Riskified Third Quarter 2021 Earnings Transcript

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Good morning and thank you for joining us today. Riskified is hosting this call to discuss its third quarter earnings results for the period ended September 30, 2021. Participating on today's call are Eido Gal, Co-Founder and CEO, and Agi Dotcheva, Chief Financial Officer.

Earlier this morning, Riskified issued a press release announcing its financial results for the third quarter of 2021. A copy of this press release has been furnished with the Securities and Exchange Commission on Form 6-K.

Before we begin, I want to remind you that matters discussed on today's call will include forward-looking statements related to our operating performance, financial goals, and business outlook, which are based on management's current beliefs and assumptions and are not guarantees of future performance. You should not put undue reliance on any forward-looking statements. Please note that these forward-looking statements reflect our opinions as of the date of this call and except as required by applicable law, we undertake no obligation to revise this information as a result of new developments that may occur. Forward-looking statements are subject to various risks, uncertainties and other factors, some of which are beyond our control, that could cause our actual results to differ materially from those expected and described today. In addition, we are subject to a number of risks that may significantly impact our business and financial results.

For a more detailed description of our risk factors, we encourage you to read Riskified's periodic and other SEC filings, where you will see a discussion of factors that could cause the company's actual results to differ materially from these statements. A replay of this conference call will be available on our website under the investor relations section.

I would also like to remind you that during the call, we will discuss some non-GAAP measures when talking about Riskified's performance. The presentation of this financial information is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. We use these non-GAAP financial measures for financial and operational decision making and as a means to evaluate period-to-period comparisons. We believe that these measures provide useful information about operating results, enhance the overall understanding of past financial performance and future prospects, and allow for greater transparency with respect to key metrics used by management in its financial and operational decision making. You can find the reconciliation of those non-GAAP measures to the nearest comparable GAAP measures in the earnings press release issued, and furnished on Form 6-K today and in our prior filings with the SEC, all of which is posted on our website at ir.riskified.com.

I will now turn the call over to Eido Gal, Riskified's Co-Founder and CEO.

Eido Gal, Chief Executive Officer, Riskified

Hi Everyone - thanks for joining our second public earnings call. I just want to start the call by addressing some recurring questions we've been receiving and then dive into some Q3 accomplishments we're very proud of.

So, the two main themes I want to discuss are

Number one, what we consider to be the normalized growth algorithm for Riskified. This is something that's come up a few times and I want to break it down in a very simple and understandable way. Here I will also mention two transitory impacts on that growth algorithm.

Number two, I want to share where we see our biggest opportunities, both on the GTM side and on the product side. And not just where we see opportunity, but also how we plan to go after that opportunity and how you should expect that to be reflected on our P&L.

OK, so starting with the growth algorithm: The simple way to think about it is that we are positively levered to e-commerce growth and we typically grow as our merchants grow. Now that growth shifts around depending on our merchant mix, but industry reports generally project e-commerce growth of 10-15% . When we think about new business - and that can be net new logos, expansion and cross sell - we believe this can add up to an additional 15% on an annual basis. Because the timing of when we close large new deals, which can be highly variable, that additional 15% of new business can fluctuate in either direction depending on when in the year deals go live. Finally, our take rates and merchant composition can also impact our growth. And that's it - that is a simplified way to think of Riskified's growth algorithm. And we mentioned medium to long term, so what does that actually mean; from our perspective this is the algorithm for a multi year time horizon. We have a very large TAM, best in class core product, growing product portfolio that is gaining traction with clients, and increasingly global GTM. Now, in the short term, there are two transitory headwinds impacting our growth algorithm that I'd like to discuss:

1) The first is PSD2 - This is a payments security regulation in the EU that is resetting some of our GMV in that region. So far we are experiencing a drop in volumes in line with our predictive models and the impact of these reduced volumes is built-in to our overall guidance.
2) The second transitory headwind relates to more muted eCommerce trends and global supply chain issues - Following the reopening of the economy and return to more traditional spending patterns, we see more modest eCommerce growth, combined with fairly ubiquitous supply chain issues affecting online merchants.

