Riskified Fourth Quarter & Full Year 2023 Earnings Transcript *Edited*

Corporate Participants

Chett Mandel, *Head of Investor Relations*

Eido Gal, *Chief Executive Officer*

Agi Dotcheva, *Chief Financial Officer*

Analyst Participants (Alphabetical Order)

Brent Bracelin – *Piper Sandler*

Timothy Chiodo – *UBS Securities*

Ramsey El-Assal - *Barclays*

Cristopher Kennedy – *William Blair*

Will Nance - *Goldman Sachs*

Terry Tillman – *Truist Securities*

Reggie Smith – *J.P. Morgan*

Chett Mandel
Head of Investor Relations

Good morning and thank you for joining us today. My name is Chett Mandel, Riskified's Head of Investor Relations. We are hosting today's call to discuss Riskified's financial results for the full year and fourth quarter of 2023. Participating on today's call are Eido Gal, Riskified's Co-Founder and Chief Executive Officer, and Agi Dotcheva, Riskified's Chief Financial Officer.

We released our results for the full year and fourth quarter of 2023 earlier today. Our earnings materials, including a replay of today's webcast, will be available on our Investor Relations website at ir.riskified.com.

Certain statements made on the call today will be forward-looking statements related to our operating performance, business and financial goals, outlook as to revenues, gross profit margin, Adjusted EBITDA profitability, Adjusted EBITDA margins and expectations as to positive cash flows, which reflect management's best judgment based on currently available information and are not guarantees of future performance. We intend all forward-looking statements to be covered by the Safe Harbor provisions contained in the Private Securities Litigation Reform Act of 1995. These forward-looking statements reflect our expectations as of the date of this call and except as required by law, we undertake no obligation to revise this information as a result of new developments that may occur after the time of this call. These forward-looking statements involve risks, uncertainties and other factors, some of which are beyond our control, that could cause actual results to differ materially from our expectations. You should not put undue reliance on any forward-looking statement. Please refer to our Annual Report on Form 20-F for the year ended December 31, 2023 and subsequent reports we file or furnish with the SEC for more information on the specific factors that could cause actual results to differ materially from our expectations.

Additionally, we will discuss certain non-GAAP financial measures and key performance indicators on the call. Reconciliations to the most directly comparable GAAP financial measures are available in our earnings release issued earlier today, and also furnished with the SEC on Form 6-K, and in the appendix of our Investor Relations Presentation, all of which are posted on our Investor Relations website.

I will now turn the call over to Eido.

Eido Gal
Co-Founder, CEO & Director

Thanks Chett and hello everyone. I'm proud to report that Riskified ended the year strong, despite facing macroeconomic and geopolitical headwinds.

We entered 2023 looking to increase our new logo base, further penetrate our existing accounts, expand our geographic footprint, and strengthen our platform sales motion, while improving our technology and achieving profitability on an Adjusted EBITDA basis in the fourth quarter. I am pleased that we were able to accomplish our 2023 goals, but acknowledge our work is not yet done.

In particular, I am excited about achieving a gross margin of 58% in the fourth quarter. We believe that the cumulative, multi-year impact of focusing on the continuous advancement of our technology stack contributed to an outstanding fourth quarter. This represents our highest gross margin in 10 quarters - all while maintaining very high levels of performance for our merchants.

Allow me to provide some further insight into our technology strategy. In 2023, we focused on a three pronged approach to drive improved performance, while we expanded deeper into new geographies, industries and payment methods. We strengthened our machine learning factory by leaning further into autonomously training models. This allows us to train, test, and deploy models more quickly, which in turn, expands the capacity of our data scientists to develop and enhance additional features to drive powerful performance. And finally, we built out an automated performance management platform, designed to optimize approval and chargeback rates per merchant in an automated and constant way. We believe that this automation will allow us to continue to scale the business with high leverage.

I am optimistic that some of the leverage seen in Q4 will flow through to 2024 and beyond, but, I encourage you to continue analyzing our gross margin on an annual basis, given individual quarters can vary due to many factors, including the ramping of new merchants, and the risk profiles of transactions approved. I want to thank the team for their attention in responding so quickly from the third quarter fraud event to achieve such fantastic results in Q4.

We have further diversified our portfolio across merchants, industries, and geographies to become a more broad based and resilient company that is able to continue to grow across all macro environments. We continue to have success penetrating the eCommerce landscape through new merchant wins, and through upsells within our existing merchant whitespace, which contributed to total annual GMV growth of 17%, and total annual revenue growth of 14% in 2023.

