Riskified First Quarter 2024 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)

Timothy Chiodo – *UBS Securities*

Cristopher Kennedy – *William Blair*

Will Nance – *Goldman Sachs*

Terry Tillman – *Truist Securities*

Ryan Tomasello – *KBW*

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 first quarter of 2024. 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 first quarter of 2024 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. This was truly a quarter of execution. During the first quarter, we achieved revenue growth of 11%, non-GAAP Gross Profit growth of 18%, improved our Adjusted EBITDA margin by 1200 bps year-over-year, and repurchased approximately 4% of our shares outstanding. While it is still very early in the year, we remain confident in executing on our 2024 goals across the organization. Our team is hard at work and focused on driving towards our annual, near, and long-term targets.

As discussed in depth on our previous calls, and what remains unchanged today is our focus on landing new customers to drive vertical depth and geographic diversification, while continuing to upsell to our existing merchants. Allow me to highlight an interesting proof point of how we are successfully executing on this strategy.

Historically, we have found that when we are able to onboard a significant number of merchants in a vertical and then perform well with those merchants, we can reach an inflection point where future sales in that vertical become easier, faster and more streamlined. As a result we end up “owning the category" from a competitive standpoint. We believe that this is what we have achieved over the last ten years in our “Fashion and Luxury” vertical through working with many of the world’s most prestigious brands in this category. Now, I believe that we are building a similar competitive moat in our Tickets and Live Events sub-vertical.

We identified the Tickets and Live Events space about five years ago as an opportunity for expansion. We have executed on this opportunity as evidenced by our growth in this category over the last several years. Furthermore, in the first quarter, our top new logo win, and our largest upsell were both in the Tickets and Live Event space. Each win involved taking volume from the merchants’ incumbent vendors, which were newer generation competitors. We believe that we are delivering compelling ROI for these merchants. Many of the top merchants in this space are already leveraging the powerful flywheel effect of our network, and we have further opportunities in our pipeline to continue expanding our market share.

In addition to our network effect, we believe that the merchant level data that we analyze through very deep and robust integrations with our merchants’ internal systems and gateways is a core differentiator and a key reason why we win. Combined with the technology and product advancements that we have made over the past few years, we have built a flexible and dynamic platform designed to utilize domain specific features, tailored to individual industries. We believe that by focusing on improvements to our technological capabilities, we are continuing to strengthen the accuracy and performance of our machine-learning factory.

Outside of Tickets and Live Events, during Q1 we had key wins in another of our marquee competencies, the “Fashion and Luxury” vertical, with notable wins in the United States, EMEA and Japan. In addition, we onboarded a “Food” merchant in EMEA, a growing vertical for us. To highlight the geographic breadth and success of our go-to-market efforts, seven of our top ten new Chargeback Guarantee logos closed during the first quarter were outside of the United States.

And…continuing the momentum from the fourth quarter, our go-to-market team continues to do a great job selling our multi-product platform, with important new logo wins in both our Policy Protect, and Dispute Resolve Products. The top new logos in each of these products were both stand-alone sales to merchants not currently using our Core “Chargeback Guarantee” product. Like we have said before, our refined multi-product platform has unlocked multiple entry points into enterprise eCommerce companies, which helps lead to increased merchant coverage, and opportunities to continuously sell our platform.

In addition, through focused expense discipline and year-over-year gross margin improvements, we achieved Adjusted EBITDA of $2.8 million dollars during the first quarter. This marks consecutive quarters of positive Adjusted EBITDA. We continue to flow the leverage from our topline performance down to the bottom-line, and as we continue to scale and grow revenues, we expect that this will continue to be a powerful driver of further margin expansion.

To that end, we are improving our bottom line annual guidance to reflect our strong performance in the first quarter and confidence in our annual gross margin in the face of an uneven, but generally resilient spending environment. Agi will touch on this more shortly.