We anticipate that PSD2 and the more muted eCommerce growth trends will affect our short term growth most prevalently through the first half of next year, after which we expect to start scaling towards our longer term growth algorithm.

The second main topic I wanted to discuss is GTM and Product opportunity.

Let's start with go to market. When you think about the GMV we processed this quarter, $20.9B, we're very proud of it. It's a great, scaled number. Having said that, it's still tiny relative to the opportunity we have in front of us, and that opportunity is broadly, the eCommerce market on a global basis. When I think about our revenue distribution, approximately 70% comes from merchants domiciled in the US. There is a significant market opportunity for us to expand outside the US and we plan on accelerating our global GTM hiring to make sure we cover the entire market. We have a unique opportunity over the next few years as the world's largest eCommerce companies migrate away from legacy solutions to new modern platforms like Riskified.

Most of the growth in our current investment spend is going towards expanding our direct enterprise sales force globally. While it can take some time to ramp a team and onboard meaningful clients in new geographies, we believe that this is ultimately a very efficient model. Because there is a natural limit to the number of accounts per region, after an initial ramp, hiring does not need to continue to increase while the full GMV opportunity is unlocked. So what remains are very large deal sizes, low churn rates and strong baseline growth, making for a very efficient model. For example, in 2017 we spent approximately $8m in sales and marketing, which we attribute to the onboarding of our 2018 client cohort. This cohort generated more than $40M in billings over the last 4 fiscal quarters. And while not all cohorts are created equal, we do believe this illustrates the potential in our model.

Moving on to the product side - we have an amazing and growing portfolio of brands on our platform. They all face similar challenges and - using our data and Machine Learning capabilities - we are attempting to solve complex problems for them. The value of using Riskified manifests as a reduction in cost, an increase in approval rates and a better end consumer experience. We believe that the more value we can provide across each of these dimensions, the better the long term outcome for Riskified becomes.

When we make internal R&D investment decisions we mainly look at the potential ROI a product can generate for our merchants. Assuming we can drive meaningful and measurable ROI -- in the form of additional revenue or potential cost savings -- we're confident that Riskified can participate in that value creation through a basis point per transaction pricing or some other billing model. So the focus is on creating value. Since we tackle complex problems, service the world's largest brands and build deep, best in class solutions, our products can sometimes have multi year development horizons, but we only undertake them if we believe that the potential value generation is outsized relative to the investment.

To recap: we talked about our growth algorithm; 10%-15% baseline from existing eCommerce customers, plus up to another 15% from new and expansion.

GTM - significant global expansion of direct sales in a long term efficient model

Product - investment in long term initiatives that generate monetizable value

Turning Back to Q3 - some meaningful accomplishments we are proud of that I want to highlight:

1. Earlier this year we executed a master agreement with the LVMH group, making it easier for individual LVMH brands to join our platform. An initial significant one this quarter was Louis Vuitton.

2 - We successfully deployed our policy protect product on an existing chargeback guarantee merchant with more than $10B+ in annual eCommerce volumes. When you think about the implications of merchants trusting us to decide how to manage their policies such as returns and refunds we think the opportunity is large and largely untapped. Our challenge now is to communicate to the world and enterprise eCommerce CFO's the incremental value and cost savings we can provide them through new products such as these.

3 - There are more than 25 different countries in which we processed more than $100m of GMV in the last 12 months (based on location of the end consumer) vs. 20 in the previous quarter. This shows the capability and value of our product globally and is a very positive sign as we ramp up our GTM teams globally

I will now turn it over to Agi to share more details on our financial performance.

Aglika Dotcheva, Chief Financial Officer, Riskified

Thank you, Eido, and good morning everyone.

First, let me begin with our top line.

