

## **Company Participants**

Allison MacLeod - Chief Marketing Officer

Michael Massaro - CEO & Director

Robert Orgel - President & COO

Cosmin Pitigoi - CFO and Principal Financial & Accounting Officer

## **Conference Call Participants**

John Davis - Raymond James

Tyler DuPont - BofA

Tien-Tsin Huang - JPMorgan

Andrew Schmidt - Citi

Dan Perlin - RBC Capital Markets

Ken Suchoski - Autonomous Research

Chris Kennedy - William Blair

Darrin Peller - Wolfe Research

James Faucette - Morgan Stanley

## **Operator**

Greetings, and welcome to Flywire Corporation's Second Quarter 2024 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ms. Allison MacLeod, Chief Marketing Officer. Thank you, Ms. MacLeod, you may begin.

## **Allison MacLeod**

Thank you, and good afternoon. With us on today's call are Mike Massaro, Chief Executive Officer; Rob Orgel, President and Chief Operating Officer; and Cosmin Pitigoi, Chief Financial Officer. Our second quarter 2024 earnings press release, supplemental presentation and when filed, Form 10-Q can be found at [ir.flywire.com](http://ir.flywire.com).

During the call, we will be discussing certain forward-looking information. Actual results could differ materially from those contemplated by these forward-looking statements.

We will also be discussing certain non-GAAP financial measures. Please refer to our press release and SEC filings for more information on the risks regarding these forward-looking statements that could cause actual results to differ materially and the required disclosures and reconciliations related to non-GAAP financial measures.

This call is being webcast live and will be available for replay on our website. I would now like to turn the call over to Mike Massaro.

## **Michael Massaro**

Thank you, Allison, and thank you to everyone that is joining us today. We are pleased to share our Q2 2024 results with all of you here today, demonstrating continued strong performance across the business.

Concurrent with sharing our Q2 results today, we will also be discussing the announced acquisition of Invoiced, an award-winning accounts receivable, Software-as-a-Service platform for the B2B industry, a share buyback program to return capital to shareholders as part of our commitment to driving long-term shareholder value and how we are dealing with the revenue headwinds related to the ongoing Canadian government actions involving student study permits, both operationally and in terms of our forecast.

Rob Orgel, our President and COO; and Cosmin Pitigoi, our CFO, will go into greater detail later in this call. But first, I will start with a few financial highlights from the quarter.

Revenue less ancillary services was \$99.9 million, an increase of 26% year-over-year. Adjusted gross profit for the quarter was \$63.4 million, an increase of 26% year-over-year. Adjusted EBITDA was \$5.8 million for the quarter, increasing by \$5.9 million year-over-year, and adjusted EBITDA margin expanded nearly 600 basis points year-over-year with strong free cash flow conversion.

As we are past the halfway point of the year, I want to underscore the strong business fundamentals that position Flywire for sustained growth and success. First, we have significant growth potential within our existing accounts, given the depth of our solutions can pull multiple levers to add more value to our clients.

We frequently use our land and expand strategy to grow our business. For example, winning a large cross-border payments client and then solving other payment challenges for them, like domestic payments is one way we expand with clients while being deeply embedded into their ecosystem.

Second, we continue to drive great diversity of revenue across verticals, subsectors, countries, currencies and clients. We are not a one vertical company. Consistent with our plan to broaden beyond education, travel has grown into our second largest vertical by revenue less ancillary services, reinforcing our ability to strategically diversify our business.

And consistent with our plans, we are not a U.S.-only revenue company. We are capturing the market opportunity around the world, driving significant revenue from other geographic regions.

And third, we are now and will continue to consistently convert adjusted EBITDA to free cash flow while achieving strong revenue growth and expanded adjusted EBITDA margins. We believe our strength and ability to excel in all these areas sets Flywire apart from other businesses.

All this being said, we continue to believe that our current valuation does not properly reflect the sizable market opportunity in front of us, our offering that uniquely combines software and payments and our thoughtful approach to efficiency and scale.

So today, we are announcing a share repurchase program of \$150 million as we believe that our existing liquidity and projected free cash flow generation allows us to continue making organic investments to grow our core as well as strategic acquisitions, while also giving us the opportunity to return capital to shareholders. Cosmin will share more details on the share repurchase program later in this call.

Returning to operating performance. We have continued to make progress in our 3 strategic investment areas: optimizing our go-to-market capabilities, expanding our Flywire Advantage and strengthening our FlyMate community.

First, on our go-to-market capabilities. We continue to optimize and invest in our growth algorithm. Our increased investment in sales and relationship management is paying off in our B2B vertical, where in Q2, we increased our year-over-year client wins by 38% and generated an over 100% increase in pipeline value creation compared to Q2 last year.

B2B is vast, but we are focused on subsegments of the market. For example, in Q2, we had great traction within insurance, thanks to a combination of in-person events, digital acquisition and direct sales outreach. In addition, here at Flywire, we believe our successful M&A track record complements our strong organic growth.

Today, we announced the acquisition of Invoiced, an award-winning accounts receivable, Software-as-a-Service platform, and we are thrilled to be welcoming a talented group of new FlyMates to our global team. The deal augments Flywire's B2B payment solution with workflow automation software, purpose-built for mid-market companies to streamline the entire AR process.

In addition to the experienced team with Invoiced, we gained AR automation software involved in invoicing, communicating with payers and reconciling payments to ERP systems. We are also gaining the opportunity to monetize several billion dollars of domestic and international payment volume that is managed annually by the Invoiced platform.

The combination of Invoiced AR automation software with Flywire's proprietary global payment network, which supports diverse payment methods in more than 140 currencies across 240 countries and territories around the world is expected to provide the B2B industry with a full suite software and payment solution that streamlines workflows for finance departments.

Invoiced client base present meaningful growth opportunities for Flywire. We believe their software will significantly accelerate our product road map and add greater value to our B2B clients. We also believe Invoiced Software-as-a-Service platform has the long-term potential to resonate across our verticals as well. And we look forward to scaling it with the support of Flywire's clients, partners and our global team.

We are very excited to share this news today and have added more details on the acquisition in our earnings supplement posted on our Investor Relations website. Cosmin will also go into more detail about the financials of this deal shortly.

