

Greetings, and welcome to Flywire Corporation First Quarter 2024 Earnings Conference Call. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Mr. Akil Hollis, VP, Financial Planning and Analysis. Thank you, Mr. Hollis. You may begin.

Akil Hollis

Thank you, and good afternoon. With me on today's call are Mike Massaro, Chief Executive Officer; Rob Orgel, President and Chief Operating Officer; and Cosmin Pitigoi, Chief Financial Officer.

Our first quarter 2024 earnings press release, supplemental presentation and when filed Form 10-Q can be found at 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 in 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.

Mike Massaro

Thank you, Akil, and thank you to everyone that is joining us today. We are pleased to share our Q1 FY '24 results with all of you here today, showing strong performance across the business. In a few minutes, Rob Orgel, our President and COO and Cosmin Pitigoi, our new CFO, will go into greater detail about the quarter.

But first, I will start with a few financial highlights from Q1 2024. Revenue Less Ancillary Services was \$110.2 million, increase of 24% year-over-year. Adjusted gross profit for the quarter was \$71.9 million, an increase of 20% year-over-year. And adjusted EBITDA was \$13.2 million for the quarter, increasing by \$6.2 million year-over-year. These Q1 results are a great start to the year for Flywire.

Let me start with some of the core fundamentals that continue to drive our strong results. As a company, we have now exceeded over 4,000 clients. This is nearly a 2x increase since the IPO in 2021. We continue to strengthen all four verticals in numerous sub-verticals. We now have clients in over 50 countries. They have the ability to process payments in over 140 currencies from over 240 countries and territories, providing strong global diversification.

We also enjoyed great revenue diversification with no client generating over 2% of FY '23 Revenue Less Ancillary Services and top 10 clients accounting for less than 13% of Revenue Less Ancillary Service. All combined with great NRR, logo retention and LTV to CAC. Our FlyMate span across 25 different countries, representing more than 40 nationalities and languages spoken, with a culture centered around execution and

ambitious innovation that we believe continues to be a real advantage.

We are confident in our revenue momentum this year on a constant currency basis, as you will see from the guidance Cosmin will review. We also expect adjusted EBITDA margin expansion in line with our prior guidance. Now much has been written in Q1 about tightening student visa policies in many key education markets, the overall environment and numbers for international students are indeed important factors for Flywire's education business. I want to reiterate my confidence in our ability to navigate these Visa changes, highlighting a few key reasons.

First, our business has demonstrated resilience throughout other periods of visa-related change, a benefit of having an increasingly global and diversified business. In the UK, for instance, we nearly doubled our higher education revenue in the quarter, growing this market well above the company average, with outperformance driven by winning new clients and strong NRR.

In Canada, a number of our clients say that recent government study permit allocations are better than they previously expected, with a rolling ramp back to a normal admissions, speed and cadence. Second, we believe in the long-term growth of the international student market. Students wanting an international education will find it somewhere. We expect the existing Flywire footprint will capture a sizable portion of these payments. Our agent partners globally who help students in the application process, support this view that students are inclined to adjust their plans as needed to continue their education.

We also believe that international students have a great value to their host countries and are the lifeblood of many universities and colleges. Our clients will deal with the rephasing and period of adjustment, but expect in the long term, the policies we are discussing now will be moderated in the long-term growth trajectory of international education will continue.

Lastly, we are still early in our journey to penetrate our large end markets and are demonstrating strong organic growth in the industries we serve. We also continue to grow with existing clients and win new clients, thanks to an effective go-to-market strategy and ongoing product innovation across our business. We also made great progress in Q1 against our 3-pronged strategy of optimizing our go-to-market capabilities, expanding our Flywire Advantage and strengthening our FlyMate community.

As for go-to-market, we continue to optimize and invest to support our growth algorithm. As I said last quarter, throughout 2024, we plan to increase our investment in sales and relationship managers by more than 15% in aggregate, spread across verticals and geographies. For example, in travel, we are already seeing early returns from this investment. We started the year with strong momentum in our new sub-vertical of ocean experiences, investing in a combination of marketing and sales efforts. We opened up some net new travel geographies, allowing our team, for example, to bring on new clients in Chile and Indonesia. Additionally, we continue to see great success in South

Africa, another investment market for us, which has seen a 3x increase in clients over the last 12 months.

While expanding our Flywire Advantage, we remain focused on product and payment innovation to power our vertical ecosystems. For example, in healthcare, we rolled out integrated patient financing option funded by a third party to augment our powerful affordability suite. Our clients see this as a clear solution for providers and patients to balance affordability and increase collectibility. As our non-recourse patient financing solution gives patients longer payment terms and lower monthly payments to fulfill their financial responsibility. One client reported a 16% increase in cash from payment plans in just 6 months from our integrated financing solution, among other benefits.

We go into more detail about our healthcare business in this quarter's supplement. And we continue to be focused on strengthening and growing our FlyMate community. As I've mentioned before, we have a values-driven culture here at Flywire, which is a critical component to maintaining high performance teams. Living our values like execution and ambitious innovation empowers FlyMates to collaborate and move quickly to solve hard problems for our clients. For example, this was prominently on display this quarter when a team of global FlyMates came together to sign a full suite deal for a large education institution in the United States. After meetings with our global team of sales, product, legal and implementation experts, the client was so convinced of the benefits of Flywire that they ended a multiyear relationship and contract. Our team is now underway with what is on track to be the company's fastest enterprise-level deployment ever.

Our culture is also underpinned by our commitment to giving back to the communities we serve. Last quarter, FlyMates from around the world came together to build a school and library for local students and families in Panama through a nonprofit partner of ours called School the World. FlyMates came back with a new sense of perspective on the world, motivation in their work and fulfillment in their lives.