Our GMV for the third quarter was $20.9 billion, reflecting a 28% year-over-year increase. Revenue for the third quarter was $52.5 million, reflecting a 26% year-over-year increase. The growth in GMV and revenue was driven primarily by the expansion of our platform from new and existing merchants as well as organic eCommerce growth flowing through our model. To give a flavor for some of the moving parts underlying overall growth in the quarter, the general eCommerce growth we saw during the third quarter was slower compared to prior quarters as post covid reopenings drove higher volumes of in person shopping, while PSD2 adoption continued to ramp up as expected. Encouragingly and on the flip side, we have seen a continuous recovery of the Tickets & Travel industry, offsetting some of those other trends.

Our cost of revenues, which primarily consists of chargeback expenses, increased by 44% year-over-year to $28.3 million, due to the previously described growth.

The changes in revenue and cost of revenue that I just noted, drove a 10% year-over-year increase in gross profit to $24.3 million.

Before discussing gross profit margin, I want to remind everyone that this is a metric that is best analyzed on an annual basis. Individual quarters can experience variability due to changes in the industry mix of our revenues, seasonality factors and the ramping of new merchants, and the varying risk profiles of transactions approved.

All of these variables can cause period to period swings in our gross profit margin. For Q3, gross profit margin was 46%, versus 53% in the third quarter of 2020. We previewed this directional change in our last earnings call, as we knew several factors would be at play in causing a lower gross margin for the quarter. The main factors contributing to the increase were primarily driven by shifts in our verticals' contribution to the overall industry portfolio mix. First, Q3 naturally carries higher risk volumes due to peak travel trends and summer vacations. This dynamic was of course less pronounced last year due to covid, and is much more significant now due to ongoing easing of the COVID related restrictions and general travel recovery. Second, we have onboarded several new large merchants as well as merchants from new industries to us, such as Payments, which changed our merchant portfolio mix and overall risk levels. Some of the increase attributable to those new merchants and industries should naturally decrease over time, as our machine learning models gather more data on the unique fraud patterns.

For the remainder of the P&L, I will refer to non-GAAP metrics. You can find the reconciliation of non-GAAP to GAAP numbers in the accompanying press release issued this morning.

Total non-GAAP operating expenses in Q3 2021 were $38.3 million, which represented a 61% increase from $23.8 million in Q3 2020. Our Q3 2021 non-GAAP operating expenses were driven by planned investments in several areas:

- Research and development, as we continued to extend our platform, add new features and functionality in support of our growing merchant base, and build new products
- Sales and marketing, as we heavily invested in our go-to-market activities and capabilities, including expansion of our sales team to meet the increased global demand as part of our robust geographic expansion
- General and administrative costs, which reflected the first quarter of public company expenses, including D&O insurance, regulatory and compliance costs, among others

As we mentioned in our previous earnings release, this anticipated increase in non-GAAP operating expenses as a % of revenue from 57% during Q3 2020 to 73% in Q3 2021, reflects our ongoing investments as well as incremental costs of operating as a public company. Adjusted EBITDA in the third quarter was negative $13.8 million.

I want to mention that our net loss for the quarter of $86.9 million and GAAP net loss per share of 78 cents were primarily driven by fair value remeasurement adjustments of $64.4 million recorded upon our IPO. This is a non-recurring, non-cash, accounting charge that negatively impacted our third quarter GAAP EPS by 58 cents.

Moving on to the balance sheet, our cash position remains very strong. At the beginning of the third quarter, we completed our initial public offering and raised net proceeds of approximately $392.3 million. We ended the third quarter with $534.1 million of cash and cash equivalents, restricted cash, and short-term deposits, and do not carry any debt. We expect the proceeds we raised from the offering to enable us to focus on aggressive global GTM expansion, continue to develop and augment products that solve extraordinarily difficult pain points for our merchants, and continue to execute at scale as a public company.

