Q2 2026 Earnings, August 04, 2026

Company Participants

Masha Kahn - Flywire Corp., Vice President-Investor Relations

Michael Massaro - Flywire Corp., Chief Executive Officer & Director

Robert S. Orgel - Flywire Corp., President & Chief Operating Officer

Cosmin Pitigoi - Flywire Corp., Chief Financial Officer

Other Participants

Nate Svensson - Analyst

Daniel R. Perlin - Analyst

Madison Suhr - Analyst

Michael N. Infante - Analyst

Cristopher Kennedy - Analyst

TienTsin Huang - Analyst

Jeff Cantwell - Analyst

MANAGEMENT DISCUSSION SECTION

Operator

00:00:21

Good day and thank you for standing by. Welcome to the Flywire Corporation Second Quarter 2026 Earnings Conference Call.

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At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

00:00:39

I'd now like to hand the conference over to Masha Kahn, Vice President of Investor Relations. Please go ahead.

Masha Kahn

00:00:45

Thank you, and good afternoon. With us today are Mike Massaro, Chief Executive Officer; Rob Orgel, President and Chief Operating Officer; and Cosmin Pitigoi, Chief Financial Officer.

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Our second quarter 2026 earnings press release, supplemental presentation, and when filed, Form 10-Q are available at ir.flywire.com. Today's call is being recorded and will be available for replay on our website.

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During the call, we'll be discussing certain forward-looking information. Actual results could differ materially from those contemplated by these statements. In addition, unless otherwise indicated, all financial measures discussed on this conference call are non-GAAP financial measures. Please refer to our press release and SEC filings for more information on the risks related to forward-looking statements and the required reconciliations of non-GAAP financial measures.

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With that, I'll turn the call over to Mike Massaro.

Michael Massaro

00:01:38

Thank you, Masha, and thank you to those joining us today.

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We are excited to announce yet another quarter of strong revenue and EBITDA growth as well as momentum in the business continuing to build. Signed deals are getting bigger and clients are replacing legacy providers and point solutions to consolidate on to Flywire. We will take you through the quarter in much more detail.

00:02:02

But first, I want to step back because I want stakeholders to see Flywire the way we do. **We continue to deliver solid growth and the quality of that growth is improving**. We are converting incremental dollars of gross profit into durable earnings, expanding our free cash flow, and we believe we are well positioned to continue gaining market share.

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Let me explain why Flywire's moats and financial model don't just coexist. They compound, each getting stronger as we scale. You know the Flywire model. We go where others are unwilling or unable to go, embedding into complex mission-critical workflows and solving payment challenges that are larger, more international and far more difficult than simple checkout transactions.

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That complexity is our moat, and it deepens on its own. **Rising regulation, expanding global flows and deeper integration requirements are headwinds for simpler competitors and tailwinds for Flywire**. Once deployed, we become critical infrastructure with revenue churn across enterprise clients in education and travel below 1% as of 2025. So today, I also want to put our model into financial terms, what it means for revenue, margins and cash flow over the next few years.

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As CEO, I am focused on three core metrics. First, revenue and **gross profit dollar growth**. On this foundation, we are aiming to achieve $1 billion of annual organic revenue within the next few years. Given the free cash flow this business is expected to generate, **acquisitions remain an additional powerful lever**. Our diversification engine underpins the path.

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Growth outside our traditional big four education markets continues to outpace the overall business. Differentiated software offerings like SFS, driving domestic growth above and beyond visa trends. Travel continues to perform well, and **the payments monetization in our hospitality business is outperforming our expectations**. And our smaller verticals, B2B and health care, are gaining scale and becoming growth contributors on their own.

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Second, EBITDA margin progression. We believe a 30% adjusted EBITDA margin is achievable over the next few years, with most of the expansion coming from operating leverage we can already see in our expense base. The productivity **gains from our transformation** are real. **They are improving both LTV to CAC** and our cost to serve, proving that operating expenses can grow well below gross profit growth for longer.