Agi will walk you through the drivers of our top line growth shortly, but overall, I'm encouraged by our performance in 2023. In particular, five out of our six verticals contributed positively to our performance during the year, all of our regions achieved at least double digit growth year-over-year and we have more enterprise merchant accounts on our platform than ever before. In fact, we had over 50 accounts that contributed $1mm or more to our topline in 2023.

Our go-to-market team met their annual revenue targets and delivered a strong end to the year, with ⅓ of the new merchant activity in 2023 coming in the fourth quarter, providing positive momentum heading into 2024. Also, in our first full-year of having a refined platform sales strategy, new bookings derived from our Policy Protect, Dispute Resolve and Account Secure products were up approximately 3x. Our fourth quarter was the strongest quarter ever for our Policy Protect product, as over 50% of the Policy Protect deals that we won during the year went live during the quarter. While the revenue from these products still represents only a small percentage of our overall revenue base, we believe that our ability to sell an end-to-end platform has proven to be a very successful differentiator and stickiness tool.

We executed and focused on improving our technology stack throughout the year. For example, based on direct feedback from our merchants, we increased the number of use cases we help solve beyond just blocking fraudulent refunds and serial returners to also solve promo abuse, item limits and reseller policies for our Policy Protect Product. On Dispute Resolve, we prioritized developing a holistic and automated solution for the fraud and non-fraud chargeback representment process. This product allows us to become a one stop shop that automates the entire dispute flow to help produce higher win rates for our merchants. Both products are proving to have a true market need based on recent activity and existing pipeline, and serve as key tools in our Land & Expand strategy.

The new product traction we've seen and the enhancements we've made, combined with our market leading core "Chargeback Guarantee" offering, led to a very strong fourth quarter overall win rate of almost 80%.

The proven performance, accuracy, and predictability that our core "Chargeback Guarantee" product generates is why merchants are initially drawn to Riskified. Now, our expanded end-to-end platform dedicated to solving multiple high-value Ecommerce use cases gives them even more reasons to stay. This is evident in our low churn numbers. Our annual dollar retention in 2023 was 98%, which was inclusive of a few unusual churn events as a result of merchant bankruptcies. We are proud of the deep rooted partnerships that we have built with many of the world's largest ecommerce merchants.

Moving lower in the income statement, and onto the areas that are more within our operational control.

In mid-2022 we made the decision to accelerate our timeline to profitability, and have executed on that accelerated time frame. Our 2023 annual Adjusted EBITDA of negative $8.5 million exceeded our guidance by 37%, and we achieved positive free cash flow for the year of $5.9 million. Furthermore, our 2023 annual adjusted EBITDA margin expanded by 1100 bps from the prior year.

I am pleased that we have achieved positive adjusted EBITDA in the fourth quarter, and that we are guiding to positive adjusted EBITDA on an annual basis in 2024 and beyond. We've made a lot of progress in getting to this point, and I believe it is important to communicate how to think about the financial milestones we plan on achieving over the next few years.

As a management team, we are building towards adjusted EBITDA margins between 15 and 20% by 2026. In addition, we also plan on achieving positive adjusted EBITDA inclusive of our share based compensation expenses by 2026. Allow me to provide some further context.

Over the past two years, we have faced a challenging macro environment and volatile consumer spending – which has led to a Net Dollar Retention in the low 100's, down significantly from higher rates of 115 to over 120 that we've seen historically, even pre-COVID. Overall, this has produced lower growth rates than our historical norm, and is not where we aspire to be longer-term. We remain focused on accelerating our revenue growth and we believe that there are multiple ways to achieve that.

As a leader in ecommerce fraud and risk intelligence, we believe that we can capitalize on the large opportunities in front of us. As always, our goal remains to land and expand our platform with the world's largest ecommerce merchants, and the speed and frequency at which we are able to execute on this strategy is a top area of focus. In addition, potential improvements to our same cohort base would also result in a more positive impact on our Net Dollar Retention Rate, which also would allow us to grow revenue faster.

However, even at similar revenue growth rates as compared to the last few years, we are confident in our ability to manage the business and how to optimize the operational levers available to us in our Gross Margin and Opex line items to continue driving adjusted EBITDA improvements in order to achieve these targets.

Overall, I am confident in our ability to efficiently run the business to consistently bring our top line growth down to the bottom line.

Before I turn it to Agi to provide further color on our results and on our 2024 annual guide, it's important to highlight our commitment to managing share-based compensation expense and dilution to meaningfully lower levels than they are currently at.

