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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to Remitly's Q3 â€˜23 Earnings Conference Call. (Operator Instructions). Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Stephen Shulstein, Vice President of Investor Relations.

Stephen M. Shulstein - *Remitly Global, Inc. - VP of IR*

Good afternoon, and thank you for joining us for Remitly's Third Quarter 2023 Earnings Call. Joining me on the call today are Matt Oppenheimer, Co-Founder and Chief Executive Officer of Remitly; and Hemanth Munipalli, our Chief Financial Officer. Our results and additional management commentary are available in our earnings release and presentation slides, which can be found at ir.remitly.com. Please note that this call will be simultaneously webcast on the Investor Relations website.

Before we start, I'd like to remind you, we will be making forward-looking statements in the meaning of federal securities laws, including, but not limited to, statements regarding Remitly future financial results and management's expectations and plans. These statements are neither promises nor guarantees and involve risks and uncertainties that may cause actual results to vary materially from those presented here. You should not place undue reliance on any forward-looking statements. Please refer on our earnings release and SEC filings for more information regarding the risk factors that may affect our results.

Any forward-looking statements made on this conference call, including responses to your questions, are based on current expectations as of today, and Remitly assumes no obligation to update or revise them, whether as a result of new developments or otherwise, except as required by law. The following presentation also contains non-GAAP financial measures. For a reconciliation of these non-GAAP financial measures to the most directly comparable GAAP metrics, please see our earnings press release and the appendix to our earnings presentation, which are available on the IR section of our website.

Now I will turn the call over to Matt to begin.

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

Thank you, Stephen, and thank you all for joining us for our third quarter earnings call. We are very pleased with the strong results we have delivered this year for our customers and shareholders.

As you can see on Slide 4, our strategic focus remains the same, with a portfolio of high-return investments to capture an even larger share of a very large market. We have been able to consistently deliver increasing operating leverage while simultaneously investing in our four key growth priorities of new customer acquisitions, geographic expansion, frictionless remittances, and complementary new products. These investments have allowed us to deliver increasing scale, geographic revenue diversification, a more reliable and frictionless product, and continued automation and cost savings. In addition, these four priorities have differentiated return timing, which will allow us to deliver profitable long-term growth as we build the most trusted financial services brand for immigrants and their families.

While we have doubled our market share over the past 2 years, we are still only slightly more than 2% of the more than $1.6 trillion global remittance market. Our prior investments have resulted in increasing market share in the U.S. and Canada, and yet, we are by no means near our market share potential, and we expect to continue to drive significant growth for many years to come in the U.S. and Canada. We grew revenue over 30% in the U.S. and over 40% in Canada during the third quarter and acquired a record number of new customers in each of these markets, which bodes well for future growth.

Outside the U.S. and Canada, we have an even larger opportunity to drive market share as well as revenue growth of over 90% in the third quarter and an increasing share of new customers coming from outside the U.S. and Canada. We have significant growth opportunities, both in markets that we are currently in and those we expect to enter over the coming years. With that backdrop, let's turn to a brief overview of our third quarter results.

Our third quarter results were strong, as you can see on Slide 5. Our track record of execution through various economic cycles and delivering on promises continued in the third quarter. Our business continues to have momentum with 43% year-on-year revenue growth and fourth straight quarter of adjusted EBITDA profitability. We've continued to earn the trust of our customers through an experience that delivers peace of mind, which leads to improved customer activity and strong unit economics.

As a result of our execution and the returns we are seeing from our portfolio of investments, we are pleased to be raising our 2023 annual outlook for revenue once again. We are also raising our 2023 adjusted EBITDA outlook to reflect the strong performance in the third quarter and our expectation of continued strong performance and previously discussed targeted marketing investments in the fourth quarter.

In the third quarter, our quarterly active customers grew 42% year-over-year, as you can see on Slide 6. This strong customer growth is driven by the peace of mind we build into our product through every step of the journey. From the moment our customers open the Remitly app until the funds are safely delivered to their loved ones. We now serve 5.4 million quarterly active customers. Our new customer acquisition this quarter was once again a record-high and resulted in us adding 1.6 million quarterly active users in the third quarter compared with the third quarter of last year. We continue to benefit from scale, a multiyear focus on brand building, increasing creative velocity, and word of mouth.

Customer behavior remains consistently strong, even with the volatile macroeconomic environment, and we are pleased with the customer engagement and retention we are seeing across our corridors and customer cohorts. We also believe word-of-mouth has been a key driver of efficient new customer acquisition as our recent survey results indicate high levels of trust in the Remitly brand and likelihood to recommend Remitly to family and friends. Our recent surveys indicate that more than 8 in 10 of our customers have told someone else to use Remitly and 9 in 10 customers say Remitly is a company they can trust. In addition, 9 out of 10 customers say Remitly is very reliable and easy to use.

This trust in the Remitly brand results from the actions we have taken thus far to deliver a frictionless remittance experience as we expand the number of customers using our product. I'm going to focus the balance of my remarks today on a more in-depth overview of the progress we have made in our new customer acquisition activities and delivering frictionless remittances and why we believe there is so much more opportunity to deliver for our customers.

Turning to Slide 7, and more details on our new customer acquisition strategy. As we mentioned last quarter, we plan to make incremental targeted brand marketing investments in the back half of 2023, and we began making those investments in the third quarter. In the fourth quarter, we continue to have high confidence opportunities to make incremental targeted investments at the top of the funnel, and we plan to execute on these investments as we have discussed. These investments build on the success we have seen from upper funnel investments that we began making last year.