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Scaling fast organically and through acquisitions naturally adds costs and friction across systems, vendors and processes. We are consolidating that into a leaner foundation purpose-built for the next phase of growth and scale. At the center of this is our payment platform investment. We are unifying systems onto a single modern payment architecture.

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And our digital transformation is re-architecting our internal operating system so that **our people and AI agents can seamlessly work side by side to structurally lower our cost** to scale. Because these investments fundamentally change how work gets done, the operating leverage they create is durable.

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And third, multiyear free cash flow and **GAAP earnings growth**. Free cash flow generation and capital efficiency are central to long-term shareholder value. **We remain highly committed to strong free cash flow conversion alongside continued discipline on stock-based compensation and dilution**. Combined with **a strong balance sheet, this cash flow generation is a powerful source of strategic flexibility**. We can invest organically, repurchase shares and stay opportunistic on M&A, all from a position of strength and all while growing free cash flow per share.

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Durable gross profit growth, compounding earnings and expanding free cash flow. That is how we intend to build shareholder value. But reaching our $1 billion annual organic revenue target requires high conviction and concentrated investment. Today, we are directing our capital into three core areas. First, gaining share and expanding our software moat. We are actively investing to expand our software and workflow capabilities across all verticals, such as investing in more functionality and integrations for SFS and taking our hospitality software from a historically US-focused business into a global hospitality platform.

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Second, expanding our payments platform. As our volume scales, we are driving operational discipline to improve unit economics and strengthen our value proposition, better corridor economics, deeper local banking relationships and a cost per transaction **that is expected to decline** as we grow. Third, our digital transformation, a major priority in strengthening internal operations through data architecture investments, AI integration and systems consolidation. This is designed to drive productivity and long-term operating leverage across the business.

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Cosmin will walk you through the rigorous financial framework we use to evaluate these organic investments alongside our broader capital allocation and share repurchase strategy. Our ability to confidently execute this capital strategy stems directly from our resilience in the market. Our team continues to deliver in an uncertain macro environment. What matters most is that clients are seeing ROI from consolidating their payment flows on Flywire.

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Some clients need help to grow while others are automating to reduce costs. Across all market conditions, the value Flywire delivers speaks for itself and interest in our solutions continues to grow, both in markets **that are under pressure** and those that benefit from higher numbers of international students.

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Let me be direct about the current environment. The macro backdrop remains challenging. **We see recent negative trends in UK visas**. Australia has raised visa fees again, and regulations in both the US and the UK have become more stringent. Enterprise sales cycles are long and large health care deals like Cleveland Clinic can boost growth one year and create a tough comp the next.

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But here's what really matters. The Flywire business is vertically diverse, geographically diverse and has multiple product growth levers. This means **we can navigate challenging macro conditions** while hitting the framework I just described. We don't need conditions to improve to build a business with $1 billion in annual organic revenue with 30% margins.

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And in some ways, the industry pressure works in our favor. When institutions face cost and volume pressure, the case for automating manual payment flows gets stronger, not weaker. When they consider choosing a partner for the future, they look to companies that are innovating, growing and financially strong. Ultimately, **Flywire is succeeding on the strength of our business**, not because of easy market conditions.

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Let me now shift to AI and how it is becoming an enabler for Flywire. AI increases the value of whoever owns the workflow and the data, and we own both. This quarter, I want to show you how this thesis is playing out in delivering real results, not projections. About 45% of customer inquiries now resolve automatically without human intervention. And with the support platform adopting generative AI across chat, e-mail and phone, we are targeting over 50% auto resolution rate by the end of the year.

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More broadly, **AI is embedded across Flywire's engineering and product teams with frontier models, shared best practices, strong governance and autonomous agents handling tasks like code retirement, conflict resolution**, bug fixing and test maintenance. This allows our teams to focus on building new products, making digital transformation a fundamental shift in how work gets done, not just a cost-saving initiative.