And now turning to guidance, let me remind you that we expect the PSD2 regulation, which European Union countries have begun to adopt, to continue to accelerate relative to earlier quarters for the remainder of this fiscal year and into the start of next year. We expect that Q4 will carry a more significant impact than Q3. In addition, while we are highly optimistic about the long-term prospects for eCommerce growth and penetration, due to the current circumstances around the reopenings and global supply chain challenges, we think it is prudent to maintain a more cautious stance for the fourth quarter.

For the full-year 2021, we anticipate revenue between $226.2 million and $227.2 million and negative Adjusted EBITDA between $(25.5) million and $(24.5) million.

For modeling of Earnings Per Share on a GAAP and non-GAAP basis, we expect to have approximately 163.5 million weighted average shares outstanding for the three months ending December 31, 2021

To conclude I want to reiterate what Eido already mentioned. Riskified is a company that is focused on serving our customers well for the long term. We believe we operate in a large growing market and have unique data and ML capabilities. We recognize that creating best in class solutions that solve complex problems takes time and resources. We'll, therefore, continue to invest in the growth of the team, our technology and products and in our global operations.

Thank you all for your attention. Eido and I will be happy to take any questions now.

Timothy Chiodo, Credit Suisse

Great, good morning. Appreciate you taking the question. Really helpful on the growth algorithm. I'm sure many investors will appreciate that. Maybe you could just touch on those two components as we head into Q4. And then you made some comments around the first half of 2022. And I realize you're not providing a formal guide today. But to the extent that you could give some context on those components for the first half of next year, meaning what your rough expectations might be more for the new business component that you have a little bit more control over then the E-commerce and market growth, that would be a helpful start.

Eido Gal, Chief Executive Officer, Riskified

So let me try to unpack that. I mean, I think if you look at our guidance, you know, we can kind of walk back into 33% to 34% growth for 2021. So you know, kind of, what's the that general framework that we just shared. And like you mentioned, we're not giving, you know, official 2022 guidance yet. But I would say just looking at, you know, public consensus, the range is below the framework we just shared. So, I think, directionally, this makes sense, right? And the most pronounced impact is during the first half of the year. And we see ourselves reverting back towards the framework rates afterwards, right? When we think about PSD2, it is kind of fully burdened within our model. When we think about something like, you know, the supply chain, it's a relatively new issue. It's affecting a good chunk of our existing clients. And we're not exactly sure how it will play out, which is why we're taking a more cautious approach, which is also, you know, one of the reasons we didn't raise Q4.

Timothy Chiodo, Credit Suisse

Okay, excellent. Thank you. But the new business component, though, kind of separate from those issues, is it still fair to think about that roughly 15 point contribution to volume?

Eido Gal, Chief Executive Officer, Riskified

Yeah, that's not something we're providing right now.

Timothy Chiodo, Credit Suisse

Okay. Okay. I know, as a quick follow up, you highlighted in the slides, and then in the press release around the Policy Protect announcement that you made with a very large merchant, maybe we could just add some additional context to that, because it seems like a pretty meaningful win.

Eido Gal, Chief Executive Officer, Riskified

It is, we think it's very unique. It's what was happening. In this case, whenever an end consumer initiates a refund request we're creating, we're checking to see the legitimacy of that request, right? Are you just, you know, receiving your package and you want another pair? Will you ship back your order in order to get that refund? So we think it's an incredibly complimentary product, and it generates significant cost savings for the merchant.

Timothy Chiodo, Credit Suisse

Excellent. Thank you for taking the questions.

Robert Napoli, William Blair

Thank you, and good morning. Thank you for the question. So I think, Edo, you said, or Agi, that you expanded from 20 countries to 25 countries during the quarter? Can you give some color on geographic expansion and how you expect the mix of business a success you're having geographically and how you're accomplishing that? And what you think the opportunity over the long term for non-US business?