As we have said before, we are confident in our track record of strategic and value-add acquisitions, and we'll continue to pursue acquisitions that fit our strategy. In addition to both organic and inorganic go-to-market investments, we have also made great progress expanding our Flywire Advantage.

We remain focused on delivering product and payment innovation to power the vertical ecosystems in which we operate. One example is the recent expansion of our capabilities in India to streamline and digitize student loan payments for Indian students studying abroad. Through our partnership with HDFC Credila, India's largest private loan provider, Flywire enables Indian payers to seamlessly and digitally disperse their education payments in Indian rupees for the loans that are funded and managed by HDFC Credila.

This innovative approach helps us capitalize on the large market opportunity around Indian student loans, which we estimate to be approximately USD 3 billion in annual payment volume. It also builds on our ongoing momentum in India, a key outbound market for us. As a reminder, we have recently established direct integrations to 3 of India's largest banks, including State Bank of India, HDFC Bank and ICICI Bank.

We've invested in more local payer support now offered in 8 Indian languages around the clock across a number of familiar channels. And we've expanded our network of education agents and counselors who are becoming increasingly important in placing Indian students in overseas colleges and universities.

And finally, we continue to focus on strengthening and growing our FlyMate community. We pride ourselves on having a culture of collaboration to solve hard problems for our clients. We showcased these strengths when we hosted our annual Flywire Advisory Board meeting with some of our top clients throughout Australia and New Zealand. This year's event was distinctive as it was the first time Flywire and StudyLink clients came together in a summit format.

The event reinforced not only to respect our clients have for their Flywire partnership but also the significant growth potential within our existing accounts and the multiple levers we have to grow those clients and add more value to them. The partnership amongst our teams to integrate and cross-sell our offerings are yielding substantial results in our Australian education market, which Rob will go into great detail about.

Our culture is also underpinned by our commitment to giving back to the communities we serve. This past April, we came together as a company to host our first-ever environmental awareness month, which was a combination of educational programming, volunteering and philanthropy focused on Flywire's commitment to climate action.

Throughout the month, we organized 8 fly better days across our global offices with more than 100 FlyMate volunteering their time and energy to give back to their local communities. This all coincided with our new sponsorship for the Adventure Travel Conservation fund, which enables Flywire to support community-led conservation efforts

in tourist destinations around the world. The energy, enthusiasm and dedication of our FlyMates is truly special, and we are proud of our collective efforts and the positive impact our teams have made.

Before I close, I wanted to briefly acknowledge the speculative rumors that circulated last week regarding Flywire. I believe it is evident based on our results and actions announced today that we are focused on executing and growing this business, and that we have confidence in our ability to drive shareholder value.

We will end, as always, with a Q&A session, but I'm not going to further comment or take questions on last week's rumors. Overall, we are very pleased with how the business performed during the second quarter, underscoring the resilience of our business and winning strategy across our industries.

I would now like to turn the call over to Rob Orgel to review some operational highlights from the quarter. Rob?

### **Robert Orgel**

Thanks, Mike. Good afternoon, everyone. It was another quarter of strong performance for the company with solid results on both revenue and adjusted EBITDA. Our sales, client service and delivery teams delivered great results during the quarter.

Here are just a few of the highlights. We signed more than 200 new clients across all verticals. Total projected ARR grew nearly 40% year-over-year across new signings and upsell signed. Average deal size increased across the business and our global go-to-market teams generated greater than 50% growth in new pipeline year-over-year.

This quarter's growth was driven by the continued execution of our 5 strategic growth pillars. As a reminder, these pillars include growing with existing clients, adding new clients, expanding our ecosystem through channel partnerships, expanding to new industries, geographies and products, and finally, pursuing strategic value-enhancing acquisitions. I'd like to briefly discuss how these pillars drove growth during the second quarter.

For our education vertical with an estimated TAM of \$660 billion, we saw an increase in new clients signed and an increase in pipeline value creation compared to Q2 of last year. I will get to Canada in a moment as a separate topic, but starting a bit higher level, we saw strong revenue growth within our Higher Education segment despite some of the well-discussed student visa policy topics relating to some of our education markets.

Our combined transaction revenue from our top 4 higher education markets outside of Canada, grew well above our overall corporate growth rate. We were able to achieve this kind of growth in higher ed in the U.S., U.K., Australia, New Zealand and Mainland Europe market based on the breadth of growth levers at our disposal.

These include ramping with clients signed in the prior year, cross-selling and upselling new products and signing new clients. I'll provide you with some examples across our

globally diversified education markets.

Starting with the U.K., which outperformed our expectations, transaction revenue growth was driven largely by volumes ramping from clients signed last fiscal year and product upsells and cross-sells. For example, we signed the University of Bristol where Flywire is integrated with the tribal SIP ERP system as the exclusive payment provider. Bristol has about 30,000 total students with approximately 9,000 being international students.

This is also an example of a prior software-only client that chose Flywire to handle the entire life cycle of student-related payment processing flows including application, deposit, tuition and accommodations-related fees. We plan to be live with Bristol ahead of the U.K. peak education season this year and continue to ramp volumes into next year.

We are also pleased to see positive visa-related headlines in the U.K. with the new U.K. government making statements welcoming international students and reaffirming support of the graduate route, which is the policy that enables international students to stay in the U.K. on visas for a period after their studies.

Shifting over to our Australian education market we grew transaction revenue by a little over 50% year-over-year, another very good results. This was driven primarily by the ramping of existing and recently added clients as we grow our client base and continue to expand our product footprint with clients.

It was also supported by continued growth of agent-driven volumes that reflect the good work of our agent teams around the world, deepening our agent relationships. As Mike previously mentioned, there's a lot of momentum as we integrate and cross-sell our Flywire and StudyLink offerings.

For instance, in Q2, we secured an extension of the StudyLink agreement with Taste South Australia, which serves international students from over 65 countries. We will be using this model with Tape and other existing study in clients to expand the relationship to include Flywire payments.