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And AI is transforming our go-to-market as well. Enablement is now always on. **AI captures winning tactics from live client conversations and delivers them as continuous coaching, cutting new hire ramp times** and scaling the Flywire way without additional management overhead.

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In closing, none of this happens without our Flymates. We recently completed our company-wide engagement survey called Flyover, and **the results were strongly positive**. Our teams are embracing AI and the productivity it unlocks. And they tell us they feel more creative and more energized in their work. Ultimately, transformations succeed when people lean into them. Flymates are doing this. And that kind of organizational momentum is rare. Flywire is a great business with a powerful financial model and an exceptional team, and we are built to keep getting stronger.

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With that, I will hand it over to Rob to take you through more details on the execution from the quarter. Rob?

Robert S. Orgel

00:12:05

Thanks, Mike.

00:12:06

Q2 results continue to reinforce the fact that **our modern product portfolio is widening our competitive moat, and we are systematically** taking share from traditional payment processors and point solution providers across every vertical we serve. **We signed over 200 new clients across 45 countries and all verticals**, the second consecutive quarter at that level.

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Signed ARR continues to benefit from existing client land and expand as well as larger average deal sizes. Travel led the new client count followed by education, and we are very excited about the pace of signings even as we deliberately move towards larger, more strategic engagements.

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Last quarter, I laid out three themes defining our business: strategic vendor consolidation, geographic diversification and software-led monetization. Those weren't one quarter observations. They're structural growth drivers. So today, I want to walk you through how each of these three themes is driving consistent results.

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Starting with strategic vendor consolidation. Our client conversations typically start in the same place. We hear about too many vendors, too many manual workflows, too much payment complexity and a great many of those conversations end in the same great place, consolidation on to Flywire.

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As an example, **the University of Liverpool has signed for our SFS platform in the UK, a win** that showcases the full value of the suite. Liverpool has everything that makes student finance hard, a large international enrollment paying from dozens of countries, domestic students on plans, parent access requirements, refunds, hardship cases and more, all running through manual processes and a patchwork of systems. We're consolidating that onto one platform.

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For students and families, a modern portal with real-time balances, authorized parent access and self-service payment plans. For the university, a real-time integration with their Unit4 ERP that will eliminate many hours of manual posting work, reduce merchant fees and give their finance team a unified automated view of student financial activity. **We continue to see strong interest in SFS in the UK**.

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In the US, **we signed three new SFS** deals this quarter, with an ARR value double the signings in the same quarter of 2025, and our pipeline continues to build. When an institution is genuinely ready to switch providers, we believe we win those opportunities with SFS far more than our competitors.

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What's driving these wins is ROI institutions can measure. SFS pays for itself across three dimensions. **First, operational efficiency**. **Automating billing, payment plans and past due outreach has reduced inbound student contact volume**, in some cases, by 40%, letting school student finance teams run leaner, even as enrollment complexity grows.

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Second, cash flow. **Self-service payment plans have driven roughly 50% higher plan enrollment with default rates falling** from as high as 34% to below 2%. And third, revenue recovery, a solution we pioneered. **Our clients have now collected more than $360 million in past due tuition in-house, saving over $70 million in agency fees**.

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And for many institutions, the ROI is highly attractive compared to the license fees they pay Flywire. That is the essence of consolidation, one billing to collection platform replacing a billing vendor, a payment plan vendor and a collection agency and paying for itself in the process.

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Shifting to experiential travel. Our deal sizes are rising as travel groups merge and migrate more of their entities onto Flywire rails. Again, consolidation working in our favor. **Win rates continue to improve**. Our brand carries real weight in this market and **the TAM remains largely unpenetrated across golf**, hiking, cycling and many other luxury experiences.

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The second theme is geographic diversification, and **we drove strong growth outside our traditional big four markets of the US**, UK, Canada and Australia. We saw **education revenue grow outside those markets by over 30%** year-over-year in Q2 and approximately two-thirds of the new education clients we signed were in growth markets outside the big four.