Eido Gal, Chief Executive Officer, Riskified

Yeah, I mean, we think our product is applicable globally. And we love that measurement of the 25 geographies because it shows the value that we can create in those regions, which is a good proxy and leading indicator for us to you know, create some of those sales teams and regional go to market teams. I would say that the US continues to be our largest market, but we think there's still a tremendous runway for further growth. We're seeing the most pronounced traction in APAC and LATAM with higher growth rates, obviously on a smaller base..But we still think there's significant opportunities there. EMEA, we still think it's a very relevant, you know, industry for us we have kind of our PD2-related problems, PSD2-related products to help us out solve some of those issues. And that's really how we're seeing the global opportunity today.

Robert Napoli, William Blair

Okay, maybe just to dig in a little bit more on gross margin and the gross margin outlook and your confidence. I guess, and I think, you know, you talked about the consensus being, you know, overall broadly below your growth trend, or targets. How, then, should we see an acceleration in gross margin from the third quarter level? I know there is seasonality. But what do you expect to see where are you targeting the gross margin over the longer term?

Aglika Dotcheva, Chief Financial Officer, Riskified

I'll take this one. And thank you for the question. So as we discussed previously, the best way to look at our gross margin is on an annual basis. And when I think about everything that we've accomplished until today, and the portfolio mix of merchants with added new merchants, is very much aligned with everything that we kind of expected and provided as a guidance in that space for the year. When I think about long term, I think it's difficult to provide any guidance, but overall we expect these type of factors that are affecting us today and will continue to affect us in the future. Our gross margin will depend on the new merchants, the new industries, the new geographic trends as well, that will go into at the same time any prominent technology will be layered in. And potentially any new products might also kind of affect some of this in a positive way.

Robert Napoli, William Blair

Okay, but the low 50s – 53% or 54% - is kind of where you have been and that's where you're comfortable on the, you know, on an annual basis?

Aglika Dotcheva, Chief Financial Officer, Riskified

Everything that's we've shared for this year, I think it's part of our adjusted EBITDA guidance. And it's, it's kind of layered in. It's hard to provide guidance for next year as of now. But we'll be more specific when we talk about 2022.

Robert Napoli, William Blair

Thank you. Appreciate it.

Ramsey El-Assel, Barclays

Hi, thanks for taking my question this morning. Can you comment on the timing or cadence of the PSD2 impact? Kind of seeing what you do now? Or knowing what you do now? You know, when should that impact kind of peak and sort of enter, and what inning are we in in terms of the European-wide implementation of the of the new regulation?

Aglika Dotcheva, Chief Financial Officer, Riskified

Thank you for the question. So as expected, we said that the regulation is being enforced in all European countries, with the exception of the UK, which has delayed enforcement until March of next year. And we saw our client base increasing adoption very much in line with the increased enforcement but also within our expectations. Clients are becoming more aware of the pain points as well, which are inherent to PSD2, including friction drop off as well as different vulnerabilities to fraud from 3ds. And so accordingly, we're continuing to develop our PSD2 offering to deliver increased value for our clients. In terms of what we see, I'll say that we're probably somewhere midway in terms of adoption. And if I think about it as a bell curve, we are just somewhere just right before the peak, and it was previously shared. We do believe that if nothing changes, in terms of the way countries are adopting or the merchants are adopting, the peak will be early in the first half of next year.

Ramsey El-Assel, Barclays

Okay, that's very helpful. One follow up for me, I wanted to ask about the master agreement with LVMH. And Louis Vuitton, should we expect then sort of more of their brands to come online with you in the near term or medium term? And I guess more generally, can you give us an update on your sales pipeline? How would you characterize it sort of now versus previously?

Eido Gal, Chief Executive Officer, Riskified

Yeah, so I would say, you know, we're very happy with both the pipeline and the actual go to market performance. So far, we've on boarded an increasing number of brands this year, some of them the largest that we've ever known for the platform, so feel great about that. We would, you know, definitely anticipate the reasoning for creating this type of Master Agreement is to create a more, you know, easy and frictionless process for the individual brands who do own their own decision-making process, but to make it easier and more compelling for them to join. So we anticipate that we would see more from that.