Moving over to the Canadian education market. In Q2, we saw a modest ramp in international students enrolling in colleges and universities. Student numbers and associated revenues were notably better than Q1 but below our prior expectations. The combination of regulatory announcements and uncertainty resulted in lower application demand and enrollment across a broad span of schools.

While these policies impacted our Canadian results for the quarter, we had some offsetting growth levers that help ease the macro and political cycle-driven headwinds. For example, we are excited to expand our partnership with Global University Systems Canada, which is a network of 40 higher education institutions globally. As part of the expansion, Flywire will process tuition payments for the University of Niagara Falls, which offers both undergraduate and graduate degree programs.

Additionally, we saw a very strong ramp-up in transaction volume processed from some

of our larger projected ARR clients that went live during the second quarter of last year, most notably the University of Toronto, a top-ranked global public research university.

And lastly, our K-12 education segment in Canada experienced strong year-over-year growth from a combination of onboarding new clients and increasing utilization across existing clients. So despite a more challenging short-term growth environment in Canada, we are confident that the region is still well positioned to contribute to our longer-term growth objectives.

Finally, for our U.S. education market, we're seeing strong traction with our domestic education student financial software offering, both in terms of cross-selling into our existing cross-border client base and also winning net new clients. For example, Elon University and a public university in the State of Washington were existing cross-border clients who added on our domestic solution during the quarter. Both universities were using the same incumbent providers legacy solutions for domestic payments processing prior to signing on for Flywire's SFS domestic offering.

We also added Alabama State University as a new client during the quarter as they signed up for a full domestic SFS suite. Alabama State will replace legacy solutions and consolidate vendors to use Flywire to manage both domestic tuition formats and payment plans.

We see a long runway ahead of continuing to take market share from the incumbent providers in the U.S. domestic education market with our best-in-class integrated accounts receivable software and payments capabilities.

Now moving on to our second largest vertical in terms of revenue less ancillary services. Travel with an estimated TAM of \$530 billion grew over 55% year-over-year for the first half of the year with APAC travel outperforming, growing over 75% year-over-year for the first half of the year. Notably, average projected ARR for new client signings in the travel vertical have increased by over 15% year-over-year during the quarter.

A few larger clients who went live during the quarter includes [indiscernible] a luxury bill-up provider in Thailand within our luxury accommodation subvertical; and SAFARI FRANK, a multiday Safari tour provider in South Africa within our destination management subvertical.

In addition to this global traction, we also saw continued momentum with our newest ocean experiences subvertical. In Q2, we went live with encoding a provider of luxury yachting experiences across the Greek islands. We're excited about the continued traction we're seeing in this new subvertical as it continues to support the rapid growth of our overall travel vertical.

In health care, with an estimated TAM of \$500 billion, I'll highlight the success we saw stemming from our multipronged channel partner strategy. This quarter, we signed over 10 new clients supported by our partnerships with a top U.S. bank, in by, Oracle Health, Tintri and Fiserv.

The partnerships that help Flywire broaden our reach to serve nonacute providers and to expand patient payment services to our large health system space. We signed multiple payment service deals through our Fiserv partnership, including Winona Health, an independent health system with over 1,100 employees in the State of Minnesota.

And with our partnership with Sini, we signed on with Salt, the leading international ambulance operator with over 3,000 ambulance in patient transportation vehicles and over 25,000 employees around the world. This is a unique health care business that leverages the capabilities and flexibility of our platform.

And our team was able to get them live in a few short months with softer marketing that it was their most effective and efficient recent system implementation. We are pleased to see this level of activity with our channel partners.

Finally, our B2B vertical, which covers a broad TAM estimated to be about \$10 trillion, saw great traction with our Bank of America partnership. During the first half of the year, we had over 60 client referrals from our partnership with the bulk of these referrals and new pipeline opportunities coming during Q2.

Not only did BofA deliver a record number of new referrals to our sales team, but they also worked with our teams to elevate Flywire's cross-border receivables solution to have greater visibility among their B2B clients with complex cross-border payments needs.

Outside of our channel partner efforts, our direct sales team signed CorCentriq, and we're happy to see them go live during the quarter. CorCentriq, a leading global provider of payments, procurement, accounts payable and accounts receivable solutions to enterprise and middle market companies, is both a client and a partner for Flywire with over 2,000 customers using CorCentriq to streamline payments processes and optimize working capital requirements.

Forcentriq utilizes Flywire to accept payments for their managed accounts receivable solution in which core-centric handles the invoicing and payment acceptance on behalf of enterprise clients globally. We worked closely to integrate directly into CorCentriq's softlad platform called Core Connect, where global payers can access and pay their invoices.

While we're still in the early phases of implementation, we are excited about the opportunity to ramp volumes with CorCentriq as the relationship progresses.

And finally, as Mike detailed, our acquisition of Invoiced complements the strong organic growth and will help us accelerate our go-to-market strategy in B2B. Consistent with our thesis that software drives value and payments, combining invoice, workflow automation software and Flywire's payment network will create a differentiated solution for businesses that can scale by leveraging the power of the Flywire platform, network and teams.

Stepping out of our verticals and moving to our efforts towards efficiency and scale, we

remain committed to controlling costs and investing prudently while also remain focused on driving top line growth across our verticals and geographies.

While we are being prudent with personnel and hiring pace overall, we are increasing the proportion of our personnel-related investments towards key sales and go-to-market teams this year compared to last year as our business continues to scale.

We are also working to improve our processes with a focus on adding automation within processes that touch our back-office ERP, accounting, financial reporting, reconciliation and client onboarding systems and processes. These focused initiatives contribute scale and efficiency benefits that are leading to our steady improvement in adjusted EBITDA margin as we grow our global business.

With that, I will now turn the call over to Cosmin to go over our results for the quarter as well as discuss guidance for Q3 and 2024. Cosmin?

### **Cosmin Pitigoi**

Thank you, Rob, and good afternoon, everyone. First, I would like to thank our clients, partners and employees for helping us deliver another strong quarter in the face of external pressures. Today, I'll provide an overview of our results for the second quarter and then discuss our outlook for Q3 and the fiscal year.