We are investing in upper funnel and integrated brand campaigns because we believe standing behind our promise of trust with investments in broader awareness is key to attracting and retaining even more customers for the long term. An example of these types of investments are our integrated campaigns, which combine traditional media and digital channels. In the third quarter, we were live in more than 10 integrated campaigns in target markets across North America, Europe, and Australia and are seeing encouraging early results.

Looking ahead, the fourth quarter is a key quarter to acquire new customers given increased sending volume over the holidays. Therefore, we expect to take advantage of that opportunity. And as a result, we expect cash to increase sequentially in the fourth quarter, but remain within our high-return LTV/CAC guardrail. We expect these investments will drive high confidence revenue and active customer growth in 2024. The other area where I'll give a more detailed update is on investments we are making to deliver frictionless remittances, as you can see on Slide 8. As I have mentioned in the past, trust is paramount for our customer base, both because our customers are trusting us with their personal information and funds, but also because delivering remittances international in a reliable and trusted way is incredibly hard and complex.

Examples of this complexity include localization across over 170 countries, reducing friction for customers across different payment methods and currencies, fraud and compliance systems that prevent bad actors while at the same time maintaining a great overall customer experience, sophisticated treasury FX cash management, and delivering funds reliably and speedily to billions of bank accounts, mobile wallets and cash pickup locations across the globe. All of this requires scale and a digital-first approach and importantly, a critical focus on reducing friction across all stages of the remittent journey, something that we are uniquely positioned to deliver, and we're just getting started in our effort to do so.

I will provide more details on 2 key customer engagement points during the remittance journey, which can introduce friction in their experience and the investments we continue to make from a product perspective to significantly reduce these types of friction. The first happens when customers fund their transactions, and the second is growing the disbursement of the funds to recipients. Remitly collect funds from customers in 33 countries or territories, 13 payment types such as ACH, debit cards, Sofort, or iDEAL and in 106 currencies. We call our fund collection from customers, payment acceptance. And friction can result from a customer not having their preferred payment method available, delays, payment failures such as decline cards, inability to make edits to payment or other technical issues, or a clear and rapid process in case of refund is requested. Therefore, quality and reliability of the payment acceptance process takes continuous monitoring, optimization, and expertise in order to provide a fast and frictionless experience.

We are proud of the uniquely frictionless experience we provide, as evidenced by the 9 out of 10 customers in our recent customer survey saying Remitly is very reliable and easy to use. But we also know that we are just getting started in payment acceptance, and we can continue to reinvent the way this is done for our customers with our digital-first approach at scale. Our focus on enhancing our payment acceptance and reducing customer friction includes examples such as providing the ability for our customers to pay with the payment method of their choice. While we offer card payments in all of our markets, we have also added local ad payments such as bank contact in Belgium, Sofort in Germany, and wallets such as Apple Pay and Google Pay in the U.K., U.S., and Canada.

We have also reduced friction in other parts of the payment acceptance experience by simplifying and providing instant refunds and providing real-time account validation when incorrect payment information is provided. We also offer customers the option to retry a failed payment without restarting the entire process, enhancing the overall customer experience and boosting our conversion metrics. In addition, we continue to expand our global money movement network by adding even more trusted real-time payment partners.

Doing so provides customers with even more payment and disbursement options, reduces customer friction, and reduces transaction cuts. As an example, we recently announced a new partnership with MasterCard to integrate Mastercard Send and cross-border services. Today, we're pleased to share that we've renewed our long-standing agreement with Visa to bring global money movement capabilities to more Remitly customers in select jurisdictions enabled by Visa Direct. These agreements enhance the value we provide to our customers, and we are grateful for the collaboration with our payment acceptance partners.

Another driver of our ability to reduce customer friction has been improving the quality of our disbursement network, which we define as the way customers receive funds and currently includes 4 billion bank accounts, 460,000 cash pickup locations, 1.2 billion mobile wallets, and even door-to-door delivery in select markets where it is popular. The rest of this network is important, but the depth, which we define as direct integration, which eliminates intermediate hops, thus reducing errors and improving visibility of customer funds as they move through a transaction is equally important to customers. This enhances our ability to deliver instant transactions for our customers, which is a key driver of loyalty and word of mouth.

The high-quality network that we have built across more than 4,900 corridors is difficult to replicate as it requires significant scale in many corridors as well as the right technology investments, which we have made over many years. We keep expanding our direct integrations, and we have increased the number of received countries that have a direct integration partner by approximately 100% from 2 years ago as we have been able to expand our network to key partners that matter and are relevant to our customers. As our payment and disbursement networks continue to improve, you can see the results in our strong and improving speed metrics.

In the third quarter, more than 92% of transactions were dispersed in less than 1 hour, improving nearly 200 basis points from the third quarter of last year. While we are proud of our progress, this still means that 8% of transactions take more than an hour, and we are focused on getting as close to 100% of transactions delivered in less than an hour as possible, an extremely important outcome for our customers. In addition, our overall platform availability was 99.98% in the third quarter, reflecting the technology investments we have made.

Our 24/7 global customer support service is an important investment we make to protect our customer's peace of mind and resolve friction they may encounter. We are capturing significant opportunities in technology solutions to address some of the key pay-in points for our customers, whether through self-serve options that help customers find the information they need rapidly or the ability to amend the transaction seamlessly while at the same time, providing real-time information on the status of the transaction.