In conclusion, I remain optimistic about the trajectory of the business, and of our ability to manage the business to deliver value to our shareholders. I am excited about the strong technology that we have built to capture the ever expanding eCommerce universe, and the opportunities we have in front of us.

Now, over to Agi

Aglika Dotcheva
Chief Financial Officer

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

Our GMV for the first quarter was $32.0 billion, reflecting a 17% increase year-over-year. We achieved first quarter revenue of $76.4

million, up 11% year-over-year. Our GMV and revenue growth during this quarter was primarily driven by continued new merchant and upsell activity.

Maintaining the positive momentum from the fourth quarter, in the first quarter of 2024, we achieved 65% year-over-year growth in our "Home" category, primarily driven by upsell activity. We also grew approximately 30% in our "Food" category, primarily driven by growth from new merchants added during 2023. In addition we saw over 30% growth in Payments and Money Transfer, driven by new merchant activity.

Our two largest categories, the "Fashion & Luxury" and "Tickets & Travel" each grew by low single digits, primarily due to new and upsell activity, but were partially offset by same store sales pressures.

In particular, we saw continued softness within High-End fashion across all geographies excluding APAC, and softer than expected performance with Travel merchants in EMEA. This contributed to a minus 4% year-over-year decline in the region in the first quarter, but we are still expecting growth for the year.

Outside of EMEA, the United States, which is our largest region, grew by 14% during the first quarter and APAC grew approximately 40%. The Other Americas, which represents Canada and Latin America, grew approximately 12% primarily due to new and upsell activity offset by increasing declines in High-End Fashion in Canada. Despite this, I remain excited about the Other Americas region due to our continued growth in LATAM, fueled by market share gains achieved by adding new logos in that region.

Moving on to gross margin, our non-GAAP gross profit margin for the first quarter of 2024 was 56%, an improvement from 53% in the first quarter of 2023.

We continued to benefit from improvements in our core machine learning models and positive impact from new product revenue, offset by the impact of ramping of significant new merchants.

As a reminder, 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.

We're still targeting a non-GAAP gross profit margin between 52% to 53% for the full year, but now expect to be at the high end of the range as a result of our strong Q1 margin performance. Directionally, for modeling purposes we expect our Q2 gross margin to be at the bottom of the range, our Q3 margin to be below the range and we continue to expect Q4 margin to be above the range.

Moving to expenses. We continue to manage the business in a focused and disciplined manner.

Total non-GAAP operating expenses were $40.2 million for the first quarter, representing a year-over-year decline of 4%.

Our non-GAAP operating expenses as a percentage of revenue declined from 60% to 53%, reflecting ongoing leverage in the business model.

We continue to expect our quarterly expenses for the rest of the year to remain similar to the first quarter.

We achieved positive adjusted EBITDA of $2.8M in Q1'24, as compared to negative $5.2M in Q1'23, an improvement of 153% year-over year, and the seventh consecutive quarter of year-over-year improvements.

Overall, this represents two consecutive quarters of positive Adjusted EBITDA, with meaningful year-over-year Adjusted EBITDA margin improvements of 1200 bps achieved in both Q4'23 and in Q1'24.

Moving to the balance sheet. We ended the first quarter with approximately $455 million of cash, deposits and investments on the balance sheet, and we carry zero debt. Approximately 95% of our cash is held in accounts located in the United States.

In the first quarter we repurchased 6.4 million shares for a total price of approximately $30.3 million. As a result, total shares outstanding has decreased by approximately four million shares from the fourth quarter of 2023.

I am excited to announce that our Board of Directors has authorized additional $75 million of share repurchases, subject to the satisfaction of certain Israeli regulatory requirements. When combined with amounts that remain available under our existing share repurchase authorization our total outstanding authorization is approximately $92 million.

As a result of our anticipated continued buyback activity, and commitment to managing dilution to meaningfully lower levels than prior years, we expect our share count to decline year-over-year.

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.

In addition, we continue to maintain a very healthy cash flow model and achieved record free cash flows of $10.5 million in the first quarter, which exceeded our previous record by over three million. We continue to expect approximately $30 million of positive free cash flow in 2024.