As Mike and Rob mentioned, we had a strong quarter across many of our customer and operating metrics, which underpin our long-term financial health. I continue to be energized by being part of this team as we rally together to deliver strong top and bottom line growth. All despite an unexpected high single-digit percentage impact to growth in the second quarter from Canada, and what we now expect to be a \$30 million-plus headwind to our full year revenue less ancillary services.

Our team's resilience paid off as we beat the high end of our adjusted EBITDA guidance and are raising our full year adjusted EBITDA margin expectations to reach approximately 490 bps increase year-over-year. At our midpoint of full year revenue less ancillary services and adjusted EBITDA guidance, we are a Rule of 40 company despite this external Canada headwind.

At the same time, we executed on a strategic acquisition this quarter and are evolving our capital allocation strategy by announcing our first buyback allowing us to opportunistically return capital to shareholders.

Turning to our performance this quarter, starting with revenue. Revenue less ancillary services was \$99.9 million in Q2, representing a 26% year-over-year growth rate despite a high single-digit percentage headwind to growth related to our Canadian higher education business.

FX rates created a slight headwind of approximately \$140,000 during the quarter, but for which we would have been right at our guidance midpoint. While our revenue performance this quarter was relatively in line with our expectation, as we exited Q2 into

July, we saw a slower-than-expected rolling recovery in Canada creating a mid- to high single digits negative million dollar impact instead of the expected mid-single-digit impact in Q2.

This was offset by better-than-expected volumes from U.K. and Australia higher education clients and stronger international corridors performance. We continue to see strong volume growth with total payment volumes during the quarter reaching \$4.9 billion, growing 19% year-over-year. From a monetization standpoint, our spreads have remained relatively consistent and stable over the last several reporting quarters.

Looking at the 2 components of our revenue. Transaction revenue is based on fees as a percent of transaction value, while platform and other revenues consists of software like fees.

Starting with transaction revenue, we saw a 28% year-over-year increase, driven by a 26% increase in transaction-related payment volume, primarily in our international and U.S. education vertical as well as travel. Platform and other revenues increased 17% year-over-year, primarily driven by the platform fees that do not carry payment volumes, specifically, revenues associated with the contribution from StudyLink of \$1.6 million.

This is offset by softer performance in our health care business this quarter. As previously indicated, we expect the health care business to return to growth for the second half of the year.

Adjusted gross profit increased to \$63.4 million during the quarter, up 26% year-over-year, accelerating by about 500 basis points from Q1 2024. Adjusted gross margin was 63.5% for Q2 2024, which is flat compared to Q2 2023. As we look at the puts and takes driving gross margin year-over-year changes, business mix continues to put downward pressure with travel and B2B growing faster with a more prevalent use of credit cards.

This pressure was offset by stronger trends across our main education corridors, continued payment cost optimization and a positive impact from FX shifts that occurred during settlement of transactions. These shifts are largely offset by FX hedges, which are booked in OpEx, resulting in a mitigated impact on adjusted EBITDA.

Adjusted EBITDA was \$1.8 million above the high end of our range, and grew to \$5.8 million for the quarter compared to the negative \$0.1 million in Q2 2023. Adjusted EBITDA margin was up nearly 600 basis points year-over-year. The strength in adjusted EBITDA was driven by stronger gross profit and continued operating leverage, along with targeted and disciplined cost management through the year.

Even with these actions, OpEx is still growing in the high single to low double-digit year-over-year range. As you heard Rob mention earlier, we're focused on investing in our growth initiatives while showing improving scalability and efficiency in the business.

To close out the income statement, I would like to provide some perspective on our net income dynamics this year. In Q2, net income reflected a loss of \$14 million, improving

year-over-year by approximately \$3 million. Q2 includes a higher income tax provision of approximately \$4 million based on full year tax estimates, which amplified our loss in Q2, driven by seasonality of our business.

The year-to-date tax provision of \$6.3 million, therefore, represents more than half the year's total tax provision and should normalize through the rest of the year, as we pivot to profitability heading into next year.

Our balance sheet remains strong. We ended the quarter with approximately \$571 million of available liquidity consisting of \$539 million of unrestricted cash and equivalents and \$32 million of highly liquid short-term marketable securities against no long-term debt. During the quarter, we invested \$58 million of cash into short- and long-term corporate and government debt securities.

Turning to capital allocation. We continue evolving our strategy with 3 key priorities: investing in organic growth, as we previously discussed today, executing strategic M&A and returning capital to shareholders. We've demonstrated our execution across those pillars this quarter.

First, as Mike and Rob touched on earlier, the acquisition of Invoiced is a continuation of our long-term plan to supplement strong organic growth and expand across business lines. We expect Invoiced to add approximately \$2 million of revenue with softer like gross margins in full year 2024. And while the business has strong adjusted EBITDA margins, we expect to reinvest the majority of the margin dollars this year to grow the combined business.

Second, I'm pleased to announce that our Board of Directors have approved a share repurchase program under which we may opportunistically repurchase up to \$150 million of our outstanding common stock. This is a direct reflection of our confidence in the long-term potential of the business, the strength of our balance sheet and modest operating cash needs and is a responsible way to deploy its capital that is consistent with our disciplined approach. This program allows us to opportunistically take advantage of short-term dislocations in our equity value as we focus on executing and building long-term value.

Finally, it is important to note that this program still allows us ample capacity to continue to pursue strategic value-enhancing acquisitions.

Moving on to guidance. For full year 2024, we expect revenue less ancillary services to be in the range of \$469 million to \$485 million based on spot foreign exchange rates as of June 30, 2024. This represents a year-over-year growth rate of 25% at the midpoint.

The revenue impact from Canada is now expected to be double the mid-teens expected in prior guidance. So we now expect the impact to be over \$30 million for the full year or approximately 8 points of growth. The \$11 million reduction at the midpoint from prior guidance is driven by Canada performance, including the removal of the recapture assumption.

Note that our full year revenue outlook includes a benefit of approximately \$2 million from the Invoiced acquisition for the rest of the year based on the August 2 close.

To provide some context on our assumptions in this guidance, we're seeing 2 key dynamics in Canada. First, within Canada, earlier government actions have made it challenging for schools to be able to fill spots as fast as they had hoped. This is creating a high single-digit impact in the second half versus prior expectations, roughly evenly spread across Q3 and Q4.