We have also been increasing the ability of human agents to handle more complex issues by upskilling agents and investing in technology, including artificial intelligence. These investments in delivering frictionless remittances have resulted in consistent improvements in our customer contact rates over time. You can also see the early results of these investments on the P&L, where customer support as a percentage of revenue has gone down from 10.6% to 8.3%, a 230-basis point year-over-year improvement in the third quarter.

While we are proud of the progress in reducing customer correction, it is clear that a significant opportunity remains to materially improve the customer experience, which will drive even more loyalty and lower costs. It's important to keep in mind that our customer support costs, which we view as directly attributable to friction, which drives customer contacts are still over 8% of our revenue. This reflects an investment opportunity to most importantly decrease friction and create a reliable, trusted, and differentiated remittance product, which we can do with operational excellence, scale, and a digital-first approach.

As the customer experience continues to improve, we believe we will be able to capture additional flywheel benefits and active customer growth by building a trusted brand. Evidence of the significant trust in our platform today are the approximately 1.2 million ratings for the Remitly app in the App Store with an average of 4.9 stars or over 690,000 ratings in the Google Play store with an average of 4.8 stars. We look forward to building additional customer trust with our investments to reduce friction at all stages of the transaction.

As we look ahead, we are anchored on our vision on Slide 9 to transform the lives of immigrants and their families by providing the most trusted financial services on the planet. We are well on our way to delivering on this vision as we bring reliable and trusted service to millions of customers today. Looking back on our performance so far this year, I am extremely pleased that we have delivered on our promises with consistent revenue outperformance and increasing returns on our investments. Our strong results have demonstrated that we have been prudent stewards of capital across economic cycles.

We look forward to continuing to build on the trusted relationships with our customers by sharing the Remitly brand story, expanding into new markets, continuously improving the remittance experience and driving complementary new products over time to deepen our relationships with customers. Executing on this long-term vision will provide outsized returns for our shareholders and deliver exceptional value to our customers.

With that, I'll turn the call to Hemanth to provide more details on our financial results and our revised 2023 financial outlook.

Hemanth Munipalli - *Remitly Global, Inc. - CFO*

Thank you, Matt. I'm pleased with our strong results in the third quarter and our consistent execution this year as we focus on delivering strong revenue growth and improving profitability, while at the same time taking advantage of opportunities to acquire even more customers at robust unit economics. I will start with a review of our third quarter financial highlights and then provide additional details on our updated 2023 outlook.

I will discuss non-GAAP operating expenses and adjusted EBITDA in my remarks. These metrics exclude items such as stock-based compensation, the donation of the common stock in connection with our Pledge 1% commitment, acquisition integration and restructuring costs, and foreign exchange gain or loss. Reconciliations to GAAP results are included in the earnings release. With that, let's turn to our third quarter results beginning on Slide 11 with our high-level financial performance.

We delivered another quarter of greater than 40% active customer revenue growth and increased year-over-year adjusted EBITDA profitability. Quarterly active customers grew by 42% year-over-year to $5.4 million. Send volume grew 36% year-over-year to approximately $10.2 billion, all resulting in revenue growth of 43% year-over-year to $242 million. Our GAAP net loss was $36 million in the quarter and included $37 million of stock compensation expense, $4.6 million related to our donation of common stock for our Pledge 1% commitment, and $2.9 million of acquisition, integration and restructuring costs.

Acquisition integration restructuring costs include $1.5 million related to the integration of Rewire, and $1.4 million of restructuring, which includes costs related to simplifying and scaling certain processes and teams such as customer support to more efficiently serve our customers. The strong growth in revenue combined with significantly lower transaction expense as a percentage of revenue led to adjusted EBITDA of $10.5 million in the quarter. As we described on our last earnings call, as our unit economics remain highly attractive, we plan to make additional marketing investments in the back half of 2023 to acquire even more customers as we look forward to continued momentum in 2024 and beyond. We partially saw the in-period impact of these investments in our third quarter adjusted EBITDA performance and fully expect to see the benefits from these investments in 2024.

Now let's turn to Slide 12 for a detailed review of performance in the third quarter. Let's begin with revenue, which was up 43% year-over-year in the third quarter on a reported basis and 42% on a constant currency basis. Our strong revenue growth was primarily driven by the 42% increase in quarterly active customers, which includes a record number of new customers acquired in the quarter and high retention of existing customers. Consistent with prior quarters, our existing customers contributed to the vast majority of revenue in the quarter. A large number of new customers we acquired in the quarter and highly efficient acquisition costs will primarily help drive growth in 2024 and beyond.

Underlying customer behavior in the third quarter remained very strong, reflecting the nondiscretionary nature of remittances and our focus on providing a frictionless remittance experience. Our revenue in the quarter was impacted by a variety of mix shifts in line with normal movements in the business. As we mentioned last quarter, we continue to see a shift to digital disbursement options in certain markets, which results in smaller transaction sizes and increased transaction intensity. We also continue to see revenue diversification as rest of the world revenue grew over 90% in the third quarter of 2023 compared to the third quarter 2022.