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In Europe, international students continue to diversify destination markets, and European universities are responding. Some are introducing more English language programs and some are charging higher fees. **We are particularly happy to see strong share gains in Spain and Switzerland** and continued strong momentum in the private K-12 segment. We are positioning Flywire to benefit from trends favoring student and tuition growth in Continental Europe.

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In Asia, we are executing well in markets that are opening up to international students. South Korea and Japan are actively courting international enrollment to help address shrinking domestic workforces. We are winning there. This quarter, **we went live with a number of prestigious universities in both countries,** and our regional pipeline continues to build.

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Wrapping up my comments on why we win in global education. In Canada and Australia, where the broader markets remain under policy pressure, **our growth is powered by share gains**. This quarter, we started processing payments for Sheridan, a major Canadian college where international students make up over 8,000 of roughly 20,000 enrolled; and for Bond University, Australia's first private nonprofit university, a prestigious Gold Coast institution with one of the highest international student ratios in the country. Wins like these in constrained markets are the clearest evidence of our share gains.

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Finally, speaking to our software-led monetization, our software-led approach has been a key catalyst for capturing and monetizing payment volume. It's at the heart of Flywire doing what others can't. Our hospitality software, which is used across over 20,000 properties, streamlines workflows and where **it's combined with our payments offerings, replaces costly and insecure manual card processing with customer-initiated payments such as ACH, card surcharging and local methods**, along with providing enhanced security from capabilities like 3D Secure. The results are striking.

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Payment fees dropped meaningfully, in some cases, by more than half and win rates on disputed transactions more than double. Our ideal hospitality customers are luxury resorts and properties managing high-value stays and complex events. **Notable recent wins include contracts with large hotel management groups such as Peregrine Hospitality, Avion Hospitality and Marcus Hotels & Resorts, each of which owns or manages a portfolio of hotels and resorts great for our hospitality solutions**.

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Having **proven the model in the US**, we've signed more than 40 locations across Europe and Asia year-to-date, and we believe we are just getting started. In Education, as we deepen the software layer around our payments platform, **clients are renewing for longer terms and on economics increasingly favorable to us** because the software has become embedded in how they operate. We see this dynamic of longer and better terms compounding over time as we continue to deliver for our clients.

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We're seeing software-led monetization work across our other verticals, too. In health care, **the patient financial experience platform is now live with payment processing across multiple clients, including additional go-lives in Q2, a good example of software** attaching to payment processing. In B2B, we replaced the legacy pattern, invoicing out of the ERP, payments through the bank and heavily manual workflows with a single invoice to cash platform from Flywire.

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What is most exciting right now is our velocity and depth of capture. Increasingly, **new B2B clients are adopting both our invoice software and payments from day** one. **This quarter's wins** show the breadth of demand. a digital asset management company automating its AR operations, a wealth management firm signing for the full suite of invoice plus payments, and an international insurer collecting premiums globally.

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All serving finance teams drowning in manual work for whom **a unified AR and payments platform is an immediate measurable efficiency gain**. Those three themes, consolidation, diversification, software-led monetization, aren't just how Q2 played out. They're how we expect this business to build for years.

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Cosmin will now take you through the strong financial performance this quarter and future outlook. Cosmin?

Cosmin Pitigoi

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Thank you, Rob.

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I will cover our financial performance for Q2 2026, discuss our capital allocation philosophy and provide our updated full year outlook and additional details behind the longer-term ambitions. **Q2 performance strength underscores the resilience of our diversified portfolio with results coming in ahead of expectations**.

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Total revenue less ancillary services reached $164 million, up over 28% on a spot basis and 27% FX-neutral growth. Our outperformance versus the midpoint of our guide on an FX-neutral basis was largely driven by our travel segment, which continues to pace ahead of our expectations. This strength was specifically fueled by hospitality payments being a strong ramp.