Now turning to our outlook. We are updating and improving our 2024 bottom-line guidance that we previously shared on our Q4 call. Consistent with the past two years, we are maintaining our annual revenue guidance during the first quarter. As such, we continue to anticipate revenue between $323 million and $335 million for the full-year 2024, or $329 million at the midpoint.

We are seeing a continuation of the High-End Fashion trends and headwinds with Travel merchants in EMEA persist in April and early May.

As a result, we anticipate softer than expected performance in the second quarter. We remain optimistic that a strong summer travel season in the third quarter should stabilize our performance alongside continued strong new and upsell activity across all regions in the second half of the year.

Which, together with some anticipated improvement to the macroeconomic landscape by the end of the year, should result in stronger second half growth than the first half.

We will continue to monitor the performance and health of our merchants, consumer spending, and the broader eCommerce landscape and the impact on our results.

Moving to our Adjusted EBITDA outlook. As a result of our disciplined approach to managing the business and improved gross margin outlook, we now believe that our full-year Adjusted EBITDA will be between $12 million and $18 million, or approximately $15 million to the midpoint, which represents an improvement of 11% from our initial range provided on our Q4 call.

The new midpoint of our adjusted EBITDA guide represents additional margin expansion of approximately 750 bps from the prior year, demonstrating leverage in the business model. As always, we look to find additional leverage in our business.

Overall, I am encouraged by the start to 2024. I believe that our market positioning and ability to execute on the elements within our operational control positions us well to grow and deliver value to shareholders.

Question and Answer

Reggie Smith
J.P. Morgan

Congrats on the quarter. So but you guys are achieving a lot of your goals. My question, you mentioned in the press release, the policy protected the dispute resolved when potentially unlocking new entry point in the organization. A question for you is the person at the organization of the company that you're working with that you're selling, so is that different than who you typically speak to for those bigger products versus the traditional charge back guarantee? And then also maybe if you could talk a little bit about the selling cycles for those products. I would imagine that they're shorter, but yes, I just don't want to assume anything there.

Eido Gal
CEO, Riskified

So on dispute resolve, it's usually similar people in the organization and the sales process there is pretty straightforward and shorter with less integration complexity. When you think about policy, that usually incorporates more people within the organization, so a wider spectrum of decision-makers because you are making pretty critical decisions around the consumer. And there we see the sales cycle be at a similar lane to the charge back gaurantee.

Reggie Smith
J.P. Morgan

And I guess implicit in that, there's usually very little pushback or hesitancy on the dispute result? Is that fair to say?

Eido Gal
CEO, Riskified

That's correct.

Will Nance
Goldman Sachs

Wondering if you could talk a little bit about, I guess, the linearity of some of the ongoing macro impacts that you discussed in the quarter and then it sounds like are also continuing into April and May. I guess I know you guys have been flagging kind of macro headwinds for a while in some of these verticals, and we've seen that elsewhere. But I'm just wondering if you could talk about what you're seeing in the most recent quarter and into April and May. Is it worse than what you have been seeing in the past, particularly in areas like luxury and apparel? And just if you could talk about any notable geographic trends that you observed during the quarter, that would be great.

Aglika Dotcheva
CFO, Riskified

So let me break it down. If I think about some of the strength in the quarter, as we mentioned, we saw very good performance from our home, food, and payments category, is primarily driven by continued execution about adding new business there. Related to fashion and travel tickets and travel, these are our largest categories. They grew in Q1, and this positive and encouraging. I would say that what was a little bit different than what we expected is maybe some of the kind of the growth or recovery there was a little bit weaker than we thought, especially in luxury fashion. I would say that sequentially things improved there, but what we start seeing in the back half of March and kind of through April is more volatile. And there's a lot of nuances around different merchants, some merchants are recovering and doing while some of them are continuing to decline. But all in all, I still expect this category to kind of recover through the back half of the year, while there's still different movements in the quarter. And regarding geos, I think we mentioned the kind of growth trajectory overall, happy with the performance. We still expect growth overall for the year, all of these geos to be growing. So that's kind of in a nutshell.