We expect to continue to see mix shifts quarter-to-quarter as our business evolves to be even more global, driven by various factors, including customer references around payments and disbursement options, FX movements, and geographic expansion. We expect to consistently deliver very strong revenue growth even as we scale. These investments we're making in our product, marketing, and our global network will help us drive robust growth in active customers and sustained high retention. We continue to make product enhancements to reflect customer preferences with a focus to improve customer lifetime value.

As our unit costs have been declining, we have the ability to invest in delivering more value for our customers to drive long-term transaction activity and retention while maintaining strong long-term unit economics at the same time. Transaction expense as a percentage of revenue improved 580 basis points year-over-year as we continue to benefit from a rapidly increasing scale. Of the 580-basis point improvement in transaction expense, approximately 180 basis points were due to improved economics with payment acceptance and disbursement partners as we demonstrate scale and are increasing value to our partners across our global payment acceptance and disbursement networks.

As we continue to scale, we expect additional opportunities to improve economics with our partners across both payment acceptance and disbursement networks. As Matt mentioned, we recently signed new agreements with large global payment partners. Our ability to enter into these agreements reflect the value of the additional scale that we bring on both the payment acceptance and disbursement sides. These agreements also provide us with a meaningful opportunity to benefit from scale on our payment acceptance cost as the significant majority of our customers fund their transactions with debit and credit cards. These opportunities are ongoing and reflect the additional value and scale we bring to our partners.

We also benefited from the continued improvement in our fraud loss rates in the third quarter even as we on-boarded a record number of new customers. This sustained improvement reflects the investments we have made in our fraud technology, which allows us to more precisely block bad transactions by preserving a frictionless experience for our legitimate customers. Managing fraud loss rates is always a balance between customer experience' and optimize front levels. We are very pleased this quarter that our fraud loss rate continues to improve, while at the same time, our customer contact rate continues to decline, thus demonstrating that we're able to deliver less friction for our customers.

However, as we've noted before, fraud losses are inherently unpredictable, especially as we continue to acquire significant new customers during the seasonally strong fourth quarter. As a result, we expect some variability in fraud loss rates in any quarter while continuing to make sustainable improvements in the long term. Third quarter results also reflected our focus on acquiring new customers at strong unit economics. As we mentioned last quarter, we were able to take advantage of these strong unit economics and make some targeted incremental marketing investments in the quarter, including some upper funnel investments.

We are confident that we will see strong returns from these investments in 2024 as we look to maintain high rates of growth for many years to come. While marketing expense as a percentage of revenue was essentially flat year-over-year due to our investments, we remain focused on optimizing incremental payback and LTV/CAC ratio, which remained strong in the quarter. CAC was relatively flat sequentially and was slightly up year-over-year, reflecting these additional investments. We continue to benefit from optimizing localized digital marketing, increased creative velocity, improving brand awareness, would amount affects and increasing scale in our business outside of North America.

In the third quarter, customer support and operations expenses were down 230 basis points year-over-year as a percentage of revenue as we continue to see leverage on this line item. We expect to continue to drive efficiencies from increasing automation and reducing friction as well as our improvements in fraud precision, which helped drive down contract rates. Technology and development expenses increased 150 basis points year-over-year and reflect to long-term return investments we're making in our remittance platform to reduce friction for our customers, improve fraud risk and compliance technologies, develop complementary new products, and increase automation across customer service and back-end transactional processing.

We can see some of the benefits from these investments in the leverage we're seeing in transaction and customer support expenses. We expect to continue to invest in delivering a superior experience for our customers and are excited about the returns we are currently seeing, including strong active customer growth and improvement in customer support costs as well as future returns our investments will deliver as our product continues to get better. In the third quarter, G&A expense as a percentage of revenue is flat year-over-year. We continue to focus on moderating overall growth rates in both headcount and non-headcount expenses while targeting higher productivity.

Our GAAP net loss in the quarter was $36 million compared with $33 million in the third quarter of 2022. Our net loss included $37 million of stock compensation expense in the third quarter compared with $26 million in the third quarter of last year. We're actively focused on managing stock-based compensation and have made adjustments to compensation structures in order to maintain appropriate balance between rewarding employees for the value they deliver while managing share dilution.

Our focus for 2023 and beyond remains in four key areas to drive sustainable long-term returns, as you can see on Slide 13. These are to continue to deliver strong revenue growth, improved transaction expense, sustain or improve marketing efficiency while delivering new customers at strong unit economics, and increased scale efficiencies in other operating expenses. We are proud of our execution this year as we've delivered both higher-than-expected revenue growth, making targeted investments for the longer term while demonstrating operating leverage, and sustainably increasing adjusted EBITDA profitability. We're in a strong position to be able to make these investments to ensure future growth while also delivering scale benefits that drop to the bottom line.

Delivering on these priorities has allowed us to increase our outlook for both revenue and adjusted EBITDA in 2023 again, as you can see on Slide 14. Specifically, we expect revenue to be between $935 million and $943 million, which reflects a year-over-year growth rate of 43% to 44% and is a $19 million increase in the midpoint from our prior outlook. The increase in our revenue outlook is primarily driven by the strong trends we have seen in the third quarter on our expectations for continued strength in customer activity from the record number of new customers we have recently added this year and the resilience for other existing customers.

We expect adjusted EBITDA to be between $36 million and $41 million, which is a $2 million increase at the midpoint from our prior outlook. The increase in our adjusted EBITDA outlook is primarily driven by a strong performance in the third quarter on our expectations of continued strong performance in the fourth quarter, offset by the near-term impact of our previously discussed incremental marketing investments. Given the seasonality of remittance end, the fourth quarter provides the best opportunity to acquire new customers and make additional high-return marketing investments. We expect these investments to deliver high long-term returns and also drive strong growth in 2024.