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Our education revenues were also ahead of expectations. **The stronger-than-expected payment processing volumes from health care alongside our B2B invoice migration drove an approximately 7-point growth tailwind to payment processing in Q2**, ahead of the mid-single-digit impact we guided to. We expect **this payment ramp to decelerate in the second half** as we annualize these revenue streams go live.

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Transaction revenue was $135.9 million, up 35% year-over-year. This was driven by 43% growth in transaction payment volume with continued contribution from education, both cross-border and domestic as well as travel. As a reminder, quarter-to-quarter blended yield can vary with mix, especially as domestic payments ramp up. Higher domestic volumes and greater credit card penetration carry different economics than cross-border flows. On a like-for-like basis, **pricing remains stable and competitive behavior continues to be disciplined**. Our spreads reflect the value we deliver, compliance, reconciliation, ERP integrations and enterprise-grade infrastructure, not commodity payment processing.

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Platform and other revenues were $28 million, up 3% year-over-year, primarily driven by growth in hospitality. **Adjusted gross profit reached $93 million, increasing 19% year-over-year at spot**. Importantly, this 19% gross profit dollar growth is successfully converting into adjusted EBITDA margin expansion, demonstrating real operating leverage. Adjusted EBITDA was $24 million, resulting in a 14.6% margin and expanding approximately 160 bps year-over-year, which was above the upper end of our guide. The strength in adjusted EBITDA reflects gross profit growth and continued operating leverage across every expense category.

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Our adjusted gross margin of 56.6% was down by approximately 450 basis points. Margin dynamics are driven by three factors: mix, FX and temporary large payment processing ramps, not competitive pressure. This quarter, the margin change was primarily driven by approximately 300 basis points from the mix contribution of higher payment processing revenues from health care and B2B **that began ramping in the second half of 2025**. The balance of the margin change was due to continued vertical mix shifts.

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FX on settlement impact in Q2 was $0.7 million on an absolute basis, but **we did benefit from a favorable year-over-year comparison given the headwind** we experienced in Q2 2025. Excluding the approximately 300 basis points from this ramp activity, **our normalized gross margin decline would have been around 150 basis points, which is squarely within our expected normal annual range of 100 to 200 basis point decline**. We emphasize that these current ramp dynamics are temporary and will be largely complete by the end of 2026.

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In Q2, **we had a GAAP net loss of $8 million, improving versus a $12 million loss** a year ago. **The second quarter is our smallest revenue quarter with net income and free cash flow generation seasonally depressed and expected to reverse in Q3** and both be strongly positive for the full year.

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Turning to capital allocation. We are disciplined allocators. Every dollar competes on expected return through an IRR framework that weighs organic investment, share repurchases and M&A against one another. That is why we repurchased shares aggressively into dislocation and why organic investment is concentrated in our highest conviction areas, and why we remain patient on M&A. **Our balance sheet remains strong** with approximately $167 million in corporate cash, giving us significant financial flexibility to remain opportunistic, manage dilution, pursue acquisitions while continuing to invest in the business.

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Moving to guidance. **We are raising both revenue and EBITDA guidance for the full year** 2026. We now expect 21% to 27% FX-neutral revenue growth with approximately 3 to 4 points from payment processing ramps in B2B and health care, and roughly 1.5 points of inorganic contribution as we lap Sertifi. Full year **2026 adjusted gross profit is expected to grow at high teens** year-over-year at spot. **We expect approximately 200 to 400 basis points of full year EBITDA margin expansion**, reaching approximately 23% at the midpoint. Stock-based compensation remains targeted at approximately 10% of revenue, and we are aiming to reduce our new stock issuance in dollar terms every year.

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Alongside this, we continue managing gross and net dilution in a disciplined manner, targeting less than 2% dilution this year and less than 3% on an ongoing basis. Furthermore, **we maintain our expectations of free cash flow conversion of 70% to 75% of adjusted EBITDA and upgrade our expectations for GAAP net income to grow** fourfold this year to over $50 million. **Our Q2 performance, combined with more upside from payment-related product ramps through the remainder of the year** leads to upgraded full year 2026 guidance despite our more cautious assumptions around education revenues.