Second, given the frequent conversations our team has been having with our network of global education agents, we now see increased uncertainty around the timing of students pivoting from attending school in Canada to other countries around the world where we have higher education clients or what we are calling recapture.

As a result of these recent conversations and observations, we believe it is prudent to remove the mid-single-digit dollar benefit we expected to see in the second half from recapture. As we head into our largest quarter, we are assuming a relatively normal education peak in August and September, primarily in the U.S. and the U.K. We will continue watching underlying trends throughout the quarter.

We are raising our full year adjusted EBITDA outlook with the new midpoint of our range above the prior high end, stemming from solid gross profit growth and OpEx discipline. We expect to deliver a full year 2024 adjusted EBITDA in the range of \$72 million to \$80 million.

At the midpoint of our full year 2024 guidance range, we expect to generate approximately 490 basis points of adjusted EBITDA margin improvement on a year-over-year basis, which represents a 170 bps increase from our prior guidance. This improvement reflects OpEx efficiencies and agile cost discipline across the teams, allowing us to look ahead towards profitability as we exit into next year.

Shifting to Q3 2024. Revenue less ancillary services is expected to be in the range of \$141 million to \$151 million. This guidance relatively to our thoughts earlier this year is primarily impacted by performance in Canada, along with the removal of the recapture, part of which was assumed in Q3.

Rounding out the guidance discussion, we expect Q3 adjusted EBITDA to be in the range of \$37 million to \$43 million, implying a nearly 400 bps margin increase at the midpoint on a year-over-year basis.

In closing, as we continue our strong track record of execution, these temporary external challenges are making us even more focused and looking to the second half of this year, to exit stronger as a team and as a business.

I'll now turn it over back to the operator for questions. Operator?

## **Question-and-Answer Session**

## **Operator**

[Operator Instructions] The first question comes from the line of John Davis with Raymond James.

## **John Davis**

Mike and Cosmin, just wanted to try and square, pieces in Canada are down about 30%. And I think the guide -- updated guide for Canada implies revenue is down 55% to 60%. So just want to understand and kind of square those differences.

## **Cosmin Pitigoi**

Yes. John, thanks for that question. Yes. So to clarify, if you look at the total numbers versus last year, it is not down that much. I would say it's down closer to 30% if you look at it year-over-year. What you have to remember is the \$30 million that we're not referencing is against what we expected this year, and that would have included growth in Canada in a normal year.

So what you need to then sort of think about as far as growth would be against that number being down. So year-over-year, I would say you're still in that sort of high or so negative year-over-year, which you can see a little bit even from the supplement that we provided. If you look actually at the slides in the supplement, we try to provide 2 slides, one on what the assumptions are by a quarter of that \$30 million, which is in that mid- to high single digits across every quarter. And then we actually gave you the profile by quarter for Canada. So you can see it -- including last year, so you can see that drop.

## **John Davis**

Okay. That's super helpful. I wanted to clarify. And then Cosmin, as we look at incremental margins, I think last year, they were about 24% first half of this year, 29%, it looks like you're implying based off of the updated EBITDA guide, about 40% incremental margins in the back half of this year. So is that the right way to think about go-forward incremental margins? Or how are you guys thinking about it as you look to drive profitability in the face of slowing growth?

## **Cosmin Pitigoi**

Yes. Look, as I said, I think the main drivers for margin for us is, first, is the gross profit. Second, you've seen us be quite disciplined in terms of cost. And a portion of then the third thing is us being just more disciplined around how we spend given the headwinds we've faced.

Now some of that, as you can see, benefited Q2 that helps into second half. However, as you look at that into next year, obviously, we'll have to look -- some of that is us offsetting some of the headwind. And so we'll have to look at next year. But I would say looking at the total year, probably a better gauge, but we'll have to sort of come back to you into next year as to how we think about -- how to look ahead of that.

But again, I think my comments on profitability, I would say that's a big focus for us going forward and continued growth in EBITDA margin in line with above our expectations.

### **Operator**

Next question comes from the line of Jason Kupferberg with Bank of America.

### **Tyler DuPont**

This is Tyler DuPont on for Jason. I wanted to ask about Canada as well, but from a slightly different lens I know the F '20 guidance has been updated, right, to reflect that incremental softness. But can you just speak at all to how we should be thinking about Canada as we look beyond the second half into whether that's in 2025, but just more from a longer-term perspective.

I know you guys don't provide guidance or anything on long-term stuff like that. But can you just offset how we should think about Canada revenue more on a longer term on a go-forward basis?

### **Robert Orgel**

Yes, this is Rob. I'll jump in here. So we remain very optimistic about Canada on a longer-term basis. So this is sort of a unique year where we had the announcements related to the study permits early in the year. There's continuing sort of uncertainty created on the part of students because of ambiguity around graduate work permit policy. All of that is expected to be clarified this year.

I've been in Canada. I spent time with our clients. Their expectation is that those rules will all be clarified. The programs that the schools offer will be tailored based on how that policy evolves, and the additional sort of certainty and confidence that brings will bring Canada sort of back into sort of popularity as a destination.

And so the long-term view of Canada is that it will continue to be a contributor of growth for us despite the fact that this year is a tough year, as Cosmin just outlined.

### **Tyler DuPont**

Okay. That's helpful. And then I guess, secondarily, in the prepared remarks, I think you mentioned travel becoming the second largest vertical. Can you maybe just discuss the growth trends you're seeing there, sort of what in particular is driving that? And maybe juxtapose that with the trends in health care, which has historically been the second largest. I think you mentioned health care in the second half would return to growth. Just any comments there worth mentioning?

### **Robert Orgel**

Yes. So thanks for the question. First of all, hopefully, you saw from my comments

overall optimism and conviction around the strength of the business overall. So as I went through the verticals. You heard a lot of great things going on based on the great execution of our team.

Travel was a perfect example of that. The travel team was winning great deals all around the world. As you've heard in our prior comments, there are really 4 subsegments for us within the travel vertical. All of which performed very well. Our newest being Ocean Adventure is performing well but our preexisting around accommodations, operators and DMCs also reporting well. So we continue to view that as a business with a great opportunity ahead of it.