As one FlyMate put it, I'm proud that Flywire is a global company with such strong social responsibilities and supports its employees in making the world a better place. The experience left an indelible mark on me, and I learned that my fellow FlyMates are endlessly supportive in kind and willing to do whatever it takes to get the job done.

In closing, we are pleased with how the business performed during the first quarter, underscoring the resilience of our business and winning strategy across our verticals. I would now like to turn the call over to Rob Orgel, our President and COO to review some operational highlights from the quarter. Rob?

Rob Orgel

Thanks Mike. Good afternoon everyone. It was another quarter of strong performance for the company with good 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 added over 200 new clients, mostly signed in a single

quarter. We saw particular strength in our travel vertical with an all-time high projected ARR signed during the quarter. We generated over 20% year-over-year pipeline growth across all verticals with B2B and healthcare giving their highest all-time pipeline creation in a single quarter.

This quarter's strong growth was driven by the continued execution of our five strategic growth pillars. As a reminder, those pillars include growing with existing clients, adding new clients, expanding our ecosystem through channel partnerships, expanding to new industries, geographies and products and finally, strategic value-enhancing acquisitions.

I'd like to briefly discuss how we grew across our four verticals during the first quarter, in line with those growth pillars. Starting with education with an estimated TAM of \$660 billion, we saw an increase in new clients signed and an increase in our percentage of win rate compared to Q1 of last year. For example, we went live with Kookmin University in South Korea, which is a solid growth region for us. Kookmin University is a leading private university founded in 1946 and is the seventh largest university in Seoul. It is home to over 24,000 students. With Kookmin University on board, Flywire now supports several prestigious universities in South Korea, bolstering our position as a leading provider of payment solutions in the Korean higher education market.

We also signed our first K-12 school in Korea in Q1, expanding our reach beyond higher end into another active sector of Korean education and a testament to our growing recognition and impact in the region. We also continue to identify new use cases in education, where software drives value and payments, and we'll continue to develop solutions drive growth and value for our clients.

For example, we expanded the availability of our third-party invoicing solution, parsing the power of the Flywire platform to enable sponsors such as employers, government agencies or other organizations to pay students tuition and fees directly. Institutions are reporting lower administrative burden, ease of reconciliation and increased revenue as part of their early benefits.

One of our clients, which is a large Elite Research Institution is leveraging Flywire's third-party invoicing solution to better serve their global student base. They have seen a 70% increase in timely third-party tuition collections after requesting payment via Flywire, and we are helping them manage these for more than 500 unique third-party vendors and organization. Once again, showing that Flywire has a proven track record of software drives value and payment and delivering strong NRR.

In healthcare, with an estimated TAM of \$500 billion, we saw a record new pipeline creation, which grew over 100% on a year-over-year basis as we generated momentum with specialty providers in the U.S. During the quarter, we signed several new healthcare clients. We are continuing to expand with Conifer Health Solutions client, United Surgical Partners International. USPI is the largest ambulatory network in the United States with over 480 ambulatory surgery centers and surgical hospitals and over 50 health system partners across 35 states in the U.S. We are currently live with a portion of USPI's network for surgical centers with more on the way.

We also went live with a handful of Oracle Health CommunityWorks clients during the quarter. For example, we went live with the Henry County Medical Center, a large CommunityWorks facility, providing rehabilitation focused care in West Tennessee. There are hundreds of CommunityWorks hospitals on the Oracle Health platform that are well suited to become future users of the Flywire Health platform.

In travel with an estimated TAM of \$530 billion, we generated an all-time record of projected ARR signed during the quarter as we brought on new clients across all our sub-verticals. In terms of expanding into new geography, we went live with Cruce Andino, one of South America's oldest travel companies, providing travelers with sailing experiences among the lakes and ancient trade routes of The Andes Mountains and our first ever travel client in Chile. Flywire strategic partnership and integration capabilities with Art2Travel, a travel software company based in Santiago, Chile helped us win Cruce Andino. Our team is excited to work with new clients and our partners to deepen our local expertise in this corner of the global travel market. As Mike mentioned earlier, we are seeing early success in our ocean experiences sub-vertical and saw strong traction in Japan during their peak ski season in January and February.

Finally, in B2B business, which covers a broad TAM estimated to be about \$10 trillion. We increased the average deal size, increased our number of client wins, increased projected ARR compared to Q1 of last year and had our highest pipeline generation quarter-to-date for our B2B team. We continue to have great traction in manufacturing and distribution clients, which now represent roughly quarter of our clients in B2B, by providing sophisticated and integrated accounts receivable solutions.

Flywire stands out in our ability to tackle the complex payment challenges of distributors and manufacturers with global customer bases, where our combination of international and domestic payments capabilities, our ability to accept card and non-card payments and our integrated cloud-based payments platform infrastructure enables us to deliver seamless solutions that are a major step forward for many B2B companies built in the early phases of digitizing their financial systems and processes. For example, this quarter, we added MOCAP, a Missouri-based manufacturer of plastic and rubber components. MOCAP transacts in 18 countries outside of the U.S. and we using Flywire as their exclusive payment platform for both e-commerce and traditional invoice flows. Additionally, we went live with MC3 Group, a computer hardware distributor formed in 2002 with over 4,000 wholesale clients globally. Flywire has helped MC3 expand local payment options for international customers and reduce cost to receive these payments.