Finally, we expect to continue prioritizing investments in our technology and development organization and ensuring that these investments are aligned to our strategic priorities. Our macroeconomic and FX assumptions remain relatively stable to what we've seen in the third quarter of 2023, and we expect continued resilience in customer behavior across our diversified portfolio of colors. Our balance sheet remains a source of strength to ensure we can fund our high-return investments. At the end of the quarter, we had $223 million of cash and access to a $250 million working capital facility. Similar to last quarter, our reported cash balance as of September 30 was impacted by timing as the quarter ended on a weekend when we typically have higher prefunding requirements to ensure funds are available to our customers.

Overall, we have been very pleased by the consistent execution of our business model and strategy, which has been able to deliver consistent greater than 40% revenue growth, improving adjusted EBITDA margins and high returns on all our investments. We remain focused on allocating capital to the highest return investments to ensure we can deliver this strong financial performance over the long term.

With that, Matt and I will open up the call for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Our first question comes from Andrew Schmidt with Citi.

Andrew Garth Schmidt - *Citigroup Inc., Research Division - VP & Analyst*

I want to start off on the marketing side of things. And I think it makes sense investing more, given that the LTV has stepped up and you can maintain attractive unit economics, but maybe a couple of questions on that front. First, maybe you could just talk about CAC trends you're seeing in performance marketing. And then second, as you shift to more top of funnel marketing and things like that, can you just talk about your confidence in the efficiency of those initiatives and ability to scale those over time? Those areas would be helpful.

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

On the marketing front, we are excited about the integrated brand campaigns. And I'd say that it's a continuation and an expansion of a playbook that we've already started to roll out and have proven to be successful. And an example of that would be like an integrated marketing campaign that we did in the Miami area, where we're seeing the dividends from. That's because it drives long-term awareness with strategically important audiences.

And what we see is it actually makes our efficient performance marketing even more efficient. And so I feel good about our ability to measure those results and feel good about the ability to expand some campaigns that we've already been doing, two additional geographies. And the other benefit of that, given our scale and size, is it continues that flywheel effect of referrals and word of mouth to where we're excited about the investments that we're making in Q4. Mainly because then as we go into 2024, it gives us confidence in our ability to continue to deliver high growth rates that we have delivered in the past. And given the payback period and LTV-to-CAC ratios, we feel confident about delivering as we head into 2024.

Andrew Garth Schmidt - *Citigroup Inc., Research Division - VP & Analyst*

Got it. You actually preempted my second question, which is about 2024 visibility. Maybe you could dig a little bit more into that. I mean, I think you guys have pretty good visibility given the customers you've added thus far. Maybe talk a little bit about just the variables as you kind of think about just the sustaining high rates of growth into 2024. Anything on that front would be helpful.

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

Yes. I'll start with the kind of predictability and confidence, and then I'll turn it over to Hemanth to talk a little bit more about how those squares into our 2024 thinking from a financial standpoint. But I think there we're in a unique spot, mainly because of the resilience of our business in terms of -- you think about our customers, the nondiscretionary nature of the spend, the shift that is happening to digital -- and because of that, there's a lot of predictability and a lot of resilience in our business. And I think that, that is something that as we head into 2024, we're making the right investments in Q4 to give us confidence that we can continue to accomplish our audacious vision, but that's founded in the resilience and the tenacity and the customer base that we serve.

Hemanth Munipalli - *Remitly Global, Inc. - CFO*

I think Andrew, I think Matt covered a bunch of that stuff. I think when I think about it from overall growth rates and so on, I think we would expect to see something pretty consistent with what we've been able to execute in this quarter. When we dig a little bit deeper and look at customer behavior, whether it's the new cohorts or the existing cohorts, there's a lot of consistency in that behavior that continues to give us the confidence in terms of what we're seeing, in terms of what it could translate into in terms of growth rates for next year.

So that's, I think, key and we have a lot of visibility on it. So we're pretty confident that what we're seeing now in terms of cohort behavior will be consistent. The other thing I want to add here is that Q4 is a seasonally high quarter, which is another reason why it makes a lot of sense for us to continue to invest in marketing. While still within our guardrails would you think that it makes sense to expand our CAC while remaining well within our LTV/CAC guardrails and make sure that we can benefit from the seasonal high quarter and see the benefits of that in 2024.

Operator

Our next question comes from Ramsey El-Assal with Barclays.

Allison Sara Gelman - *Barclays Bank PLC, Research Division - Research Analyst*

This is Allison on for Ramsey. So just wondering if you could dive a bit deeper into the opportunity for rest of world versus U.S. and Canada, really helpful disclosures on the start of the call. It seems like you've been making some in some really nice growth, but curious where you see the opportunity as those are promising? And what you think is really a sustainable level of growth for that rest of world segment going forward?

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

Yes, we're excited, as we mentioned, 90% rest of world growth year-on-year for the quarter. I think it's indicative of just how large the opportunity is across the globe, combined with our very intentional corridor expansion playbook. And so what's great is that we're getting strong dividends from investments we made quarters or years ago in terms of markets and geographies that we launched in. And we really haven't even started to see the returns of some of the newer markets that we launched like UAE, but we would expect those to start showing returns in the quarters and years to come, just like the countries I mentioned that we launched a couple of years ago.