Ramsey El-Assel, Barclays

Got it. Thank you very much.

Josh Beck, KeyBanc

Thank you, team, for taking the question. I wanted to drill down a little bit into some of the supply chain impacts that you're seeing. I think what we've maybe seen from some other companies is more air-oriented transportation, obviously fashion, luxury would fall in that bracket, has been less impacted. Maybe more so freight and heavier items have been more impacted. So just would be curious to hear a little bit about some of the different effects you're seeing across your verticals.

Aglika Dotcheva, Chief Financial Officer, Riskified

Thank you for the questions, Josh. We have a couple of clients within the industry that currently have been reporting some pressures from supply chain issues. I'll say that they're mostly around high fashion, sneakers, and home furnishing. It is a new issue and I think it's still too early to understand the full magnitude and how long it will take to resolve and that's why I kind of share that it's just prudent to be cautious.

Josh Beck, KeyBanc

Okay, that makes a ton of sense. And yeah, I'm just curious. And obviously it was a impressive example with policy protect. I'm curious, maybe if you look at some of your customers that have really bought into or effectively adopted all of your products and modules, maybe what type of uplift you can get maybe with respect to annual contract value or take rate. So just kind of trying to think through what can be a bit of an upper limit in terms of, you know, the economic relationships that you can establish there.

Eido Gal, Chief Executive Officer, Riskified

I think no one is the average in this sense, because we have such a wide variety of fees, because our pricing is risk dependent. So it depends on, you know, the category and industry, how global you are in selling, what your margin profile is like, and do you want to be more aggressive on approvals with a higher chargeback rate, because you do have higher margin categories, versus other industries? Whereas the margin profile is going to necessitate a lower risk profile. So again, what we really think is great is that we're a very flexible solution in that sense. So you know, we work just as well with low risk categories, like pet foods and home goods, as we do at higher risk industries, like sneakers, you know, and digital tokens. Same thing with some of the additional products and how we think about something like policy, you know, some physical goods merchants with have which have high return rates, the ROI for that type of service is immense. Other categories, which have lower numbers, you know, it can really skew. So I would say some of the baseline figures where we've seen increase in approval rates up to 20%. And we shared some of those ROIs. Collectively, what kind of cost reduction in the 40 plus percent range are the ranges that we can experience? Obviously, with most customers falling somewhere in the middle.

Josh Beck, KeyBanc

Very helpful.

Tien-tsin Huang, J.P. Morgan

Thank you and good morning. Appreciate all this. Just want to know, Bob asked about gross margin. I just want to be a little bit more specific, if you don't mind on, the fourth quarter. Looking back last couple of years, gross margins up like five points sequentially. Is that a good consideration for seasonality? I know there's a lot going on with PSD2 and in the holidays and travel, and whatnot. I'm just curious what you're thinking bigger picture here for the fourth quarter?

Aglika Dotcheva, Chief Financial Officer, Riskified

Yes, seasonality in the fourth quarter definitely has an impact in the future. And I don't think anything is to change this year. Usually, fourth quarter, it's kind of better in terms of gross margin compared to Q3. I'll say that, in general, the biggest factor also, that can additionally impact the gross margin, is the merchant leaks and the portfolio of merchants that we've added and additional factories as we're getting into payments. This is something that has impacted Q3. Obviously, the potential in terms of revenue and potential in terms of penetrating this industry is great. And we were confident that over time, our machine learning models will gather more data and kind of perform better around that area as well. But you're very much kind of correct when you say that Q4 is definitely usually a better quarter compared to Q3.

Tien-tsin Huang, J.P. Morgan

Okay, great. And just staying with the gross margin to what you just mentioned there, I guess, just on chargeback compared to Billings - any surprise there? Are you happy with the performance? And what you saw the third quarter and the trends so far into the fourth?

Aglika Dotcheva, Chief Financial Officer, Riskified

It is definitely aligned to our expectations. I think there's a few factors that we already called out in the prior earnings call. And we're happy where we are ending up.