Stepping out of our verticals and moving to our efforts towards efficiency and scale, we remain committed to control costs and invest prudently. We continue to improve the scalability of our business model as operating expenses as a percent of revenue continue to fall. In Q1, expenses as a percent of revenue were down 6 points versus Q1 2023 and down 5 points sequentially. More than half of our hiring this year has been in our go-to-market teams reflecting Flywire's commitment to revenue and customer growth and also showing that our operational teams are scaling cost effectively.

Flywire enjoys operating leverage because of our shared service model around 2 of the 3 core elements of the Flywire Advantage. That is our global payment network is shared by our verticals and our core payments platform is leveraged as part of the solution for each of the verticals as well. We remain vigilant to deliver on the top and bottom line growth, reflecting the strength of our business and business model.

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 Q2 and 2024. Cosmin?

Cosmin Pitigoi

Thank you, Rob, and good afternoon, everyone. As many of you know, I joined about 2 months ago, and I'm incredibly excited about the long-term potential of the business as I will outline shortly. And especially energized by the culture at Flywire, I look forward to helping provide leadership to Flywire through the next phase of growth and to continue to deliver value for our clients, payers, partners, FlyMates and shareholders.

Today, I'll provide an overview of our results for the first quarter and then discuss our outlook for Q2 and the fiscal year. As Mike and Rob mentioned, we had a strong start to the year across many of our operating metrics and financials. Payment volumes during the quarter were \$7 billion, which represented an increase of 23% compared to Q1 2023.

From a monetization standpoint, our spreads have remained relatively consistent and stable over the last several reporting quarters. Revenue Less Ancillary Services was \$110.2 million in Q1, representing a 24% growth rate compared to Q1 2023. Our revenue growth rate was driven by increases in transaction payment volume as well as our StudyLink acquisition, which contributed \$2.1 million to platform and other revenue in the quarter. We saw strong growth despite a high single-digit percentage headwind related to our Canadian higher education business.

Our Q1 Revenue Less Ancillary Services outperformance compared to our expectations was primarily driven by stronger-than-expected volumes from UK higher education clients and stronger-than-expected growth from new travel accommodation clients in Europe and Asia. FX rates were relatively flat year-over-year. However, FX was a \$1.2 million headwind against the guidance we provided for Q1 based on December 31 exchange rates. During the quarter, transaction revenue increased 26% year-over-year, driven by a 33% increase in transaction payment volume, primarily in our International and U.S. education vertical as well as travel. Platform and other revenues increased 16% year-over-year, primarily driven by a 6% increase in platform and other revenues volume as well as from platform fees that do not carry payment volumes, specifically revenue associated with the contribution from StudyLink.

Adjusted gross profit increased \$71.9 million during the quarter, 20% above the \$59.9 million generated in Q1 2023. Adjusted gross margin was 65.2% for Q1 2024, down 200 basis points from 67.2% for Q1 2023. The year-over-year change in adjusted gross margin was driven primarily by the strong growth of our transaction revenue versus our

platform revenue, particularly from the success of our travel vertical and of our land-and-expand strategy, where we won U.S. domestic higher education business, both areas where credit cards are more prevalent.

As we've highlighted in past quarters, FX shifts occurred during settlement of transactions. This quarter, these shifts resulted in losses that impacted our cost of sales. In prior quarter, these impacts were largely offset by FX hedges, resulting in a mitigated impact on adjusted EBITDA. Adjusted EBITDA grew to \$13.2 million for the quarter, almost double of \$7 million generated in Q1 2023. Adjusted EBITDA margin was up over 400 bps year-over-year. The increase in adjusted EBITDA was driven by revenue outperformance and cost management. With respect to capitalization as of March 31, 2024, we had \$619 million in cash and cash equivalents, no long-term debt and 122.3 million shares of common stock outstanding.

Similar to adjusted EBITDA, we have seen strong cash flow generation and growth over the last 12 months. In short, we have ample opportunity to further build on our capital allocation strategy and execution, both organically and inorganically.

Moving on to guidance. For full year 2024, we expect Revenue Less Ancillary Services to be in the range of \$478 million to \$498 million based on spot foreign exchange rates as of March 31, 2024. This represents a year-over-year growth rate of 28% at the midpoint. The \$8 million reduction at the midpoint from prior guidance is driven by changes in FX. This is due to the strengthening of the dollar since our last projections based on the spot FX rates as of December 31, 2023, which reduced our international revenue when reported in U.S. dollars.

Please note that the U.S. dollar has continued to strengthen since March 31. We expect to deliver full year 2024 adjusted EBITDA in the range of \$64 million to \$75 million. At the midpoint of our full year 2024 guidance range, we expect to generate approximately 320 basis points of adjusted EBITDA margin improvement, which is in-line with our prior guidance. Q2 2024 Revenue Less Ancillary Services is expected to be in the range of \$96 million to \$104 million. This guidance relative to our thoughts earlier this year is primarily impacted by the change in the FX spot rate, as already discussed and Canada. We expect more of our Canadian higher education revenue to be realized in the second half of the year versus more evenly distributed as we previously expected.

Rounding out the guidance discussion, we expect Q2 adjusted EBITDA to be in the range of \$1 million to \$4 million. As a reminder, Q2 has been the lowest quarter for adjusted EBITDA over the past few years due to the seasonality of our business. And we expect that our traditional seasonality will be repeated.

In closing, I want to step back and provide my early perspectives on the long-term growth opportunity of Flywire. Starting outside and it's clear that while Flywire has continued to gain market share given its compelling client value prop, our four unique verticals are in very early stages of automating their payment capabilities, with a much more customized approach than other verticals that benefited from standard and legacy payments offering. So as we look ahead, we have low single-digit penetration in these

large verticals and we believe we're uniquely positioned to continue to capture share given our software solution. The opportunity to solve these multidimensional customer problems starts with large, complex cross-border payments, but increasingly opens the door to cross-selling into domestic capability.