And it's also great that we have not yet launched every country around the globe. So there's room for continued growth. And what we like about the portfolio approach is that the rest of world growth, as I mentioned, is growing 90% year-on-year with a lot of runway to continue to grow. But it's important to keep in mind and why I mentioned it in the call that our North America businesses, U.S., and Canada, are also growing at a very nice and healthy rate. And there's big opportunities to continue to grow there, given that we're only 2% of the $1.6 trillion every year.

Allison Sara Gelman - *Barclays Bank PLC, Research Division - Research Analyst*

Great. And you mentioned UAE. Just any progress out of there, anything about how the Rewire acquisition is integrating into Remitly? -- should we expect any other sort of similar types of Rewire acquisitions as a possibility going forward just in terms of that geographic corridor extension?

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

Yes. A few parts to your question. On the Rewire acquisition, very pleased with that acquisition and the assets that we acquired, the amazing team, and I think it's going to help us continue to both add complementary new products as well as expand in regions that they are currently operating. Historically, we found that organic growth and internal builds have been the best opportunities, but we continuously review all opportunities as they become available. We have a high bar for any M&A transactions, and we'll remain disciplined in deploying capital on that front. So that answers that part of the question, Allison.

And then lastly, with the UAE, it's a very large market, excited about the product that we have live there and launched. And as I mentioned, just the nature of how our business works, you acquire cohorts of customers, those cohorts increase over time and then given the repeat nature of our business that starts to build a sizable business over time. And so I'd expect that to happen in the UAE as it happened in other corridors, but it takes a few quarters for that to actually ramp up, and we're on track for that.

Operator

Our next question comes from Robert Napoli with William Blair.

Robert Paul Napoli - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Financial Services & Technology*

So now, when you talk about expanding the CAC in the fourth quarter, Hemanth, how are you thinking about that? How do you manage that? In what way are you looking to do that and maintaining your ROIs?

Hemanth Munipalli - *Remitly Global, Inc. - CFO*

So we -- I think as we've said before, we have a lot of focus on our unit economics and really focused on LTV and CAC -- and as we said in the last quarter as well that the ratios we look at that are pretty attractive and strong. When we look at Q4, in particular, and CAC would sequentially we expect to increase. Some of that is going to be on our performance marketing side related directly to it. And some of it is going to relate to our upper funnel and brand investments, which will take a little bit of a longer-term payback on it, but we have high conviction that these brand investments, which is really backing up sort of promise that we have to deliver for our customers, and the trust we're building with them will continue to help us drive leverage in marketing in the medium to long term. So it's going to be a mix of both upper funnel and brand investments, but also a lot of sort of growth marketing, again, well within what we want to keep as our broader guardrails, but still sequentially, we would expect GAAP to be going up.

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

Yes, the only thing I'd add there, Bob, is I think that as we think about the marketing investments that we're making in Q4 and in general, we have a lot of control over the amount that we choose to grow versus the amount that we choose to drive to the bottom line. And when you look at even with a slightly expanded CAC, when you look at the LTV to CAC ratio, if you look at the payback, we don't share metrics like IRR or NPV. But even with the increased cost of capital in the market, these returns are high, and they're fast. And so we're making them very intentionally within our own control because we're excited about what that will bring in 2024 and beyond.

Robert Paul Napoli - *William Blair & Company L.L.C., Research Division - Partner and Co-Group Head of Financial Services & Technology*

Great. And then I guess, just a follow-up on during the quarter, you announced a partnership with Mastercard Send, and you've talked a lot about direct integrations, maybe two separate questions related in a way. What does the Mastercard Send relationship bring to you? And how is the progress been on direct integrations and what effect has that had on your business?

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

So on the Mastercard Send and Visa Direct partnership, it enables us to send funds to Visa and MasterCard linked debit card. So deposits into the bank account of the customer's recipient that has a bank account linked to those debit cards. And it also gives us some other just scale and cost improvements both of those partnerships. So really grateful for the partnerships with both Mastercard and Visa.

And when you think about direct integrations, which, as I mentioned, is up 100% compared to 2 years ago, what that does is it creates a more reliable product at a lower unit cost. And you see that in our expanding margins, you see that in the 230-basis point improvement in our customer support costs. And so it's a win-win-win from that standpoint. And that falls into the third bucket of investments that we talked about making in terms of a frictionless remittance experience, and we're really proud of the progress there. But as I mentioned in the overview, we're just getting started in our ability to continue to drive down friction and to reduce overall costs for our customers.

Operator

Our next question comes from Will Nance with Goldman Sachs.

William Alfred Nance - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I wanted to also pile on the marketing costs. Maybe a lot of the comments have been focused on the direct investments you guys are making in both Q3 and Q4. I mean I guess just assuming these are successful, you guys sound pretty confident that these will bear fruit, should we be thinking about these investments that you're making, all-equals being kind of reoccurring costs in the future?

And it looks like the marketing costs stepped up roughly $8 million non-GAAP sequentially. Is that roughly in line with the incremental investments you've made? It sounds like maybe that's a partial quarter, a little bit higher in the fourth quarter. But is that sort of the right range as we think about kind of incrementally stepping up, things like brand marketing on a go-forward basis in addition to the kind of normal performance-based market that we have seen in the past?