First, in 2023, share-based compensation expense as a percentage of revenue decreased by approximately 500bps from 2022, and in 2023 we granted approximately 30% fewer equity awards as compared to 2022. We expect to see SBC as a percentage of revenue continue to decline in 2024. Many of the larger awards that we granted in 2021 through 2023 have a four to five year vesting period, and as these awards complete their vesting requirements by the end of 2026, we expect to see a meaningful drop off in our share based compensation expense.

Second, and perhaps even more important to discuss is our focus on controlling our equity awards to meaningfully lower levels.

In 2023, equity awards granted represented approximately 6% of our weighted-average dilutive shares, down from approximately 9% in 2022. We anticipate that this number will be approximately 4-5% in 2024 as we continue to manage the business in a disciplined manner. Assuming valuation levels similar to today, and absent any unanticipated executive or senior hiring, and any additional buyback authorization, we expect to target similar levels going forward.

Third, since the implementation of our $75 million share repurchase program in November, we have repurchased approximately 7.6 million shares at a total cost of $34 million as of February 29th. We remain committed to repurchasing our shares at what we believe are attractive valuation levels.

Looking forward, we are excited and energized by the opportunity in front of us in 2024. There is plenty of whitespace for us to penetrate and we believe that our product and platform leadership position will allow us to do that. Combined with the global network scale that we have built, and the financial and operational discipline of our business model - I have great confidence that we are well-positioned to execute on these initiatives for the benefit of our shareholders.

Now, over to Agi

Aglika Dotcheva
Chief Financial Officer

Thank you Eido, team, and everyone for joining today's call.

We achieved fourth quarter revenue of $84.1 million, and full year revenue of $297.6 million, up 6% year-over-year, and 14%

respectively.

Our fourth quarter GMV of $35.2 billion was the highest quarter of volume reviewed in our history. This was driven by continued new and upsell growth, and solid Black Friday through Cyber Monday holiday activity, which grew approximately 6% compared to last year's season. For the full year, we grew our GMV 17% to $123.1 billion.

During the fourth quarter, we had strong performance in our "Home" category, primarily driven by upsell activity, and in our "Food" category, primarily driven by new merchants. These two categories historically have not had large seasonal increases in the fourth quarter, unlike more traditional retailers which tend to experience a higher holiday shopping season compared to other parts of the year.

In addition, our "Fashion & Luxury" category remained relatively flat, similar to the first 9 months of the year. Our Tickets & Travel category was also flat this quarter as we had a tougher comparable period in Q4 of 2022, driven by fewer large live events in the fourth quarter of this year. The combination of these factors contributed to the step-down in our Q4 growth rate, but we remain bullish on these key categories, and we expect to see Tickets and Travel return to growth in 2024.

For the full year, approximately $30 million of the increase in revenue was attributable to increases in GMV and Billings associated with new merchants primarily within our "Tickets & Travel" category, which grew by more than 30% year-over-year. In addition, we saw 45% year-over-year growth in our "Food" category, and 19% growth in our "Home" category. The remaining increase in revenue was primarily due to upsells net of organic declines, and attrition, which contributed to our Net Dollar Retention Rate of 105%.

Our "Ticket & Travel" category contributed just under $100 million in Billings, which represented approximately 30% of our overall portfolio. In our Travel portfolio of merchants, year-over-year activity was driven by a higher number of transactions for both flights and accommodations against relatively stable consumer pricing.

Our "Fashion & Luxury Goods" category, which represents approximately 30% of our portfolio, was relatively flat year-over year. Throughout the year we continued to see softness within our luxury brands and sneakers sub-segment, which was positively offset by better growth in other sub-segments, such as fast fashion and by the addition of new merchants and upsells within the category.

Finally, we also saw growth in Billings across all geographies year-over-year. The United States, which is our largest region, grew by 10% and EMEA grew by 15%. Our Americas and APAC regions grew approximately 30% and 40% respectively, primarily due to momentum in new and upsell activity. We believe that our continued growth in regions outside of the United States demonstrates continued market share gains, and validates our decision to invest in these regions.

Overall, our contribution by region was more evenly distributed than in previous years as we continue to build a global and diversified company.

As Eido mentioned, while our gross margin continues to be best analyzed on an annual basis, allow me to provide more detail on how we achieved a 58% non-GAAP gross margin in the fourth quarter.

The ongoing improvements to our models and enhancements to our monitoring tools and systems led to better performance. Consistent with prior years, our fourth quarter tends to have a safer population of transactions than the rest of the year, and we did not have any unexpected fraud events. Also, as always, the timing of new revenue and merchant mix can impact the gross margin in a given quarter.

Overall, the success of this quarter contributed to an annual non-GAAP gross profit margin of 52%.