I'm committed to continue to drive internal and external transparency in how we are executing our strategy against our growth algorithm. First, we've talked about net revenue retention rate, or NRR, which has been stable over the years. To unpack that, there are two main components. First, as I just mentioned, we see high single to low double digits TAM growth in our four verticals based on external factors, including secular trends. Second, we believe we can add meaningful growth from expanding with our existing clients. These two drivers combined have been driving approximately two-thirds of our growth, which has been quite stable over the years.

In addition, roughly one-third of our growth comes from the combination of ramping last year's client additions and new clients added in year. On top of this, we can accelerate even further through early innovations, such as our payer services. Finally, we're continuously evaluating strategic value-enhancing acquisitions. All of this topline growth is expected to result in even faster bottom line growth as we drive productivity through investments in scale, data, systems and automation.

I am excited about the journey ahead as we are clearly still early in solving unique customer problems at scale. I'll now turn it back over to the operator for questions. Operator?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] The first question comes from the line of Dan Perlin with RBC Capital Markets. Please go ahead.

Dan Perlin

Thanks. Good evening, guys. I just wanted to go back to the Canadian market issue. Mike, I just want to talk a little bit more, if you could, about just how comfortable you are ultimately with those trends? I mean, understanding like student visas are being used as kind of immigration tools and other things. And it seems like that was getting a little more pervasive. So just maybe remind us the visibility that you have. Part of the second half recovery it looks like you got a recapture rate assumption in there. Where is that coming from? Is that from your agents where you get the visibility there? Just anything incremental there would be helpful.

Rob Orgel

Hey, Dan, it's Rob. I'm going to jump in here. And why don't I start with giving you some sort of that perspective from the market, from the clients from the understanding of the regulatory conversations that are happening in Canada, and then we can also get into

sort of the guidance piece so that you can have clarity on that. So from the last time we all talked about Canada, there's considerably more clarity around sort of what's happening for the schools and how they are able to move forward. So they have clarity on their allocations, they have clarity on the process. They are allowed to use for admitting students, and they're moving forward with what we're calling a ramping return. And what that means is they now are able to pursue what you'd call a normal set of activities that leads to enrollment, that leads to payments, obviously, taking into account what are the caps and allocations that they were given under the announcements became right around the end of March, beginning of April.

And I was up in Canada. I spent time talking with our client teams and the general sense of things is that the actual results are sort of less extreme and more manageable than what they feared when they were operating with sort of almost complete uncertainty. And so that understanding, the understanding from talking to our agents about their plans for being able to resume activity gives everybody more comfort for how they move forward. So the way we do our modeling, and I'll hand off to Cosmin here in just a second, is that we build our guidance based on a bottoms-up model.

So there's been lots of discussion about sort of how do you approach this, we're able to approach it from essentially a school-by-school perspective, understand their allocations – their allocations and what that will mean relative to their expectations. And with that, we're able to build up, obviously, what was summarized at the province level, but we're actually doing it from a bottoms up, essentially school-by-school level inside our guidance. So with that, Cosmin, do you want to just add?

Cosmin Pitigoi

Hey, Dan, thanks for the question. So let me put some numbers around kind of how we're thinking about the guidance and then as it relates to Canada. So first off, for the full year, as we've said, that we've maintained the guidance based on a constant currency basis. So the main driver there is FX. As we think about Canada, and you've sort of heard Rob talked about it, let me just talk about 3 specific areas that I think were called out. So Q2, full year and then second half recapture in particular. So for Q2, we – what we're seeing is more of a gradual rolling ramp in enrollment. So rather than sort of a bounce or surge. So with that, we're assuming is roughly a mid-single-digit negative revenue impact in Q2.

Second, for the full year, if you recall, we talked about low teens in the past – what we're seeing now is closer to a mid-teens million revenue impact. So again, you've heard us talk about Q1 initially, it was sort of mid-single and then we updated everyone to sort of be mid to high single digits in Q1 impact. All of those things, again, as you saw in Q1, we outperformed. And so that was the impact in Q1. Now – to your question on recapture and how we think about second half, that, as you see in our supplemental materials, we wanted to make sure that we add a lot more transparency on this point.

So what we have right now as far as recapture in international students going to countries outside of Canada is a mid-single-digit million dollar revenue in second half.

So that is international students going into those other countries. So again, as we step back, we feel good about the range that we have around the midpoint and also just that Canada will be a growth market for us as we get through some of these external events.

Dan Perlin

Great. That's super helpful. Just quickly, Cosmin, since I've got you there. Maybe as you said, you've been there for a couple of months now. FX definitely plays a big swing factor in a lot of different areas for the company. And I'm just wondering, as you think forward about like philosophically, how you want to present guidance and maybe numbers or KPIs? Have you given any thought to other ways in which to do that, FX-neutral guidance etcetera? Just anything around what you might be thinking would be helpful there as well? Thanks.

Cosmin Pitigoi

Yes, of course. And that was probably one of the first things I heard when I came in and I come from sort of a background of talking about FX neutral or currency – constant currency, growth rates. So that's something that we will be looking to build and be able to start looking at that going forward. So that is, in principle, how we think about the true kind of growth of the business outside of the noise of FX, especially as you think about our business, as you know, more than half of our revenue is outside the U.S. So obviously, that's going to have a pretty large impact.