Hemanth Munipalli - *Remitly Global, Inc. - CFO*

Yes. Let me try to give you an answer, Will, thanks for the question. In terms of sort of the run rate question, and then turn it back to Matt to maybe give a broader response to your question there. I mean, first off, I think I don't think run rate necessarily is the way to think about this -- about investments we're making on the brand marketing side. First off, the way we look at brand marketing and upper funnel investments, they really tend to spread across the entire customer base versus just the new customer acquisitions, which is a lot of what our performance marketing is directed towards.

So we do expect to get leverage on it as we get bigger and bigger in terms of our base of customers, which includes both. Obviously, the active customers include both the new customers as well as cohorts of existing customers. So we do think that overall, we will have some deleverage in terms of CAC in Q4. But as we look forward to 2024, maybe talk about guidance next year, we'll be able to share more in terms of how these efficiencies we've been doing over the last several years in terms of marketing, how that pans out. But we have high conviction that these investments would deliver returns in 2021 and beyond.

Anything to go add, Matt?

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

Yes. The only thing I'd add Will, is I think that with marketing investments specifically, I think you know that we have a lot of discipline around our unit economics. And the way we look at it is within the LTV/CAC ratios and within the payback periods that we've defined, we're willing to spend to get the right amount of customers to be able to drive both 2024 and long-term growth. And I think that's a continuation even as we talk about upper funnel or brand investments, we've been doing that. We're doing a bit more in Q4 for the reasons we've talked about. But you can see very clearly the return on that in a short time frame, and we're excited about that because we've got a bold and audacious vision that we're working to accomplish. And Q4 is a time for us to set up 2024 for success, and so we're excited about the investments we're making in order to do that.

William Alfred Nance - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

That makes sense. I mean just to put a finer point on it. You said you wouldn't characterize it as run rate. So does that mean we should expect these costs to come down, all else equal then? Or are you saying like we don't make incremental investments on top of this and we kind of scale over these costs over time as the customer base gets bigger?

Hemanth Munipalli - *Remitly Global, Inc. - CFO*

Yes. I think -- well, I think the way I mean, a lot of this is a question of timelines. And what we're talking about here as we look forward into sort of 2024 and the mid-, long term, we do expect to continue to be able to drive leverage in our marketing spend. We think the word-of-mouth effect that Matt talked about as well and these brand investments will ultimately help us also drive down performance marketing costs and continue to get leverage on it. It's a question of time horizons. But we look forward to 2024. In particular, we've got a high conviction that these investments we're making in the fourth quarter of this year will deliver results for us next year.

Operator

Our next question comes from Alex Markgraff with KeyBanc.

Alexander Wexler Markgraff - *KeyBanc Capital Markets Inc., Research Division - Associate*

Maybe just not to overplay it, but just one more on the kind of marketing piece of the side of things and unit economics. You all talked a lot about guardrails, but I think it's kind of helpful context. I'm just curious, as you sit today and making some of these investments, kind of, if you think about the higher end of those guardrails, -- just any sort of context to help us think about where you sit today versus what maybe you're comfortable with at the top end or the far side of that guardrail.

Hemanth Munipalli - *Remitly Global, Inc. - CFO*

Yes. Maybe let me try to give you some color on context, Alex. Thanks for the question. I think we've said -- as we've said before and including last quarter that an LTV/CAC ratio of 6% is a pretty attractive unit economics place to be in. And we think we've got some room here to be able to make further investments, particularly as we've been talking about in terms of marketing and still have really robust and attractive unit economics. When we look at this internally, we also look at this from an incremental payback and cash perspective as well as look at sort of the NPV of these investments. And we feel pretty comfortable by looking at and triangulating it on multiple places that the returns we expect to generate from this in the horizon we're looking at makes a lot of sense.

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

And I would say, Alex, the only thing I'd add on that front is I feel very good about both the average and incremental CAC on the marketing investments that we're making right now. And I think what you see in the guide is we raised adjusted EBITDA guidance -- had we decided not to invest as much in some of the marketing investments in Q4, which we can always choose to dial up or dial down, then what you would see is dialing up or down our confidence when we eventually guide to 2024 growth.

But because of the fact that we are able to raise guidance be, we're in control of how much we're spending and growing and see that the marginal and average payback are very good right now. I think that we're threading that needle to invest the right amount for the long term in Q4. And by long term, I mean we'll get that -- the return from those investments in 2024. And we're being very intentional about dialing those levers up and down to kind of balance growth and profitability, not only in Q4 but also in 2024 as we think about next year.

Alexander Wexler Markgraff - *KeyBanc Capital Markets Inc., Research Division - Associate*

That's great. So that I think probably makes the next question a bit easier. But just in terms of the implied EBITDA margin in the fourth quarter, I mean, I think it's pretty clear, a lot of that is kind of marketing investment related. Just curious, Hemanth, anything on the transaction expense line to consider for the fourth quarter?

Hemanth Munipalli - *Remitly Global, Inc. - CFO*

I think broadly, I think the transaction expense line, we've been really pleased with the progress we've made both in sort of driving down reducing pay in and payout costs, which are basically related to economics with our partners, both on the pay in side and the disbursement side and as well as I think we've talked about the advances in terms of fraud management while keeping the friction with our customers low. And so we would expect that the trajectory on that will be consistent as we look forward to this quarter or subsequent quarters into next year.