Will Nance
Goldman Sachs

And then just you mentioned, I think, in the prepared remarks and also just now that you're expecting kind of a gradual recovery into the second half of the year. And then I heard you on some of the commentary on 2Q being a bit softer than expectations. I guess what's driving the confidence in the re-acceleration in the back half of the year? Is it just comps getting easier? Or is there explicit line of sight towards things improving?

Aglika Dotcheva
CFO, Riskified

Yes. I mean if we kind of think about tickets and travel, I think there's kind of different trends there. Exiting Q4, travel had a great performance, industry reports kind of really pointing to another record year. Industry reports and just general is still showing like a strong expected summer travel season and back half of the year. In addition, we're continuing to add new merchants in across categories. So I mean there's a little bit nuances in the quarters, ups and downs, but overall, nothing has changed overall, the way we see this category for us.

Terry Tillman
Truist Securities

Connor Passerella on for Terry. First one, just another strong quarter of growth in the food category. It seems like your platform is really resonating with merchants there. Just kind of curious on how you're thinking about momentum continuing in this category throughout the year and maybe how it kind of stack ranks against some of the other ones as more of an upper comer?

Eido Gal
CEO, Riskified

Sure. Happy to take that. We do find continued success. And I think like we highlighted on the call, what we see happening is once we start seeing traction in specific category, we end up building more specific features and technology that are customized for that category. That helps us achieve some additional merchants because we have some of the better brand names and superior technology, which kind of leads to continued strength and growth. So we are seeing that in the food category. I think we highlighted that in the live events category. I'm not sure the exact breakdown kind of quarter-by-quarter on the upcoming when exactly we'll lap some of these larger merchants or not, but it is an area of focus, and we are very happy with the performance there.

Terry Tillman
Truist Securities

And then just as a quick follow-up. Balance sheet remains really strong. Just with respect to capital allocation, how are you kind of thinking about M&A and evaluate potential acquisition targets there? Maybe as you move to more of this platform focused selling opportunity, could it make sense to, I guess, acquire new capabilities that could maybe enhance the super further?

Eido Gal
CEO, Riskified

It does make sense, and we're continuously looking. But at the end of the day, we're also trying to allocate capital and make the best use of that. And when we're looking at the cost and the opportunities out there relative to the cost and opportunity within Riskified so far, that's been the clear winner. But we are continuing to look, although we have a high bar to get something across the finish line.

Ryan Tomasello
KBW

The call out on the large stand-alone policy protect and dispute resolve deals in the quarter seems notable for these noncharge back guarantee merchants. So just dovetailing on some of the earlier comments and questions. In general, how much of a focus are you placing in your go-to-market strategy for winning these new products without the Charge back guarantee? And if you can just elaborate on how the platform architecture and pricing and sales strategy have been evolving, particularly the latter 2 to make these stand-alone deals more seamless than before?

Eido Gal
CEO, Riskified

Happy to elaborate -- so look, I think what we try to do as a product organization is to build capabilities that will enable our sales team to sell better to sell a more continuous motion. So we see ourselves as creating these capabilities for them and they're kind of coming out and saying, "Hey, this is helping me in these 2 specific instances, the merchant said, "Your charge-back guarantee product is really interesting. But actually, my biggest pain point and priority right now is different. It's around kind of dispute resolved or it was around the policy product. So let's integrate that first. And obviously, having the understanding about how they can strategically expand with us over the next few quarters and what further set of capabilities we have really helps them in choosing Riskified as their preferred vendor. So that's how it's been helping in our go-to-market motion, just gives them a wider set of tools and capabilities in front of the merchants. When we think about the revenue and the attach rates, I would say that recently on policy, where we've been successful, we've probably been able to generate 10% to 20% of the Charge back deals. And obviously, that's at a higher gross margin point. Dispute resolved is probably lower than that, I would say, in the range of 5%, but they do help kind of overall package a more differentiated story. And we're looking forward to expanding the platform capabilities further in the years ahead.