So maybe since I realize we have a big FX factor here for the full year. I can just unpack that for you quickly in terms of how we think about currencies. So we have four big currencies that are the biggest component Dan, its the Canadian dollar, the Aussie dollar, the British pound and the Euro. As you – as we look across those, remember, when we gave guidance earlier this year, that was based on a rate as of December 31. If you look across those currencies, the dollar actually weakened significantly into last year into December 31.

Then while we saw throughout the rest of the quarter, is a gradual strengthening of the dollar. And in some cases, some of those currencies by the time we ended the quarter were sort of better by 1% to sort of 4% – 3% to 4%. So – all of that has created that \$1.2 million of pressure in Q1.

Now since that was gradual, that was sort of the impact on Q1. As you look to Q2, Q3, Q4, again, right now, we – our guidance is based on rates as of March 31. And of course, actually, the dollar has strengthened a little bit versus that time. But as you can imagine, if it was \$1.2 million in Q1 and those rates gradually move throughout the quarter, that becomes almost double the headwind as you look through every quarter going forward. Again, these are things that, hopefully, as we move to an FX-neutral growth rate focus in terms of our guidance and how we calculate and present that, I think we'll help neutralize some of this noise. But for now, again, being sort of an international business, that is something that does impact our numbers. But however, as you saw, we were able to offset a lot of this with and ensuring that we keep to sort of our

margins and also we maintain our commitments for the year as far as topline. Does that help?

Dan Perlin

Excellent. Yes, that's very helpful. Thank you so much.

Operator

Thank you. Next question comes from the line of Will Nance with Goldman Sachs. Please go ahead.

Will Nance

Hey, guys. Maybe I'll start with a more numerical question. Just on the point of FX just to make sure we're all kind of level setting on the same thing. I kind of glance quickly at what FX rates have done quarter-to-date. I know you're using the 1Q quarter in spot rates in the guidance. And it seems like the FX rate kind of magnitude – and I'm eyeballing this is kind of like roughly half of what we saw over the course of the quarter. But maybe you could help put a finer point on if we were to use current FX rates instead of FX rates at the end of the quarter, what would be the incremental impact to the revenue guide relative to – I think you said \$8 million or so the adjustment of the full year guide from the 1Q movements?

Cosmin Pitigoi

Yes. So I would say right now, if you – so we actually did see the dollar weakened just a little bit the last few days. So if you were to look sort of as of even today, there is a little bit of pressure, but I would say it's in kind of the very low single digits for the full year, sort of almost around \$1 million or less. So it's a very small sort of immaterial impact, but it is pressure. It's not really material. So again, less or less than \$1 million, I would say, for the full year, somewhat evenly spread throughout the quarters.

Will Nance

Got it. Okay. That's helpful. And then maybe just a bigger picture question. I think you mentioned the TAM growth around high single to low double digits. I'm wondering if you can unpack that between sort of pricing and the kind of tuition and price increases, that sort of thing – on college campuses around the world? And then how much of that comes from sort of the growth in the number of international students across the different geographies? And I ask that, that second part seems to be the point that's more at the beta right now, just given all of the immigration controls going up around the world. So I'm just curious what kind of growth in international students are you expecting over the years? And then when you look at the components of NRR in the education business, what is the kind of same-store sales on the number of students contributing to that NRR? Thanks.

Mike Massaro

Hey, Will, sure, I'll jump in and take that. So again, if you look over international since the last couple of decades, right, you'll see kind of a low single-digit, low mid-single-digit variation if you'd normalize out for the COVID period. And so that, I would say, is our broad view of international student growth over time. And then when you kind of break down some of the information that's in the supplement, I think when you think through just where we're seeing growth, right, there's obviously going to be industry-based dynamics that help drive it, right?

So whether that's tuition increases, again, you're going to see relatively modest growth there, but I always joke I've never seen a tuition bill go down. And I got four kids. So again, you're going to have some component of average transaction size increase over time. You're going to see growth of international students. And the other thing I'd just tell you to remember, especially in the education vertical is just that land-and-expand strategy being a huge area for TAM expansion for us there. That's a significant part of that TAM and kind of the explanation of the single digits where we are today and the opportunity we have embedded in that customer base. So hopefully that helps...

Cosmin Pitigoi

I'd say. So what you heard me describe, too, is where a lot of these players maybe are behind. A lot of these clients are behind and verticals are behind sort of the curve in terms of adopting more automated sort of payment solutions. So we do see that also now picking up and a lot of them sort of whether it's because of looking for cost savings or automation capabilities. We do see that tailwind from the efforts of – in all of these verticals, if you can name any one of them are really looking to save money. And so a lot of it is around automation. And they're going to be looking for customized software solutions, so we play right into that space. So I think that's – so on top of that secular growth, we come in with a very sort of targeted solution for them.

Operator

Thank you. Next question comes from the line of Darrin Peller with Wolfe Research. Please go ahead.

Darrin Peller

Guy, thank you. Look, I just want to be clear for everyone. I mean it sounds like you're trying to make the point that it's 100% guidance change associated with purely FX as you said, constant currencies unchanged and then maybe Canada, but nothing else is impacting the business from what you could see. So number one, I just want to make sure is that right, there's nothing else impacting? And then maybe just beyond the timing on Canada ramp, if you could just remind us the components of the reacceleration, just the implied growth rates obviously accelerated by a few 100 basis points or more in the second half of the year. So again, just year-over-year, not forgetting about seasonality, would be helpful. Thanks, guys.