As Eido mentioned, we are expecting some of the margin expansion that we achieved in Q4 to carry into 2024. As it relates to 2024, for the full year, we're targeting a non-GAAP gross profit margin between 52% to 53%, which is 1% higher on each end than the initial range of 2023.

Directionally, our first quarter margin is expected to be within this range, Q2 and Q3 are expected to be below the range, and Q4 is expected to be higher than the range.

Moving to expenses. Total non-GAAP operating expenses were $39.4 million for the fourth quarter and $163.5 million for the full year of 2023, both representing a year-over-year decline of 6%.

We are becoming more efficient and have a deeper understanding of the working needs of each area of the business. We ended the year with decreased costs across most areas of spend, with savings generated through the negotiation of contracts in our AWS and other optimization efforts of our data sources, lower HR expenses resulting from decreased headcount and recruiting needs, more focused spending in our Sales & Marketing line item, and savings from subleasing space.

For the year, our non-GAAP operating expenses as a percentage of revenue declined from 66% to 55% reflecting leverage in the business model.

We anticipate continuing to see further leverage in 2024 compared to 2023, and anticipate operating at an approximately $40mm per quarter run-rate. In addition, we have now substantially completed the global expansion of our go-to-market footprint, and we expect to start seeing improved leverage as we further realize the returns on these previous investments.

In the fourth quarter we achieved our strongest Adjusted EBITDA results ever, with $9.7 million in positive adjusted EBITDA. To highlight exactly how much progress we have made in achieving profitability, our adjusted EBITDA margin of 12% in the fourth quarter compares with -10% in Q4 2021, which was the first full quarter of operations following our IPO.

For the year we reported negative $8.5 million in Adjusted EBITDA, an improvement of nearly 80% year-over-year.

Our annual result represents 1100 [eleven hundred] bps expansion in our operating margin from the prior year. I am extremely pleased by our ability to execute on our profitability goals on an accelerated timeline and have set ourselves up for profitability on an Adjusted EBITDA basis in 2024. We will continue to seek ways to strengthen our Adjusted EBITDA results in 2024.

In addition, we continue to maintain a healthy cash flow model and achieved record positive free cash flows of $7.1 million in the fourth quarter.

We generated positive free cash flow of $5.9 million during 2023 and believe we are in a great position to continue generating strong free cash flow, and expect approximately $30 million of positive free cash flow in 2024, assuming a constant capital allocation strategy.

Moving to the balance sheet: We ended the year with approximately $475 million of cash, deposits and investments on the balance sheet, and we carry zero debt. This amount represents a decline of approximately $3 million from last year, primarily due to our repurchase activity in the fourth quarter of 2023, offset by the strong FCF activity mentioned previously. This leads me to the topic of capital allocation.

On November 20 2023, we received Israeli court approval to begin executing our previously announced share repurchase program. Since receiving this approval, we have been aggressive in utilizing this program to take advantage of what we believe are attractive repurchasing opportunities. In the fourth quarter we repurchased approximately 3 million shares for a total price of approximately $13.1 million. As of February 29th, year-to-date we have repurchased an additional 4.5 million shares for a total price of $20.8 million

We anticipate that our repurchasing activity will more than offset the dilutive impact of equity issuances associated with option exercises and the vesting of RSUs in 2024.

At valuation levels well below that of companies with similar financial profiles, we believe that we have a great opportunity to continue repurchasing our stock at attractive prices.

We continue to believe that our strong balance sheet and liquidity position are underappreciated assets. We will continue to be thoughtful in how we utilize our capital to drive shareholder value, including executing on additional repurchases and opportunistic bolt on M&A.

As we previously announced on February 13th, as part of our effort to drive faster and more meaningful progress towards our margin targets, we made the decision to reduce our global workforce by approximately 6%.

We expect to recognize net operating expense savings related to this reduction of approximately $6mm on an annualized basis, subject to reinvestment, which is factored into our 2024 outlook.

As a result of the reduction in force initiative we anticipate recording an incremental expense of approximately $2 million, primarily in the first quarter of 2024. This expense primarily relates to severance payments, employee benefits and other costs related to the reduction in force. Charges incurred in connection with the reduction in force are excluded from Adjusted EBITDA guidance. The actual amounts mentioned could differ slightly from what is currently expected upon the completion of this reduction.

We ended 2023 with 742 global employees, a decline of 5% from the prior year and following the completion of this reduction we will have approximately 700 employees.

Now turning to our outlook. As we look forward to 2024, we currently anticipate revenue of between $323 million and $335 million, or $329 million to the midpoint. Consistent with the past two years, we anticipate that our growth will be driven primarily by new activity, and at the midpoint of our guidance, we are forecasting a relatively similar Net Dollar Retention rate as 2023.

