitors have. I guess from the point of view of some to cover software and not necessarily with financial services, I mean, it seems like SMBs, it just seems like things would be harder for them. And you guys have a lot of them, that's number one.

And then number two, so what is the difference between -- I mean, I know you said they’re long-term customers. But is it also because was focusing on venture companies, for example and you guys don’t. So just a couple of more thoughts on that would be super helpful.

Ryan Schaffer

Yes, I can -- I'll take a swing and then David can So a couple of things there. So we have a dramatically different underwriting methodology. So what we'll do is we offer both monthly and daily settlement, monthly is the 30-day card that you're used to but we also offer daily settlement with significantly higher credit limits. But the reason that, that is superior is because we extend 24 hours of credit and then we debit the customer 24 hours later. So the way it works with us is, let's say they spend $1,000, the next day, we debit $1,000 from their account. And then like 2 days after that, then we pay the network back. So we are not paying with our own funds. We are paying with the funds they gave us. So we're not left holding the bill if they go out of business or just decide not to pay because they had a tough month. We are able to just pay back way more easily because we're constantly just cycling this money through.

And we're not waiting 29 days basically and hoping that they pay which is -- just increases the risk. I'd also say our default rates have remained the same, mostly because we probably have a lot more -- we have a lot of discipline. We're a disciplined company, right? We've always been proper for a long time. That takes a lot of discipline and we make smart underwriting decisions and a company that is kind of focused on growth at all costs might be a little more irresponsible, I guess, with their decisions. And I haven’t seen the deck and I haven’t seen the data but we’ve talked to a lot of investors and a lot of those investors look at these deals. And what we’ve been hearing is that they’re seeing default rates like 7%, 8% which is like wild and we’re not seeing anything like that at all. So that’s kind of a little bit where that David’s kind of commentary is coming from. I don’t know if I missed anything there?

David Barrett

No, I think that's right. I think, actually, the mix of daily versus monthly settlement is actually kind of the key one. We launched with daily settlement and that's the default configuration for Expensify. And the vast majority of customers are perfectly happy with them. And so they get higher basically spend limits. They can just spend more on the card because they cycle their money faster. And furthermore, we have extraordinarily lower default rates. And so that's our default configuration. We still have monthly settlement, obviously. And for -- especially for the accounting industry, I would say the monthly settlement is particularly interesting. But anyway, so the defaults of our system are just different than the defaults for their system. And they've been driving people towards a monthly settlement option which is just 30x more or actually more because they've been doing like a whole bunch of new customers we're getting to 60-day option as well or something like that.

So they were just extending a tremendous amount of credit. And I think that Ryan has been generous but like no, they're totally nuts. Their sales motion was insane. Like because we talk to people at conferences, they're like -- and they'll be talking to their salespeople and they're like, how does this make any sense? And the salesperson there which is some they hired like to run the booth or something like that. It's like -- yes, it just doesn't matter. Like I just don't really care. I just need to get this deal. And that attitude has basically been play that out in 1,000 conversations multiple years. It's like it's not a high-quality customer group. And so I think that -- whereas to Ryan's point, we're different in the sense that we focus on businesses that like we're offering reimbursements. We're offering like integration with accounting partners And most of our customers are paying on top of it. And so they're not just coming to us basically like just for free credit. They're coming to us first and foremost, for our software solution and they're real businesses.

And then secondarily, they're like, "Oh, you've got a great card, too, that's super awesome." And so I think that this is, again, a completely different set of customers.

Ryan Schaffer

And we have, I guess, an additional point of leverage. If someone doesn't pay the card, we can turn off. We basically lock them out of Expensify which they run their business on, so then they pay us immediately. Whereas if you're just a credit card and they say, well, you better pay us maybe I won't. They don't have anything like recourse there, right? So we are crucial and fundamental to these businesses. So we're like the first to get paid.

Anuradha Muralidharan

All right. That's the last one. I think so because I still don't see Tyler who's the only one left.

Ryan Schaffer

We'll catch Tyler later.

David Barrett

Well, thank you, everyone. I don't know if we have side. That's our side Well, I hope it's a pleasure. Thank you so much for tuning in. Just to reiterate, this has been the best quarter ever. We think that the pandemic is officially behind us in every way. And we are exiting a much, much stronger company So it's been exciting. And I think we've got a lot more excitement coming up. So thank you all.

Ryan Schaffer

Thank you.