Cosmin Pitigoi

Yes. So maybe let me start. And so first off, in terms of Q2 impact. So we talked about FX – that's a portion of it. Second, it is Canada. And so, we are seeing that impact, again, as we discussed earlier. In addition, there are a number of other puts and takes across the portfolio that impacted, but I would say the softness in the healthcare business is also the other reason, which ties into your sort of second question around first half to second half acceleration. So some of that acceleration in the healthcare business, builds into the – how to think about – if you look at the implied growth rates first half to second half, if you can – if we were to unpack that, you see about a sort of a mid-single-digit acceleration from first half to second half. A large portion of that is Canada and again, sort of as we've disclosed the numbers there. Another portion of it is healthcare recovering in the second half. And then third, we do see strength in the business across a number of different areas with new client signings, and just overall strength in some of our other faster-growing verticals, and that is driving a good portion of the rest of that sort of mid-single digit acceleration from first half into second half. And again, we feel comfortable we have captured a lot of that. Obviously, it's a wide range of possibilities as I think everyone is looking into the second half as an uncertain macro environment. But overall, we feel like we have captured those components.

Rob Orgel

Can I just jump in – Rob speaking with just a little bit of color and flavor because we want to make sure we put that sort of healthcare comment in perspective. So, that acceleration in the second half is really two things going on. One is just good go-lives of clients that go live in the second half. The second part is that there has been this thing. You will see it disclosed in our Q, where there was an incident in the healthcare industry where Change Healthcare, as many of you know, had a cyber incident, that cyber incident, again, far away from Flywire, nothing to do with Flywire but the consequence of that event was that a lot of the hospitals were delayed in their ability to put out their patient bills. And if you remember, we are primarily involved in helping them collect the patient responsibility portion of their bills. So, what you saw based on sort of the events that happened that had our hospitals delay some of their billing was that we see this push from Q – in the first half of the year really into the second half of the year. And so that is sort of a natural accelerant in the second half that it's not as big as a bunch of the other things we have talked about, but just as you are trying to put together the pieces that help you understand growth in the second half. That's one of them.

Darrin Peller

That's helpful, Rob. Guys, just a very quick word on the new customer adds being so strong, 200, is it broad-based travel within across segments? Was it education? A little more color would be great.

Rob Orgel

Yes. I can jump in with that one as well, Darrin. So, if you – for this quarter, travel was the winner in terms of the most count, but only beat out education by a little bit. If you remember, our Q4, we said education beat out travel. So, they are pretty close in that

mix. I would comment that B2B added a good number of clients. Healthcare added, I think the same number of clients that they added in the prior Q1 period. And so overall, travel won out and had a great quarter, but education was very strong as well.

Darrin Peller

That's great to hear. Thanks guys.

Operator

Thank you. Next question comes from the line of Nate Svensson with Deutsche Bank. Please go ahead.

Nate Svensson

Hi guys. Thanks for the question. I wanted to clarify something you said in response to one of Dan's questions earlier. So, you called out a less extreme impact in Canada in terms of the number of permits being issued than with originally filled – feared. But at the same time, you just moved the 4-year guide from a low-teens impact to a mid-teens impact. So, I am just trying to understand what the delta is there that's causing it to be worse for the full year? Is it that the first half of the year is worse than you had expected? Is it lower recapture assumptions, or is it just more uncertainty on sort of the timing of when that revenue comes through?

Rob Orgel

So, this is Rob. I can jump in. So, again, that commentary about the perception was trying to give people an understanding that there is more confidence in Canada that they now know how to proceed, they know how to proceed with their more standard processes. They do still need to work inside the cap and they still need to undergo this ramp and comply with the new rules. Keep in mind that Q1 is behind us, right. So, in terms of that effect in Q1, having grown slightly, that's what explains the expansion from low-teens to mid-teens.

Nate Svensson

Okay. So, all due to 1Q being worse than expected. Got it.

Rob Orgel

I mean there is multiple dynamics here, but that is the way to understand the overall effect. I mean the big picture trajectory here is Q1 is behind us and they are doing their ramping back for the rest of the year dealing with the new set of rules that they operate under.

Nate Svensson

Got it. I appreciate that. The follow-up question I had was on your 2Q growth outlook.

So, you talked about the impact of FX in Canada, so that's the reason why Q2 is a little lower than you had thought maybe three months ago. But I guess just thinking about even the growth range, it looks like by my math, there is about a 10-point range from the low end or the high end of guide, and that's wider than you have been guiding typically, which is more around – call it 6 points the past few quarters. So, just wondering what you are seeing across the business, I guess maybe beyond FX in Canada that's maybe giving you a little more trepidation as you look to forecast out, I guess the remaining two months in the quarter. Thanks.

Cosmin Pitigoi

So, thanks for that question. So, it's Cosmin. Obviously, there is a number of puts and takes in Q2. And so what we wanted to make sure is that we capture some of that. I think part of that too is, as you have heard Rob talk about is Canada is a rolling ramp back. So, we want to capture that as we think about the potential kind of range of scenarios. But in general, it's still – I think in terms of the midpoint here, we feel relatively good. And we have – obviously, we are a third way through the quarter. And so we are watching all of these trends, but still more to go, so we wanted to make sure that we capture the scenarios as we look into the rest of the quarter.

Mike Massaro

Yes. Nate, this is Mike. The only thing I would add is just making sure that if we had seen a snapback or something in Canada, which we didn't see, right. We hinted very clearly that we are seeing this kind of return, this rolling return back to a normal cadence of admission process. And so that's what we are trying to cover in our guide.

Nate Svensson

Thanks. Appreciate all the color.

Operator

Thank you. Next question comes from the line of Jeff Cantwell with Seaport Research. Please go ahead.