The behavior of the macro-environment, either positively or negatively can impact our Net Dollar Retention Rate, and may ultimately determine where we fall within our revenue range. In addition, we feel confident about the new business activity levels, which is supported by a more robust pipeline than at this point last year. Like we saw this year, the timing of when new merchants go live during the year can be difficult to predict, and may have an impact on our calendar year revenues.

For modeling purposes, we currently expect all of the quarters in 2024 to reflect a similar percentage of the total revenue as they did in 2023.

Now let me discuss our adjusted EBITDA outlook. We currently expect adjusted EBITDA to be between $10 million and $17 million, or approximately $13.5 million to the midpoint.

The midpoint of our adjusted EBITDA guide represents additional margin expansion of 700 bps from the prior year, demonstrating leverage in the business model and the commitment to managing the business in a disciplined manner.

Overall, I am encouraged by our market positioning and executing on the elements within our operational control. Heading into 2024 we have set ourselves up to be a more productive and leaner company in a challenging environment and Eido and I remain excited by the continued prospects for long-term growth and our ability to deliver value to shareholders.

Operator, we're ready to take the first question please.

Question and Answer

Will Nance
Goldman Sachs

Hey, guys. Appreciate you taking the question and appreciate all the details on the long-term targets by 2026, so maybe I'll kind of start there.I think just from kind of back-of-the-envelope math, it seems like you can kind of hit the low end of that EBITDA margin target with kind of flattish gross margins, flattish OpEx, and revenue growth in the low-double digits. Like maybe you can kind of flush out like what kind of puts you at the lower end or the higher end and kind of what your planning scenario for the next couple of years sort of looks like across some of the key line items, I think that would be helpful.

Eido Gal
CEO, Riskified

Hey, Will. Sure. So, look, I think there are a lot of different permutations across revenue, gross margin, and OpEx that would get us to various scenarios within that range. And I think that I just have confidence that as a management team, quarter-by-quarter, as we see how things are progressing, we understand the levers and how to get to those areas, whether it's kind of faster traction, some of the newer products which help outperform on the margin side, whether it's some acceleration on the revenue growth. So, again, a lot of different combinations to take us there. But if I look at the margin improvement this year, 1,100 basis points, 2024 guiding for 700 basis points at the midpoint, I think we understand how to achieve those results in various conditions.

Will Nance
Goldman Sachs

Got it. That's helpful. So, a lot of different ways to hit the range. Okay. And then maybe on the gross margin outperformance this quarter, just maybe you could dive a little bit deeper on that. It sounded like a couple of different factors contributing to that, and at least some of that is carrying forward into the outlook into 2024. So, I think the numbers were something like 300 or 400 basis points of outperformance, like what would you kind of ascribe most of that to and how should we think about kind of room for further improvements in the gross margin longer term?

Eido Gal
CEO, Riskified

Yeah. So, I think the holistic story is, look, there was a lot of focus from the management and the employees post the Q3 fraud events to make sure that we focus and button everything down. But really, it's the technology platform that we've developed over the past few years that allowed us to automatically manage performance on an individual level for all of our merchants. It's a combination of the holiday season just being safe for volumes in general, the fact that some of the go-lives went live later in the quarter and newer merchants tend to start off with a higher fee chargeback rate. And, in fact, I kind of encourage everyone to look at the supplemental material. I think there's a very illustrative chart that shows how performance improves for different cohorts over time. So, I think all of those factors holistically together kind of factored into the outperformance in the quarter, and we're very pleased. We do believe that some of that will carry forward. But I do want to kind of mention that this is best analyzed on an annual basis.

Will Nance
Goldman Sachs

Got it. Super helpful. Appreciate all the details in the supplement today as well. Thanks for taking the questions.

Ramsey El-Assal
Barclays

Good morning, and thanks for taking my question. I wanted to ask about revenue retention and maybe ask you to comment a bit further on, given the lower net dollar revenue retention this quarter. Is that -- you mentioned primarily sort of macro and lower consumer spend as the drivers, so I'm just trying to understand, is that sort of like a lower same-store sales, given macro pressure rather than customers reducing scope or like it doesn't sound like exiting the platform, but just any more color you could provide on those dynamics around revenue retention would be helpful.

Aglika Dotcheva
CFO, Riskified

Yeah, sure, and thank you for the question. So, we do disclose our net dollar retention on an annual basis, as I believe there's a lot of lumpiness during the quarter. But on an annual basis, it presents a good overall picture. I think some of the factors that are going into our net dollar retention this year compared to prior years - even since IPO, the retention just kind of hovered around 100. This year, it's a little bit higher than last year. But prior to our IPO, just during -- even before COVID, our net dollar retention rate was, sometimes 120-plus.