Health care is a little different story. Again, we do expect that team's growth in the second half of the year. Overall, health care has had the frustrations for us of kind of multiple steps forward, but offset by multiple steps back. That's similar to the comments I've made on prior calls.

We are winning new deals. We are expanding deals. We are seeing success with our integrated financing offering. But those have been offset by challenges in part caused by the Change Healthcare situation, which, although resolving and improving did impact Q2 as well as just continued challenges, one client shrink based on divesting some hospitals and other client turned modestly -- sorry, with modest impact. And so that's the 2 steps forward, 2 steps back.

Just to conclude, though, a lot of conviction in the platform, and we will expect to see growth in the second half.

### **Operator**

Next question comes from the line of Tien-Tsin Huang with JPMorgan.

### **Tien-Tsin Huang**

I want to ask on the Invoiced acquisition. Really interesting there is the home run opportunity to monetize the payments in their client base. I'm just not sure what their client base looks like or what kind of overlap you might have? What can you tell us there?

### **Michael Massaro**

Yes. Tien-Tsin, it's Mike. Yes, we're super excited. So it fits right into the pillars. We talked about prior looking for opportunities to accelerate existing verticals we're in, add new capabilities to drive NRR. And this fits right in those first 2 pillars that we've talked about before. And so our priorities and our focus, we think, first is the monetization opportunity.

I mentioned several billion dollars of Invoiced volume on that platform. It's our ability to monetize that both domestic and international volume there is really kind of priority #1. And so you can imagine the team is going to quickly get at work at that integrated

solution and bring that to clients.

The second is really just leveraging our global distribution opportunity. We have an amazing marketing and go-to-market team and obviously, a great way of generating new pipeline, and we think we can help supercharge access to that platform by getting it more rapidly sold and distributed on a global basis. And so those are two of the primary revenue synergies, integration goals that we have.

### **Tien-Tsin Huang**

And how quickly can you replace or go after the incumbent and put it on your platform on the payment side. And my other quick one, I'll jump off. Just the 170 bps of additional margin upside with the revenue revision. I heard the cost efficiency, but any other detail around the contributing factors to that?

### **Michael Massaro**

Yes. So on your first question, just around the speed. Obviously, exciting news just got it out there just getting done. So team is going to get to work on that integrated solution like we've done in the past, however, when we had access to unmonetized volume through an acquisition. It's a relatively short period of time to get up an integrated offering, you're going to bring it to market.

So I would expect it to be similar to what we've talked about in the past on other deals where you have a little bit hitting potentially in a year like '24, but mostly hitting '25, '26, '27 kind of waterfall for that volume. I'll let Cosmin speak to your second question.

### **Cosmin Pitigoi**

Yes. So Tien-Tsin, on your 170 bps, that's total margin. I mean a lot of that is driven by sort of like the 3 factors I mentioned earlier. As far as it relates to invoice, again, we did not put almost any EBITDA upside even though the business itself has healthy EBITDA margins. We didn't include any of that in our guidance because we wanted to invest against that to make sure that we get the benefit. We exit strong. That's kind of our view, as I said earlier, is a really strong exit for the year, and this deal is part of that.

### **Operator**

Next question comes from the line of Andrew Schmidt with Citi.

### **Andrew Schmidt**

Rob, Cosmin, congrats on the Invoiced transaction. I know there's a lot of scarcity in terms of AR solutions, so good to see that pick up. Just to drill down in Canada, I guess, the obvious question is just visibility in terms of the assumption that you've set now? And then is it possible to disaggregate what is the impact on visa limits versus timing in terms of logistics and getting the students back-to-school? You think that will help inform us in terms of out-year impact in terms of growth there?

## **Robert Orgel**

Yes, this is Rob. I can start on that. Certainly, one of the data points that we look at is the aggregate of the visa data that's reported. But keep in mind that the results for us are the product of multiple things, right? There's that number. But we have multiple things. And if you remember in my comments, I covered some of the offsetting factors for us, right?

So we've got new client acquisition that's part of this. We've got returning student payers that are part of this. We have additional product upsells in the market. And so -- and we've got the increasingly effective role of our agent network that's also helping drive volume across all the destination markets.

So if you look at all that, it would be a factor that would go into it, but our success and our ability to perform better than what are the sort of aggregate visa numbers are the function of those factors that we have that give us a better result.

## **Andrew Schmidt**

Got it. And then visibility question in terms of where you set the impact?

## **Robert Orgel**

We've given you everything we can give you in terms of our expectations. If you look through the supplement materials, you'll see the growth rates for prior quarters, current quarter as well as how we've modeled it going forward, built into the guidance. And there are 2 charts that Cosmin referred to and the supplement that will show you the underlying assumptions, and that's based on our visibility into the trends and our conversations with clients and agents.

## **Michael Massaro**

Yes. The only thing I'd add is, I guess, on the full year, obviously, we wanted to be clear and show the impact on that full year and get it out of the guide so that people could make those adjustments. If you look at the first half of the year, the business continued to outperform quite well in other areas and really was offsetting that headwind, and we want to make it really clear what that headwind was and make sure people saw it, and that makes up for the change in the full year guide.

## **Andrew Schmidt**

Got it. It makes a lot of sense. And if I could squeeze in one more, just to Recapture. I just want to be clear because I think with the tenants of the Flywire models is global, and I think you guys should be picking up some additional volume here. Is it a function of just difficulty to measure the Recapture? Is it just a prudent assumption? Just curious, if look at to put a finer point on the removal of the Recapture assumption.

## **Robert Orgel**

This is Rob speaking. Again, hopefully, you took from my comments, the strength of the overall education franchise around the world, right? We talked about the strength in U.K. We talked about strength in Australia. We talked about strength in the U.S.

You look in the data to see sort of evidence of recapture. And even though there's strength in all these markets, it's not very obvious how you determine that, that is recapture. And so again, we're seeing good strength across the business but don't feel that we can call comfortably that, that's a recapture from Canada.

### **Operator**

Next question comes from the line of Dan Perlin with RBC Capital Markets.