Jeff Cantwell

Hey. Thanks so much. I want to see if I am understanding your commentary and then if you can clarify anything that needs clarification. You updated us back in March about Canada. And then since then, things got slightly worse in Q1 than was initially expected, but the situation is now stabilizing and there is some un-bonding [ph] there. So, now you are saying on a full year basis, mid-teens revenue impact in Canada, and that's partly offset by some recapture in other countries and you call that mid-single digits, is that right? Thanks.

Mike Massaro

That's spot on, Jeff.

Cosmin Pitigoi

Yes, exactly.

Jeff Cantwell

Okay. Great. And then my follow-up on that is, how do you come up with a mid-single recapture? And underneath that, are you seeing any areas right now where situations like Canada are also developing, or is the situation globally more stable, in your opinion, not only in Canada? And would you be able to say that overall, as you think ahead you expect to see international student numbers going up over the medium to longer term? Thanks.

Cosmin Pitigoi

Let me start with the modeling question. So, in general, obviously, we have – we talk to our agents and others to understand how they are planning to help their students find another country if they cannot go to their original sort of destination. So, we feel like that's sort of at a macro level, that's a trend that continues. So, given that, obviously, it's sort of if – it's an estimate, I would say, it's based on our experience and conversations with our sort of people on the ground and agents. So, that feels like, again, it's well captured within the range of guidance for the year. So, we feel good about that we have sort of captured that. But it's based on our experience. Obviously, it's difficult to estimate exactly what students and behavior patterns and many other sort of impacts, but we feel like we have well captured that in our range of expectations for the year.

Mike Massaro

Yes. And I would just say, Jeff, I mean when we look at other markets, I mean I made some commentary earlier around just the UK strength as an example. And so again, we see other markets. We know there is headlines out there, but again, we have continued to see really good strength. Canada was a pretty unique situation just with the way in which the permit allocations were not known, and it kind of put a delay in that admissions process for the year that obviously impacted Q1, we still outperformed in even with that mid to high-single digit impact in millions in Q1 and the \$1 million plus FX headwind in Q1. And so again, we are looking at the full year with strength and confidence knowing that it is a unique macro environment for us.

Jeff Cantwell

Okay. Great. Thanks very much.

Operator

Thank you. Next question comes from the line of Chris Kennedy with William Blair. Please go ahead.

Chris Kennedy

Good afternoon. Thanks for taking the questions. Rob, you talked about the pipeline in healthcare is up 100% year-over-year. Can you just talk about the changes in go-to-market strategy that's driving that type of growth in healthcare?

Rob Orgel

Yes, happy to. Thanks for the question. So, we outlined a couple of quarters ago that we were doing a bunch of things to address the performance in that business. So, first and foremost, we did some work inside the team, elected a very strong – sorry, appointed a very strong new Head of Sales in that business. And I think we are seeing some of the benefits of that. So, the most obvious effect of that shows up in the pipeline having done the significant growth that we saw over the past period. So, that's probably the number one thing. I think all of that, and you can see in the supplement materials that we provided, that we have also done quite a bit around the positioning of the business. We were able to show great returns based on the performance of our existing clients. We have got innovation around the integrated financing offering. All of that, I am sure is helping the sales team in their efforts to drive that pipeline. But I would point first, I guess I would point to the combination of all those things as being what's helping drive the pipeline growth.

Chris Kennedy

Thanks for taking the questions.

Operator

Thank you. Next question comes from the line of Andrew Bauch with Wells Fargo. Please go ahead.

Andrew Bauch

Hey. Thanks for taking the questions. I just wanted to follow-up on some of the remarks you made around the education environment and the uncertainty around where the regulatory environment would go. And you characterized it as a re-phasing of policy. I am trying to understand what is kind of the barrier we need to clear as far as getting that visibility, is it just the U.S. election? And are there any other historical patterns that we could look to, to kind of get a sense of like how this – how and when this can kind of resolve itself?

Mike Massaro

Yes, it's Mike. I would say, in general, we have seen changes of government policy for over a decade in different countries around the world. I would say Canada was somewhat unique because there was a government issued limitation on their study permits. And so that caused a lot – all the clients, all the universities out there to not know how many students they should be admitting, which was the impact to Q1. That

clarity has come from the government up in Canada. And so again, that rolling recovery back. As we look across our business, it's a geographically diverse business, right. It's a sub-vertical diverse business. It's an industry diverse business. We see that as a strength for us in navigating any climate. I mean if you look at all types of geopolitical and macro events last year, we put up 43% growth and 540 basis points of EBITDA margin expansion, even in Q1 with two headwinds we talked about here, we put up pretty great growth numbers and expansion of EBITDA. So, again, we feel pretty good of operating in these environments. We see our business as something that is diverse, and that gives us a strength. And again, it's not uncommon for us over the last 12-plus years of the company to see changes in government policies, changes in macro conditions. And so we are comfortable operating in that environment.

Rob Orgel

I mean the education business performed well in many areas, right. We talked about the UK over-performance. We talked – we haven't talked very specifically, Australia grew really, really well. U.S. had growth. So, all of these are growing well despite sort of all of these climate questions that may be out there. China grew really well for us. So, when you look at sort of the macro environment, China is strong in terms of its contribution to the U.S. growth, strong in its contribution to India growth – sorry, to UK growth, my apologies. All of that is strong.

Andrew Bauch

Clearly, the stock has been weighed down by some of these concerns over the last couple of months here. Just wanted to revisit capital allocation, given the valuation of the stock in your M&A strategy, how are you thinking about revisiting that strategy going forward? And where would you potentially lead into?