And I would say the main factor was some of the macro trends and some of the growth profile in our merchants in a different kind of macro environment. And since post-COVID, we just haven't seen this type of growth. We're actually seeing some softness in different industries in certain areas, as we mentioned, and that has been driving primarily some of the fluctuations from our historical levels.

Ramsey El-Assal
Barclays

Got it. Okay. And then one also broad macro question about the ecommerce spending environment, what you're seeing now, what you're expecting in 2024 versus what we've seen in the past couple of years. I guess the question is, do you think that -- where are we now in terms of a normalized e-commerce spending pattern for consumers? I know we've seen goods versus services and travel spending swing around and maybe a discretionary spending pull forward. Other sort of cycles within cycles. I know this is kind of a tough question without a crystal ball, but where do you think we are now in terms of normalization or is this the new normal?

Aglika Dotcheva
CFO, Riskified

I'm definitely seeing some normalization in the past couple of years. I think that just seeing where our growth is coming from this year, Tickets and Travel continues to be a strong category. But, definitely, we've seen some normalization from the past two years, and we've seen some healthy uptick in some of our other categories. As I mentioned, Home and Fashion, just with the addition of new merchants and strong activity, is starting to be a positive trend for us. That was something that wasn't the case a year or two ago. So, really now, just looking at our merchants' brands and what we see on our end, also definitely it's heading towards normalization and more kind of healthy contribution from growth from a number of areas. But there is still definitely some softness. We've kind of mentioned some subsegments with high luxury fashion, our sneakers. There's still areas that are continuing to be soft. And more broadly, just kind of looking for industry reports and understanding where we are, I think the macro environment continues to be tougher in -- kind of in the face of rising interest rates. Now, there is a prospect that these are going to stabilize or maybe start decreasing, and we're starting to see that some of our merchants that are public companies start to kind of talk about stabilization or even recovery .So, better trends in the back half of the year. Inflation has appeared to be sticky, but we've seen some normalization in prices, especially across Tickets and Travel. And, hopefully, this can drive higher consumer demand. So, all in all, I think that it's still somewhat volatile, but I think we're kind of closer, hopefully to the light at the end of the tunnel with hopefully better prospects by the end of this year.

Christopher Kennedy
William Blair

Good morning. Thanks for taking the question. Can you talk about some of the newer initiatives, the non-Chargeback Guarantee products and services? You mentioned they don't represent a large portion of revenues today. Can you just talk about when you think they will move the needle?

Eido Gal
CEO, Riskified

Yeah. I think we have great momentum. So, we mentioned that the revenue from them grew 3x in 2023, and that for -- specifically for our policy product in Q4, we saw almost over 50% of the go-lives of the year went live. So, we think the momentum is great. And they're also helping us generate more conversations, increase the win rates also on our core Chargeback Guarantee, and that helped us result in almost 80% win rate in the quarter. So, we think they're already contributing meaningfully to our success. And I think that the momentum is going to carry forward into 2024. And we'll continue to see increased usage of them, and we'll continue to solve more pain points and kind of get it in the hands of more and more clients. And I'm sure that more meaningful revenue uplift will come once we do that.

Christopher Kennedy
William Blair

Okay. Thank you. And then just real quickly going back to the net dollar retention, what levers do you have to drive -- to improve that, go from 105% back to your historical average of 115% to 120%? Is there anything that you guys can do to drive improvement there? Thank you.

Eido Gal
CEO, Riskified

If you just think about the way that that number is built, the more we upsell, cross-sell, and better retain our clients, the higher this number will be. We're definitely focused on executing on those paths. Just to highlight again that if we were to compare today's net dollar retention to that of the prior periods where it was higher, the biggest difference is in the macro same-stores category. Having said that, again, we still focus on the things that are controlled in order to improve that.

Terry Tillman
Truist Securities

Yeah. Good morning, Eido, Aggie, and Chett. Thanks for taking my questions. Nice to see the EBITDA progression. Just the first question, it's kind of a mouthful, and then I had a followup for Aggie. But, Eido, for you, in terms you guys have touted in the past as a powerful ROI where it drives more revenue and also reduces costs around chargeback. 'm just curious, if you take a step back, where are we in the penetration level for a modern kind of next-gen Chargeback Guarantee platform adoption versus legacy approaches or review solutions, etcetera? I'm just kind of curious where you think we are in terms of penetration. And the second part of my question is I think there was a remark about the pipeline being higher. Is this just the market, more people are willing to look at things or would you attribute it more to the platform go-tomarket initiatives and the investments you've made in your sales and marketing? And then I have a followup for Agi.