I think what's important to point out is Q4 is seasonally high. And I think as we look at that with a record number of customers, we generally add in a quarter like this, there could be kits where we might see some increased fraud levels, which we plan for, but we are actively monitoring. But that's the only, I would say, call out, particularly with regard to Q4, but the trends are very favorable in terms of driving continued margin improvement.

Operator

(Operator Instructions). Our next question comes from David Scharf with JMP Securities.

David Michael Scharf - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

I apologize if these have been asked and have been jumping bouncing between three or four different calls. I am already assuming there have been about 6 questions about the fourth quarter marketing plan, so I'll pass on that. But Matt, I'm not sure if you covered this already, but is there any incremental commentary just on not just the competitive environment, but in particular where are the newer customers lately have been coming from?

And specifically, as we kind of referenced the stepped-up investment in digital from Western Union, for example, we have less visibility in the MoneyGram now into private. But is the profile of your new ads changing at all? Meaning, are they first-time digital remitters and you have a chance to kind of maintain the loyalty. Do you get a sense that there are folks that have used Western Union or other providers and the stickiness is still in question?

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

Thanks, David. Great questions, and good to see you. I think that the headline on the competitive landscape is there have been no material changes in the last quarter. I think that the structural changes in the industry, meaning shift to digital. And I'd say that is coming from a wide range of customers, whether that's a scaled legacy player, whether that's subscale legacy players who have difficulty building out a viable, trusted, reliable digital solution or whether that's other digital players that are maybe subscale and not able to provide the reliable service we do.

We're seeing a shift from a wide range of competitors when you think about our new customer acquisition. And we think that we're uniquely positioned given our scale, given our operational excellence, and given our digital-first approach, and you see that in our overall quarterly active user growth and the resilience of our existing customers coming back again and again as well as new customers that are increasingly choosing us because of things like word of mouth and others that are recommending their service to the front.

David Michael Scharf - *JMP Securities LLC, Research Division - MD & Equity Research Analyst*

Got it. And maybe just as a follow-up. On the marketing side, when you make a comment or provide an observation that you believe the LTV to CAC ratio is trending upward. Can you provide a little more meat around the bones in terms of -- where is that incremental lifetime value coming from? Is it based on a sense that your average principal percent is increasing? Are you seeing something innate that tells you the average velocity or number of cents per year is increasing? What actually takes up in LTV?

Hemanth Munipalli - *Remitly Global, Inc. - CFO*

Yes. Great question, David. Let me try to answer that for you. I think first off, when you look at LTV, just as a reminder, it's really sort of our cumulative transaction profit we would expect to get from our customers and cohorts. And there's 2 components of that, that has given us confidence that we are a considering improving our LTV. One is our interest transaction intensity. I think being also digital first in that scale, we're seeing increasing digital transactions and the intent of those transactions is increasing, and that's across our active customer base. So that intensity increased, coupled with a transaction margin, which has continued to improve for the reasons we have described previously around scale for pay in and payout costs and some of the work that's been done on the fraud side, gives us high conviction and just analytics around LTV on a good trajectory. So those are the key components there.

Operator

Our next question comes from Tien-Tsin Huang with JPMorgan.

Tien-Tsin Huang - *JPMorgan Chase & Co, Research Division - Senior Analyst*

I know you've covered a lot already. I just wanted to ask Matt on visibility, if you don't mind, and if it's changed here in the last 90 days is a lot of going on with the political world and pricing, competitive actions, regulation. Just curious if you feel like the visibility has changed in your mind?

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

And Tien-Tsin, when you talk about visibility, you're talking about forward-looking kind of yes, what do you mean?

Tien-Tsin Huang - *JPMorgan Chase & Co, Research Division - Senior Analyst*

Yes, exactly visibility into the financial outlook in the short run as well as just the behavior on the consumer side, if anything surprised you? I know you've covered a lot of that already, but I just wanted to check on changes in visibility...

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

I think that one of the things that is unique about remittances and specifically Remitly and how we both manage the business and who our customers are, the nondiscretionary nature of them sending money is a bit more predictability and resilience. We've seen that over the last decade of running the business. We've seen that in World Bank studies in the past. There's a predictability, especially when you look at the business from a cohort view and a resilience, especially when you understand why funds are sent home, whether that's emergency medical expenses, natural disasters. Sometimes when there's tragedy, there's actually a greater need for remittances. And we've seen that over quite a few cycles. So I would come back to our customers and gratitude for them and that being the case that we have more predictability and visibility to our business. But that's one of the reasons as we start thinking about and talking about '24, we're excited about what's to come.

Operator

I would now like to turn the call back over to Matt Oppenheimer for any closing remarks.

Matthew B. Oppenheimer - *Remitly Global, Inc. - Co-Founder, CEO, President & Director*

Thanks, operator, and thanks, everyone, for the thoughtful questions. As we always do at Remitly, I'd like to end the call by highlighting one of our amazing customers, whose name is Alexis and Alexis sends money from Australia to her family in the Philippines. And Alexis was one of the many new customers we added this year and reflects the increasing diversity of our corridor portfolio. And Alexis shared this app is awesome, try it, it is fast and easy. I love it.

We thank Alexis for her loyalty to Remitly and appreciate her recommendation for others to try our service. Thanks, everybody, for joining us, and we appreciate your support. We're excited about the opportunities ahead of us as we end the year and we look forward to sharing more of our progress in 2024. Thank you.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect. Goodbye.