Mike Massaro

Yes. I mean ultimately, obviously, you would imagine the Board has always had and we will continue to have conversations around capital structure. We have a track record to do an M&A. We have a strong cash position. EBITDA generation is also quite strong for the business. So, it gives us lots of optionality. So, nothing to report now, but I would say it's a conversation that happens at the Board level and it continues to happen. And we – I would also say, have been comfortable with what we have been seeing in the growth of pipeline around potential deals. At the same time, as I have said before, we have got strategic pillars. We have kind of financial discipline around those deals, and we take that all into account as we make investment decisions.

Andrew Bauch

Appreciate the thoughts Mike.

Operator

Mr. Bauch, are you done with your question?

Andrew Bauch

I am. Thank you.

Operator

Thank you. The next question comes from the line of Jason Kupferberg with Bank of America. Please go ahead.

Tyler DuPont

Hi. Good afternoon guys. This is Tyler DuPont on for Jason. Thanks for taking the questions. I wanted to start by just following up on Jeff's question. I know we talked about Canadian visa permits repeatedly on the call. So, I want to ask outside of Canada. There has been talk of similar legislation in some shape or form to limit the number of international students in other geographies, particularly UK, Australia. And given that the UK was a meaningful contribution to the outperformance in the quarter, and you mentioned just on the last question that Australia has also seen strength, which is good to see. How are you seeing education in those regions, how that might be impacted by potential legislation and just sort of how we should think about growth in those regions if legislation like that does get passed?

Rob Orgel

Yes. This is Rob. I can maybe expand a little bit on my comments from a moment ago about Australia. Look, Australia performed very well, showed very strong growth for us, grew well above the company growth rate. Australia has a large TAM, lots of students. We continue to grow both with existing clients and through the addition of new clients. One thing to call out there is that as is true in many places, our business skews towards sort of what I call sort of high-quality institutions. And if you look at what was – the focus of the regulatory discussion in Australia was mostly to address a different audience. So, we have seen very good growth across Australia in our business. And so, obviously, we understand that it could be even bigger if there were none of these effects, but we have taken into account all of that when we talk about our guidance. If you look at the UK, the UK business has been super strong for us. It grew very nicely. And there have been some policy changes in the UK over the course of the last six months or more months. Our business continues to perform really well there, both in terms of adding to existing clients, our land-and-expand strategy in the UK as well as activating new clients.

Mike Massaro

The only thing I would add is just, I mean international students education, kind of the lifeblood of a lot of universities and colleges. I mean there are huge positive factors to the countries in which they are studying in. And I think you are going to see a shift. You are seeing different policies around the edges to tweak and adjust where those students are going and potentially areas of study and where those will be in different countries around the world, but it's a very positive trend that students want to travel and they want to further education and places want them to come study there. And so I think you are

going through some shifting of that. But again, shifting like this that we have seen over the last 10-plus years.

Tyler DuPont

Okay. Understood, Mike, thanks. And just a really quick one on free cash flow, more modeling focused, but just sort of what trends are you seeing sort of as we look through 2024 and beyond more qualitatively in that respect. Just how should we think about conversion rates or any additional color on free cash flow?

Mike Massaro

Yes. So, obviously, we don't necessarily guide on that. But usually, I would say our EBITDA margin and EBITDA trends are a good general directional view of how we think about our cash flows. So, I would say that that's probably a good way to kind of think about it, again, without getting into the specifics of guidance around free cash flow specifically, EBITDA – adjusted EBITDA is a good way to think about it.

Tyler DuPont

Great. Thanks a lot.

Operator

Thank you. We have time for one more question. That is, the next question comes from the line of Tien-tsin Huang with JPMorgan. Please go ahead.

Tien-tsin Huang

Hi. Thanks. I know the call is getting long, so thanks for squeezing me in. I want to add something separate, not Canada, just on network settlement, the Visa MasterCard credit card settlement of MDL 1720. I think the interchange reduction is straightforward. But I am curious to hear your thoughts on surcharging. It feels like that would be a positive for your business. I know there is some of that happens now, but I guess to the extent that you embrace that or work with your partners and clients that could be an opportunity. Am I reading that correctly? I know it's early, but would love your thoughts, Mike, Rob and Cosmin?

Mike Massaro

Yes. Tien-tsin, thanks for the question. I would say, in general, I think we are supportive to see this kind of come to a resolution, and we are here to support our clients and however they choose to handle payment transactions. So, I think I would say probably too soon to say whether kind of positive trends for us or not. But again, we focus on what the customers want to do, how they want to deal with those transactional fees. And we can obviously do that and can implement that within our system. But again, kind of defer to our clients to handle those decisions.

Tien-tsin Huang

Okay. No, that's fair. And then Cosmin, just quickly on the gross margin front, given some of the dynamics, I know there is always seasonality, but anything to lead us to on the second quarter and the second half with respect to gross margin?

Cosmin Pitigoi

Yes. So, stepping back, I think you have heard us talk about usually our gross margins coming down under pressure, mostly because of mix in some of our faster-growing businesses with sort of higher credit card mix. So, that's in the range of 100 bps to 200 bps sort of down year-over-year. What you saw in Q1, just to make sure that we tie back to what we have seen so far, Q1 was down 200 bps, by about almost half of that was that FX settlement that I talked about. And that is an impact on gross margin that is actually offset on OpEx. So, on adjusted EBITDA basis, we do hedge some of that. So, technically, when you look at it for Q1, actually, gross margin was down more like 100 bps. But again, as you – as we look through sort of longer term, we feel like that 100 bps to 200 bps decline is probably still the right range. But again, a lot of moving parts, so it could be show to the high end of that as we look through the rest of the year.

Tien-tsin Huang

Got it. Thank you.