Eido Gal
CEO, Riskified

Hey, Terry. Thanks for that. So, look, I think that -- let me dissect it into a few different ways. I think that on the platform side -- and when I say platform, I include the value for something like policy and the dispute management -- I think we're just at a stage where, honestly, the technology is catching up to the promise. So, I think it's completely under penetrated. And I think that some of the value that we're seeing that it's generating to merchants is not understood or kind of well-played out in the market yet. For example, the kind of Q4 results that we had around policies and cutting items not received chargebacks basically by half or helping other merchants manage different parts of the business. When you think about just the Chargeback Guarantee component, while I'm proud of our accomplishments to-date, it's still a relatively small portion of the overall e-commerce volume. So, I do think that there's still a lot of runways to growth once have kind of more traction and understanding of the value, and we definitely see that increasing. More specifically to what's leading to the stronger pipeline, I think it's hard to isolate one specific thing. But when I think about the initiatives, we undertook over the past two years like expanding our global go-tomarket footprint and building the product platform, those are definitely contributing. You can see that in the 30% and 40% growth respectively and kind of LatAm and APAC. You can see that in kind of the outperformance on the win rates based on the platform sales. You can see it on the actual platform traction. So, it's probably a combination of all that resulting in kind of the global pipeline improvements that we're seeing.

Terry Tillman
Truist Securities

That's really helpful. Thanks for all that color there. And I guess, Aggie, just for you, in terms of free cash flow, I think you said about $30 million for the year. Is there anything we should consider seasonality-wise or maybe there's some cash -- kind of cash expenses because of the restructuring? Just trying to understand how we flow the $30 million in the year. Thank you.

Aglika Dotcheva
CFO, Riskified

Yeah, Terry. It's generally, say, $30 million for 2024. I don't have any more precise kind of spread. Maybe it's going to follow mostly some of the trends around adjusted EBITDA as well. And more particularly probably Q4 is just still to carry some of the receivables from -- Q1 tends to carry the receivables from Q4, so maybe some adjustments there as well. But nothing to provide more -- kind of more precise around that right now. Just on an annual basis, around $30 million.

Tim Chiodo
UBS

Thank you for taking the question. Looking at slide 26 in the investor deck, I appreciate that during the remarks earlier, you mentioned that it was a very Q4 heavy year in terms of new merchant activity. I believe you said about one-third of new merchants boarded in Q4. You also noted the refined sales strategy and that the teams overall met the revenue goals for the year. From the chart, if there's any additional context on the 2023 cohort that you could provide me, is it maybe that the sales teams met the goals this year a little bit more by gaining wallet share with existing customers relative to bringing on new logos? Is that a fair conclusion from looking at this table or if there's anything else that you could help us with related to slide 26, that would be appreciated.

Eido Gal

CEO, Riskified

Yeah. I think the distribution between new and upsells is somewhat similar with prior year, so I don't think there's anything unique or different to call out in that regards.

Aglika Dotcheva
CFO, Riskified

Yeah. Just to kind of point as well, it's relatively even between new and upsell in 2024.

Brent Bracelin
Piper Sandler

Good morning. Thank you for taking the question here. Great to see the commitment to profitability here going forward. My question, as we think about the growth profile of this business, it looks like, on an annual basis, we're stabilizing in the low-teens. My question is, as you look forward, it does sound like the pipeline's a little stronger this year versus last year. What's the algorithm to accelerate growth from here? As you think about upside levers, is it going to be expanding customers at a faster pace? Is it going to be the new product cross-sell? Just walk us through how you're thinking about, maybe over a three-year period, how you accelerate growth from here. Thanks.

Eido Gal
CEO, Riskified

No. That's a great question. I mean, look, what we focus internally that we believe will lead to kind of faster growth rates is, one, selling more globally. So, that's part of the international expansion, which we kind of highlighted the 30% and 40% growth. Second is generating more revenue and more sales from the platform from policy dispute, count protection. So, that would be number two. And number three is making sure that that helps us win more core Chargeback Guarantee deals even in some of our kind of established markets. Retaining merchants at a better rate even though it's very high today would also be meaningful. So, I think those are all the areas within our scope of control that we're focused on that we believe could lead to accelerated growth.

Now, obviously, the macro being outside of our control, which can also lead to that. And to your kind of point, well, hey, if the pipeline and everything, what's different this year is the net dollar retention is picking up. I think that we tend to work on a slightly smaller amount of larger deals.