Tien-tsin Huang, J.P. Morgan

Very good. Thank you.

Aglika Dotcheva, Chief Financial Officer, Riskified

Thank you.

Terry Tillman, Truist

Yeah, thanks, Eido and Agi. And I do also appreciate the commentary on the growth algorithm earlier at the beginning of the call, Eido, my first question relates to ticketing and travel. You know, I know it was a major headwind last year, it had a big impact on net revenue retention and just overall business trends. Are we still talking headwinds? Are we starting to get to a point where your anniversarying the worst of that and in fact, it could start to become more of a tailwind? Could you help us with that on either 3Q of 4Q, and then I had a couple follow ups.

Aglika Dotcheva, Chief Financial Officer, Riskified

Sure, and thank you for the question. We've definitely seen tickets in travel as a failing. We've seen the recovery across a number of our merchants, both gross domestic and international. And that's definitely a positive trend. In general, tickets and travel is still not at the pre-COVID level. In terms of recovery, there's still a long way to go. And this is something that can be a positive trend for the future as we continue to recover.

Terry Tillman, Truist

Got it, and Eido, earlier, there was a question. It was a good question about just thinking about your framework commentary. And then the transitory dynamics, and particularly continuing into the first half of next year. You did start talking, though about, you know, the consensus. And so could you flush that anymore in terms of, given the framework that you're talking about, is that above where the consensus is that about 20% for 2022? And then I had just one more follow up?

Eido Gal, Chief Executive Officer, Riskified

Yeah, so again, without going into guidance, just saying, assuming that, you know, the framework that we share that 25 to 30%, we see that the street consensus is below that. We think, directionally, that's the right approach, because of the PSD2 and supply chain issues. We see that peaking during the first half of the year. Afterwards, we're going to see that regress towards the framework that I kind of just laid out.

Terry Tillman, Truist

Understood. My last question just, you know, intriguing, in terms of newer industries that could definitely leverage your machine learning platform. So I think last quarter, you did have the payments win, and you're talking about payments, and some of that may be getting going and a higher kind of risk profile initially. But I'm curious, when you get those kind of Lighthouse new accounts in the new industry like payments, maybe we get a double click into, you know, are you seeing a growing pipeline in payments and or are there any other industries you'd share with us that are intriguing and newer, thank you.

Eido Gal, Chief Executive Officer, Riskified

I think remittance and crypto have both seen an increase in attention from our perspective and growth in the pipeline. And you're right, it tends to happen once we onboard kind of a few initial marquee names and makes it easier for us to develop kind of more customized technology towards that segment. It also makes the go to market approach a bit smoother because of our experience in that industry. So yes, we agree.

Brent Bracelin, Piper Sandler

Good morning. Q3 growth, I think overall was what, 26% here this quarter? I'd be curious to hear what the US growth rate was given into Q3 here, specifically, even more than half the merchant bases in the US and there's no PSD2 kind of headwind, is there any color on US growth rates for Q3?

Aglika Dotcheva, Chief Financial Officer, Riskified

It's hard to differentiate specifically your growth rate on its own as there's so many other factors that will play that can impact merchants as well. We just talked about supply chain issues and about general slowdown in e-commerce as well. And we do see this across the board, not just specifically in a single territory. I'll say that, overall, e-commerce has remained strong in terms of growth, even with this kind of trend as well. But it's too early to say how this will impact over the next few quarters.

Eido Gal, Chief Executive Officer, Riskified

I mean, it also depends on how you categorize U.S. domiciled merchants of international volume, which is also impacted by PSD2. So, it depends on how you isolate that. If you completely isolate, I'd say to you then yes, the growth rate there was obviously higher.

Brent Bracelin, Piper Sandler

Got it, that's helpful color. And then just drilling down a little more the supply chain. Could you talk a little bit about the linearity of GMV in the quarter by month? To think about, kind of July, August, September, now in October, are the supply chain disruptions that you're seeing without PSD2 headwinds, more pronounced in the back end of the quarter and going into October, where it was a headwind throughout every quarter? Just trying to get a sense of supply chain disruptions from a linearity perspective.