Ryan Tomasello
KBW

And then just a follow-up here, piecing together the comments you provided around the quarter-to-date trends. Any early guideposts you can provide around revenue and GMV growth in 2Q relative to 1Q? -- sounds like growth rates in the second quarter might be tracking lower than what you put up this past quarter. But any handholding from a modeling perspective would be helpful, just especially as we look to gain conviction in that second half ramp that you seem to be baking in?

Aglika Dotcheva
CFO, Riskified

Yes, of course. So I'll think that some of the delta between the revenue growth and GMV growth will persist throughout the year. And as I mentioned, we are kind of seeing some softer months now back half of March, April, but overall still in line for the annual guide.

Tim Chiodo
UBS

I know that you gave some good regional commentary of around the various regions color during the prepared remarks. I wanted to dig in a little bit to some of the European trends. I ask only because PayPal had a slight acceleration in their branded checkout in Q1. And in part of their prepared remarks, mentioned strength in Continental Europe. However, Shopify, who -- when giving their 2Q guidance did mention a little bit of macro concern in Europe and specifically called out the U.K. So just putting those 2 together, I was hoping you could give a little bit of your context on what you're seeing within e-commerce trends in Europe. Less so about your underlying share gain share loss, but what your customers are seeing in the broader market given your position in the market.

Eido Gal
CEO, Riskified

I'll actually start with that, and then I'll hand it over to Agi I want to highlight that I'm not 100% certain that we define those regions the same. So for us, it's where the merchant is headquartered because we service the merchants and sometimes when it's more kind of consumer-oriented like PayPal brand and checkout and it might be where the checkout has happened, right? So for us, the merchant is headquartered in Europe, it sells globally and that's how we define it. So I'm not sure that's an apples-to-apples comparison. So just wanted to give that disclaimer before handing it over to Agi.

Aglika Dotcheva
CFO, Riskified

So overall, we've seen kind of Europe being softer compared to the rest of the regions. As Eido mentioned, we're looking at where the merchant is based. We've seen across kind of a number of areas, the number of merchants specifically kind of [were softer, so we wanted to] highlight the [softness] around travel and client fashion. This is where we've kind of seen some softness.

Christopher Kennedy
William Blair

You mentioned tickets and travel becoming a much bigger piece of the business. Can you just talk a little bit about the economics of that vertical relative to kind of your core fashion and luxury vertical?

Eido Gal
CEO, Riskified

I'm happy to take that. So I think travel has always been a large industry for us, but we have seen continued growth, especially in the live events space over the past few quarters, and that's been continuing to grow and shows great signs of continuing growth. At this point, we're kind of similar -- we're seeing similar margin profile to the rest of the book of business, nothing unique to call out. I know that coming out of COVID, maybe we highlighted that, that was kind of maybe a different profile for some travel merchants. We don't believe that to be significant anymore, especially as we think about the live event space.

Christopher Kennedy
William Blair

And then just more broadly, charge back to billing trends. If you can just talk about kind of the trends by cohort and what you're seeing in the observations over the last couple of years.

Eido Gal
CEO, Riskified

I would say similar to what we mentioned on the previous call, we're really happy with the improvements, both in the core modelling, whether it's the level of automation, autonomous training ability to deploy more models, general features that are integrated into the system. And I think we see it in the margin out performance this quarter and previous quarter. We're also starting to see some helpful increase in the margin based on the new products. So while they are kind of still small on a revenue perspective, they've already contributed, I think, slightly over 0.5% to this quarter's margin. And again, the offsets continue to be the ramping of new merchants, newer geographies, but overall happy with the performance and trajectory.

<End of Q&A>

Eido Gal
CEO, Riskified

Thank you very much for joining our Q1 call. We look forward to continue updating you on our progress in the quarters ahead.