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Before I walk through the details, let me flag the shape of the growth from here. **Several of our newer revenue streams are ramping faster than we planned this year, payment processing in both B2B and health care and Sertifi is domestic payment processing, which is accelerating ahead of our expectations**. That's a good problem. These investments are converting sooner than we modeled.

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This has two consequences worth setting upfront. First, this accelerated ramp makes 2026 a stronger revenue base, **which creates a tougher comparison** as we move through the second half and into next year. Separately, and as we assumed coming into the year, we expect **UK education revenue growth to slow**. That's already baked into our outlook. Second, because **these streams carry lower gross margins than our blended average, full year gross margin decline** would be higher than the range we previously discussed, closer to 350 basis points on a reported basis and closer to 200 if normalized for the current payment ramps in health care and B2B.

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Let me be clear on that second point because it matters. **These ramps pressure gross margin**, but not EBITDA. The pressure is pure mix. **Processing volume carries a lower gross margin rate, but very little incremental OpEx** because it runs over infrastructure and relationships we already have. So every gross profit dollar converts to EBITDA at a high rate.

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Q3 2026 guidance. Our approach to guidance hasn't changed, prudent, transparent and data dependent. Visibility into the peak is always relatively limited at this point in the year. So we've talked to agents and to our clients. But we don't take that input at face value. In the US, they expect declines, but are more optimistic on average than our assumptions, and we've held to a 30% visa decline. In the UK, **we are seeing higher visa rejection rates in Q1,** and we've baked that in. In both cases, we weigh what we hear against what we're seeing in our own data, and we've set our assumptions from there.

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For Q3 2026, **we expect FX-neutral revenue growth of 16% to 22% year-over-year**. At current spot rates, we anticipate almost no FX tailwind. **Gross profit dollar growth is expected in the low teens range at spot rates, including an estimated 1 point headwind from FX** on settlement year-over-year dynamics. **Adjusted EBITDA margin is expected to expand by approximately 200 basis points** year-over-year at the midpoint of our guidance.

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One timing dynamic on the Q3 versus Q4 split. A meaningful share of our education volume settles around UK deadlines in early October, right as the Chinese national holidays fall in late September and early October. Payers heading off for the holiday may settle ahead of that deadline, pulling volume that would land in Q4 forward into Q3. **That moved roughly 2 points of growth from Q4 to Q3** last year. That cuts both ways in this year's comparisons. Q3 is lapping a quarter elevated by that pull forward, while Q4 is lapping a base reduced by it. So Q4's year-over-year growth rate will look better than the underlying trend and **Q3 is worse, assuming no repeat of the Chinese payer behavior** this year. Holiday timing differs slightly this year and payer behavior is hard to predict. Either way, the cleaner read is to look at our performance for the second half as a whole.

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In closing, as we scale towards our $1 billion in revenue and 30% adjusted EBITDA margin goal over the next few years, we're focused on structural operating leverage. Transformation investment peaks in 2027, with **material savings** expected to come through thereafter. So we expect **operating costs to stay roughly flat beyond that** whilst continuing to invest in strategic priorities.

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Investments in consolidating platforms, scaling data, AI, systems and automation are already boosting engineering and sales output, letting us streamline R&D, optimize sales and marketing, and redeploy savings into growth priorities and AI-enabling architecture. Even through this planned peak investment period, we have contained OpEx growth, and we are now targeting approximately 25% adjusted EBITDA margin by 2027.

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In closing, Q2 demonstrated the durability of our diversified platform and the scalability of our operating model. We are managing for a specific outcome, durable, profitable growth in an environment where top line growth is normalizing. And here's what gives us confidence. Operating leverage compounds independent of the top line cycle. So even as revenue growth moderates, and we do expect it to, the algorithm holds.