Eido Gal, Chief Executive Officer, Riskified

I think you're right, there was definitely more pronounced on the back end of the quarter are kind of coinciding both supply chain and PSD2, specifically PSD2, again, more in line with our modeling around when the regulation is rolling out into what geographies and I think supply chain had a similar pattern.

Aglika Dotcheva, Chief Financial Officer, Riskified

I just wanted to mention that some of our customers, in their own report, they're talking about the supply chain issue effect in the holiday season. So this is something that it's important to see how it plays out.

Brent Bracelin, Piper Sandler

Absolutely. And then my last question here as I still kind of run through my numbers here, but does it look like chargeback expenses were up sequentially in Q3. I think revenue was down, so maybe could you talk a little bit about what drove that, that increase in chargeback expenses? Was that tied to a higher fraud risk burden in the quarter? Are those just fixed investments ahead of new products? Any sort of additional color on kind of a Q3 increase in chargeback expenses if I've modeled that correctly.

Eido Gal, Chief Executive Officer, Riskified

So let me just kind of recap, as a business, we manage our chargeback expenses annually. We think that's the best way to be able, on a quarterly basis, to drive optimal performance for our merchants. And that performance can fluctuate based on the level of fraud coming in. Right? And that's a product of seasonality. Q3 inherently has higher travel risk. Specifically, this quarter had a much higher prevalence of travel and ticketing merchants relative to last year, due to COVID. And in this quarter, we had a more pronounced impact from new categories like remittance and crypto, which we anticipate will kind of normalize over time as our machine learning models get better. Right? So again, this was higher than the previous quarter, maybe relative to the previous year. But when we look at the business from an annual perspective, and set the goals for chargebacks, it's within that range. And we feel okay.

Brent Bracelin, Piper Sandler

Thank you. So helpful. Thank you.

Robert Napoli, William Blair

Thank you. And just to be clear, you have a lot of ability to manage the chargeback or the gross margin, if you're getting higher chargebacks in a new category, you would tighten the approval rate, which would bring that back down so you can manage within a gross margin, you have flexibility generally around managing around the gross margin. Is that a fair statement?

Eido Gal, Chief Executive Officer, Riskified

I think that's exactly right. There is a lot of control over that number. We said we set it on an annual basis. Okay, just so that we don't feel we have to make decisions on a quarterly basis that are counter to the long-term success of our merchants, right? But there is always control.

Robert Napoli, William Blair

Right, thank you and then just around the cross sell, several of your products, you called out Policy Protect, but PSD2 Optimize, Deco, Account Secure, how does cross sell going? And what is the potential when you add something like a Policy Protect, what does it do to the revenue, the ARR for that for a client, you know, what can cross sell add into what success are you having?

Eido Gal, Chief Executive Officer, Riskified

Pretty good success outside of policy that we mentioned in both the PSD2 products and accounts secured throughout this quarter. And we really think that, you know, getting enterprise clients on board generating value. That's our core focus right now. And we certainly will be able to monetize that in the medium term. When we think about some of these possible lifts, we think they're incredibly significant. They vary by industry.

Robert Napoli, William Blair

I think just if I could sneak one last one on the salesforce, what has been the, you know, the increase in the salesforce? What do you have today? And where are those, you know, those employees based?

Eido Gal, Chief Executive Officer, Riskified

I think the biggest growth has been in APAC, and we have the largest part of the salesforce today's in the US. We're still seeing a lot of opportunities to expand that. But just from a percent basis, you know, APAC and LATAM is probably where most of the growth is focused on right now.

Robert Napoli, William Blair

Great, thank you. Appreciate it.

Eido Gal, Chief Executive Officer, Riskified

Alright, just want to say thank you everyone, have a great holiday season, and we'll see you in three months.