I think we mentioned that we have over 50 accounts each generates over $1 million in revenue for us. And just the timing of when in the year those accounts go live can have a meaningful impact on the calendar year revenue. So, that's also probably something to mention.

Brent Bracelin
Piper Sandler

Fair enough. And then just back to that third point, the winning more chargeback deals with existing customers. What's your best guess? The percent of volume attach that you have across your largest customer base, is it 50% of volumes? Is it 80% of volumes? Any sort of level set for us as we think about that third lever to accelerate growth where you're at today as a baseline?

Eido Gal
CEO, Riskified

Sure. That's a great question. I mean, it's -- after lots of ins and outs throughout the year, we're kind of around the 30%, 30-plus-percent range, which is actually a bit similar to historical years.

Brent Bracelin
Piper Sandler

Helpful color. My last question is really around automation. You mentioned several internal efforts to further automate some of the internal processes and procedures to be able to ramp capacity and drive leverage. Can you double click into the biggest change from an automation standpoint that you're seeing success with? That would be helpful. Thanks.

Eido Gal
CEO, Riskified

Sure. So, I think we've created a platform that allows us to manage approval rates and chargeback rates in an automated way per merchant, right? So, it's something that you – historically, someone would actually have to look at the performance and maybe manage the model or the different thresholds. And just the fact that we were able to roll this out and have a high enough confidence in the performance of this platform allows us to onboard merchants pretty much and with scale while maintaining the very kind of unique performance metrics that the Chargeback Guarantee model can provide.

Brent Bracelin

Piper Sandler

Helpful color. Thank you and great to see the commitment to profitable growth going forward. Thanks.

Reggie Smith
J.P. Morgan

Hey. Good morning. Thanks for taking the question. I joined late, so this may have been covered. But I was curious what, I guess, kind of broader e-com growth assumptions are embedded in your 2024 guidance. And it sounds like you may have given longer-term guidance. Maybe if you could talk about what you're thinking about over that horizon as well. And then I guess it's kind of implicit in your guidance, but like what's the – internally, how do you guys think about the growth algorithm? Is it e-com plus, e-com time sum ratio or what's the internal view there? And I have a follow-up. Thank you.

Aglika Dotcheva
CFO, Riskified

Of course, Reggie. Thank you for the question. So, just thinking about the first half of the year, it's the broader economy and I don't think anything is much different than what we saw in 2023. Inflation continues to be sticky and consumer spending relying on more credit…its just potentially more of the same in the first half of the year, I think. And then going into the second half of the year, there's more optimism around potential stabilization or recovery. But, again, too early to say right now. So, we try to be kind of balanced in our approach. We talk to our merchants, we look at the industry reports, and we factor in or we factor in what we see. The potential -- that things recover and they're much more optimistic and faster, that can be a positive effect. And if things continue to be kind of completely sluggish like last year, that can be probably more of a neutral to negative effect, depending on where we think about our guide.

Reggie Smith
J.P. Morgan

Got it. Okay. That's good. So, basically, assuming stability, I guess you called out or highlighted several Policy Protect implementations in the fourth quarter. I was curious, was there a reason that they all kind of flipped on at the same time and maybe talk a little bit about the lead time for that type of upsell? Is there a reason that the fourth quarter would be particularly strong and did you have any view or insight of that coming ahead of time, so lead time? Thank you.

Eido Gal
CEO, Riskified

I think we've made a lot of progress in the technology throughout the year, and we've added more and more use cases. And as we've onboarded more merchants and have more testimonials and solved more use cases and understand better the ROI and how to sell it, it just naturally leads to better movement and traction. Specifically, these are cross-sells mainly to existing merchants. So, the additional integration is very simple, and the entire process from selling it to going live is not time consuming.

Reggie Smith
J.P. Morgan

Got it. And if I could sneak one more in thinking about the kind of the pipeline that you guys talked about and looking at kind of slide 23 in the presentation, is the same kind of mix -- are you seeing the same mix in terms of a new pipeline? Does it kind of approximate the current volume mix? Are you seeing any pockets of strength and any particular geography that would deviate from historic -- for your existing billings?

Eido Gal
CEO, Riskified

Yeah. I think we continue to see more and more pipelines across the platform. We continue to see it across the global areas where we have shown recent strength. So, I would say it's diversified and reflective in kind of the overall performance of the business, the pipeline. So, nothing unique to call out there.

Reggie Smith
J.P. Morgan

So, roughly consistent with the current billings?

Eido Gal
CEO, Riskified

Yeah, I would say so.

<End of Q&A>

Eido Gal

CEO, Riskified

Thank you, everyone, for joining. The team and I are very excited for the year ahead, and we look forward to updating you on our progress.