### **Dan Perlin**

I was hoping maybe you could just spend a minute or two just kind of framing. You've done a lot of deals in India recently, and I know you talked about it being a big outbound market. So just trying to think about that as kind of an offset or shock absorber or some of the stuff that's been happening in Canada?

And how quickly you think you can recognize incremental growth from that market? And then what do you frame, I guess, the long-term expectations. It just seems like such a big opportunity, but -- and again, you've been signing a ton of deals there. So anything around that would be helpful.

### **Michael Massaro**

Yes. I mean, obviously, there's a whole bunch of innovation we've done there. I mean those deals, whether it's one with HDFC by Cardillo or whether it's the 3 bank integrations. Those are not very common partnerships and integrations in our space. So we feel really proud about what the team has been able to do get those innovations up get them live, and really deliver new solutions to the market.

I would also just say the agent investment we've made that combination of software and our team in India, again, I think it positions us really, really well. So we feel really good about the work we've done to strengthen up that market. We're obviously doing similar things in other important markets like China and elsewhere.

And again, that's part of the Flywire playbook is investing in the product to payment innovation, making sure we have the local expertise in the markets to deliver good results, and we feel really good about what the team's accomplished in the last year related to India. And again, we saw in Q2 really big trends around China. So strength in China and feel good about both those entering Q3.

### **Dan Perlin**

Okay. Just one other quick follow-up. I mean, you continue to have a pretty rapid pace of new client signings. I think it was over 200 again this quarter. But as I've asked, I

guess, in the past, like when you think about spooling them up in terms of the implementation team and the time to kind of bring the clients up to revenue recognition, like do you feel like you've got enough investments behind that in order to continue to maybe accelerate the opportunity there?

Or do you feel like you've got to beef it up because I heard you in the comments about investing in the go-to-market, but I often wonder about the pace of which you can do these implementations.

### **Robert Orgel**

Yes, this is Rob. I can jump in on that. Look, the integration team is doing great. We are very effective at deploying the clients, the time lines from sort of signature or beginning a project to initial transactions and revenue are very satisfying for us. And if anything, we're getting even better at this.

So if you remember in one of our recent calls, we talked about how fast we got a full suite education client here in the U.S. live that reflects improved sort of process and practice as well as adequately staffed teams. If you take my comments on us investing in go to market, think of us as having an understanding of sort of everything it takes to make that revenue live. Sales through RM, through servicing, through implementation and us understanding how to sort of grow those teams proportionately appropriately.

### **Operator**

Next question comes from the line of Ken Suchoski with Autonomous Research.

### **Ken Suchoski**

Maybe I'll ask on travel. Travel continues to grow quickly. I think travel has lower gross margin. So can you talk about what drove the gross margin outperformance this quarter? And I guess how are you guys thinking about the year-over-year change in gross margin in 3Q and 4Q?

### **Cosmin Pitigoi**

Yes. Thanks, Dan. So yes, as you saw, gross margin relatively flat. But what I would say, if you look -- last quarter, it was a little bit lower. So one of the things that we see is obviously is from quarter-to-quarter, you have different mix of corridors, countries and other factors that can move the gross profit up and down and gross margin.

This quarter, it was a couple of things. So as you saw in my remarks, first mix. And as you pointed out, mix usually for us means travel or B2B growing a bit faster where there's credit cards are more prevalent. Those 3 things. One was we're seeing strength in some of the quarters. As you heard here us comment, we're seeing strength there.

Second, our team here is always looking to optimize our cost across our payments, different payment methods. And third is FX, which is that FX on settlement. That one is

sort of a -- it kind of moved last quarter, it was a big negative this quarter. It was a positive. I'd say that piece, in particular, is more of a -- it kind of differs by quarter.

So stepping back from that, to look ahead, I would say, we feel good about it for this quarter. But in general, for the year, and as we look in general trends, I would stick with the same assumption that you've heard us say before, which is gross margin percent goes sort of declined a little bit between 100 to 200 bps a year. So I would still assume that same sort of trend over time. And again, from quarter-to-quarter, things can change in terms of mix.

### **Ken Suchoski**

Yes. Okay. That's super helpful. And then maybe just my follow-up just on Canada. I think you mentioned you're seeing lower application demand, lower enrollments across a broad set of schools in Canada. Can you just expand a little bit more on what's driving the lower demand? And I guess, what you're hearing from schools? I think you mentioned some government actions were making it difficult to fill seats, but any additional color there would be great.

### **Robert Orgel**

I'm not sure there's a whole lot more color to supply there other than to say whenever there's uncertainty that affects the students view of the market. Overall, Canada has great reputation and a desirable destination, but it does have this uncertainty right now about the work permit status for post studies.

And the expectation, as I said, is that Canada is going to clarify all that. They will make clear what the qualification criteria are, and that will help give comfort to the students and provide help to the demand side.

### **Operator**

Next question comes from the line of Chris Kennedy with William Blair.

### **Christopher Kennedy**

You guys have added a lot of new clients over the last several quarters. Is there any way to talk about the profile of those cohorts relative to history?

### **Robert Orgel**

Yes, this is Rob. I can jump in there, and we tried to give some color and flavor here. Obviously, the accounts were very strong. They were strong across the verticals. And the key point that we tried to give there was that the average ARR projected also increased per client. So when you look at the overall ARR for the business, it was very much in line with our plan. It was good and strong, and the deal size increased over prior quarters.

## **Christopher Kennedy**

Okay. Great. And then just a quick follow-up. Any way to frame the growth of Invoiced?

## **Michael Massaro**

I would say -- this is Mike, obviously. I would say it's a business that has -- the founders have taken it and bootstrapped now with a ton of capital. So I would say there's a great opportunity for us to invest in it. So it's growing, but we think we can even accelerate that growth rate.

Cosmin spoke a bit about its positive EBITDA generation. We're going to invest behind it and use our go-to-market marketing and sales prowess to help further distribute that product -- that platform as quick as we can.

## **Operator**

Next question comes from the line of Tim Chiodo with UBS.

## **Unidentified Analyst**

This is Pat Ennis on for Tim Chiodo. I know you talked about some client wins on the domestic side, but with some of the headwinds and pressures around cross-border revenues. Can you speak to maybe the success you're seeing from a volume growth perspective on the domestic education side? And then maybe just share the economics to Flywire and what that looks like for those specific payments as compared to cross-border transactions.