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The combination of growth and profitability we deliver stays firmly in the range this business has always targeted. That is the promise of our digital transformation, margin expansion that holds at scale through the cycle quarter after quarter. Along with our Flymates embracing our vision, I am very excited about what we're building and how far it lets us scale.

00:35:03

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

QUESTION AND ANSWER SECTION

Operator

00:35:12

Our first question comes from Nate Svensson with Deutsche Bank.

Analyst: Nate Svensson

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Question – Nate Svensson: Hey, guys. Nice results. I think I'll start off just asking about the international visa situation in the US. I know there's been a lot of proposals and news articles written on potential new regulations. So wondering from your perspective, probability of any of these proposals going through and sort of any, I guess, concerns that this could create some demand destruction similar to what we saw in other geographies.

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And then I think more broadly speaking, it still feels like the 30% visa reduction looks conservative, but I know we're kind of right in the heart of the most important months here for F-1 visa issuances. So wondering if you could give any color that you have either from your end clients or some of the third parties that you work with on what's going on in the US.

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Answer – Michael Massaro: Nate, it's Mike. Yes, I mean, as you mentioned – I'll start and I'll let Cosmin talk to a little more of the specifics around what's in the guide. Obviously, you're seeing various headlines around the world continue. And again, I think that's part of the reason coming off last year, we've kind of taken a prudent approach to how we look at this and looking at it by region and by market.

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And so again, a lot of these are exactly what you said. They're statements, they're proposed policies. They're not kind of approved policies, they're not in place. And historically, we've seen the headlines oftentimes be a lot worse than the actual end results. And so again, we're being prudent. Cosmin, I think, has taken that into account in the way in which he looks at different regions in the guide, and I'll let him comment on that.

00:36:58

Answer – Cosmin Pitigoi: Yeah. So I think as you said, Nate, we've always looked at it taking a prudent approach to that 30% decline. And we have – we're about a month into the quarter. So we do have some visibility into the overall trends. As you know, usually US peaks around August. And so we do have some visibility into that, but we feel pretty good that we've taken that – the right prudent approach. And look, it's a multiyear thing that we look at. So I feel good that we've taken a pretty good approach here in terms of being prudent around the US assumptions.

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Question – Nate Svensson: Yeah, agreed. And I appreciate the color. For a follow-up, I wanted to ask on the three new US SFS signings, specifically on the commentary that they came in at double the ARR of the prior year quarter. So I wonder if you could talk about the ARR portion of that specifically and what's kind of driving the strong year-over-year expansion.

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I assume a lot of it is kind of the land and expand strategy that you've talked about before. Anything on pricing? And then maybe beyond the recent deal signings, kind of how sustainable do you think the growth in ARR with these SFS wins is going forward?

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Answer – Robert S. Orgel: Yeah. This is Rob. I'll jump in here. Obviously, we're excited about the progress we've made here. You called it out right in what we called out in the comments with the doubling of ARR for those US deals. It's all part of the strategy, right? We are focused on full suite deals. We are focused on enterprise. We are doing what we think is the right things to do to make sure we are putting a very skilled and expert sales team in the field to deliver this kind of enterprise quality deal.

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And further, I think our name is getting better and better in the market, right, as we've delivered for some of the logos and institutions that you heard us talk about on previous calls. It's a very connected industry where people talk to each other, and our name is very good out there. So in terms of confidence going forward, we feel very good about sort of the second half quality of the pipeline and what we expect to see for the rest of the year.

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Question – Nate Svensson: Makes sense. Congrats again.

Operator

00:39:01

Our next question comes from Dan Perlin with RBC Capital Markets.

Analyst: Daniel R. Perlin

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Question – Daniel R. Perlin: Thanks. Good results here. I just wanted to ask, Mike, about kind of the mix of what you envision this $1 billion of organic revenue to look like as you think about education, travel, B2B, health care. Like how do you think that will change through the course of this, I guess, multiyear strategy? And obviously, Cosmin gave some financial implications for this, but I was just wondering how you think that might look.