## **Robert Orgel**

Yes. I mean, I think we're very pleased with the results of the U.S. franchise across both cross-border and domestic. So if we didn't express that, let me express that here. We talked about sort of the increased pace of wins on the domestic side. So we called out 3 in my earlier comments. And these are great deals for us, right? The economics comes to us in the form of increased transactional volume as well as platform volume.

One of the main drivers there is setting up things like payment plans that carry with them a very high margin for us. They're a very sort of profitable business for us, and a great platform and benefit to the schools and the clients. So overall, I feel like our pace in the U.S. is accelerating and the economics of those deals are great.

## **Operator**

Next question comes from the line of Darrin Peller with Wolfe Research.

## **Darrin Peller**

Most of my questions have been asked. I want to understand a little bit more visibility,

again, just a follow-up on -- you mentioned a lot about Canada. Help us understand exactly if you believe the conservatism in Canada as such that it's off of preexisting enrollments and that there's very little uncertainty now in Canada, first of all.

And then second of all, I know, Rob, you talked about the other markets, U.K., Australia doing well, but just make sure we're comfortable that there's not other added potential for regulatory that you see. Is there anything else going on in the market that could wake up and surprise us that you're at least tracking, let's call it, at this point of the day. And then I just have a follow-up on new customer adds, please.

### **Robert Orgel**

So I'll start with sort of the U.K. and Australia and then Cosmin, if you want to jump in on any further comments on the Canada piece. So with the U.K. just put forward some fairly positive statements from them in terms of actually clarifying students being welcomed, the graduate route being affirmed. There had been some uncertainty about that prior, but that was hopefully sort of addressed properly and thoroughly by the comments from the new labor government.

If you look at Australia, obviously, they've already done a bunch of things in terms of how they're handling student visas and the like, and we performed very, very well in that market. We have great assets and a great opportunity in terms of customer growth in Australia and feel like the team is executing very well against the land and expand strategy in Australia, the new integrated offering, StudyLink go live.

There's a lot of good stuff going on in Australia for us. That's the foundation for that strength going forward, and we expect that to continue. Cosmin, do you want to address the Canada piece?

### **Cosmin Pitigoi**

Yes. So Darrin, just at a high-level guidance, we feel it's relatively balanced, including Canada. You can see from the supplement materials that we've adjusted based on the trends we're seeing. Obviously, we'll look through the rest of the quarter, and we'll see how it progresses, but we feel like we've put in a pretty balanced outlook.

### **Michael Massaro**

And Darrin, I know it's not lost on you. I mean, obviously, we think we're putting up great growth numbers with the business performing given a \$30 million headwind on the year. So again, I think we unlike anyone can't tell the future, but we feel like we got a really good diversified business that has different industries, different products, different industry-based growth levers that just help us no matter what's kind of ahead of us.

### **Darrin Peller**

No, there's no doubt that you're seeing the growth outside of the Canada show up well. It's just a matter of making sure there's enough visibility in the guide coming off of

realized or revision down. And it sounds like you guys are trying to do as much as you can on that front.

Just on the new customer adds, again, 200 is a good number. I just want to make sure we're clear. Last time around, I think, either 2 quarters ago or last quarter, you said it was a pretty good even split between education and health care -- or I'm sorry, in travel. Maybe you could just give us more color on where the source of the new customer adds are coming in to size. I guess I just want to make sure that still are notable enough client add that it could sustain strong trends in the year ahead and the years ahead.

### **Robert Orgel**

Yes. So first, let me make a high-level comment in this is exactly on our plan or even ahead of our plan in terms of the aggregate value of those deals signed. If you look at the composition of the deals, they started, I think I said 2 quarters ago, travel pet-out education, last quarter, education BDA travel this time. Travel a bit ahead of education. Think of these as good 5, 6 figure deals with some 7-figure deals in there as well. So a strong mix across our overall client adds.

### **Operator**

Our final question comes from the line of James Faucette with Morgan Stanley.

### **James Faucette**

Great. Just a couple of follow-ups from me. I wanted to understand really quickly a little more detail on NRR. Historically, we know that that's been the low to midpoint 20s range, which is obviously very robust, and especially when looking at historical cohorts that are still growing in the high teens range. With that said, it would be great to get your thoughts on individual payer retention especially in the vertical space, if you -- for example, if you have a pool of 100 incoming first years to university, how many are still using Flywire as -- by the time they exit.

And I guess, more importantly, I'm just trying to understand how we should anticipate that phenomenon to impact NRR over the medium term, especially as you look to continue to upsell that existing base of education customers.

### **Robert Orgel**

Well, first, let me address the NRR piece straight on. So obviously, NRR overall will be impacted somewhat by the Canada metrics, but we did do the work to go look at NRR, excluding Canada, and want to give comfort that, that NRR is right in the range. We've always reported strong performance through the other verticals and in the other markets with NRR results following right in line with what you're used to hearing from us.

So underneath all that NRR, I guess your second question is about sort of underlying payer adoption. We continue to work on that as a priority for the company and continue to make progress on that. We've talked about some of our initiatives in terms of the

PayX, in terms of building longer-term client relationships, all those factors that drive that utilization. And we see that those numbers going in the right direction for us, meaning increasing transactions per payer over their lifetime and that is a metric that we seek to drive forward.

### **James Faucette**

Got it. Got it. And then just last question for me is, once again, this ties to footprint expansion within your customers, how should we think about the customization and back-end integration work required at least for certain customers and how that could or how should we anticipate that impacting your margins for better or worse?

### **Robert Orgel**

I think we've built the business as you've come to know it today being very effective at implementations. All of that is baked into our current sort of business model and cost profile, and we don't see that changing certainly for anything that would be negatively impactful to any of those metrics. So if anything, we believe we're getting better at the implementations. We continue to build into the platform automation to allow things to go faster.

And so we feel very good about sort of what implementations represent both in terms of time and cost to us. And for us, that lifetime value of a client is really excellent, and the implementations are only a very small part of that now.

### **Operator**

Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.