00:39:34

Answer – Michael Massaro: Yeah. Hey, Dan. Thanks for the question. I would say think of the things that have driven our growth so far, right? I mean you've seen great growth and we called it out in travel and in B2B, like we expect those trends to continue. At the same time, the education business continues to perform well. We continue to layer in software there. And I would say that kind of fits into where we kind of expect it to go, right?

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Think of more software and education, continued growth in the travel and B2B segments in particular. And I'd really say it goes there. Obviously, the hospitality expansion internationally is a key part of that that we expect to have a multiyear effect. And so I would say those are the kind of the organic levers that we expect to kind of play out. And you may see a slight mix shift, but I would say it's pretty consistent with what you've seen in the last few years.

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Question – Daniel R. Perlin: Okay. That's great. And then just going back to the geographic diversification here again. The education markets that are outside the big four grew 30% this quarter. I think it was 40% last quarter. It's 30% before that. So it's continuing to materially outpace everything. And then I heard like Japan and South

Korea, like actively looking for students.

00:40:46

So I'm just trying to get a sense of how big that market is today in terms of its overall mix. And obviously, that's a positive mix shift in terms of incremental growth if you're not having to deal with so much of the regulatory issues. So just anything around that would be helpful. Thank you.

00:41:03

Answer – Robert S. Orgel: Dan, I can jump in. Rob here. So I think we've called out previously that sort of that way of segmenting that we're talking about the business is sort of low teens percentage of 2025 revenue. As you called out, we saw 30% growth in that beyond the big four education in this most recent quarter.

00:41:22

I made a trip to the region just a little bit ago, and you really feel sort of the opportunity that we have there. I got to visit a number of institutions, got to hear from them the manner in which Flywire really can solve problems that are front and center for them. And so you see them adapting to the interest in those regions of international students to come to them and you see them adapting our solutions to be able to serve them well.

00:41:49

Question – Daniel R. Perlin: That's great. Thanks, Rob.

Operator

00:41:53

Our next question comes from Madison Suhr with Raymond James.

Analyst: Madison Suhr

00:41:58

Question – Madison Suhr: Hey. Good afternoon, guys. Appreciate you taking the questions. I wanted to start on the UK. Obviously, it's a key market for you guys, comprises about a quarter of revenue. I know visa trends have been challenged, but can you maybe touch on where you see the most opportunity in the region, whether that's domestic cross-sell, SFS penetration? And do you think the region could still grow kind of above company growth rates for the year despite some of these visa headwinds?

00:42:25

Answer – Cosmin Pitigoi: So maybe I'll start just on the assumptions in the guide, and I'll pass it to Rob to talk a bit more. So yes, UK, the macro backdrop clearly softened. So we thought it was obviously prudent to adjust our visa assumptions. And so we're assuming that – if you think about it roughly in the last couple of years, we've seen UK visa declines in the mid-teens. And so we're assuming roughly a bigger decline than that.

00:42:55

However, with that, we're still assuming that UK remains an important growth driver for us, even though we're assuming deceleration into the second half from the UK because of, again, some of the – many of the levers that we've talked about before, also because, again, the visa declines are – right now, the quarter-to-date that you've seen is a small sample size. So feel good from what we've heard from – on the ground, but we're taking a prudent approach. So maybe I'll let Rob talk a little bit about the drivers and the levers we have in the market.

00:43:29

Answer – Robert S. Orgel: Yeah. In terms of the market opportunity, we feel really good about our positioning in the UK. If you remember from some of my comments on prior calls, we've talked about the desire to sort of move all the money on behalf of our clients and having two main mechanisms or levers that we can use to accomplish that result.

00:43:46

So one of the ways we talk about it is the number of clients where we see ourselves moving 90% or more of their money using sort of our internal method, our internal methodology for all that. We previously shared we had approximately 12 in that category. We've continued to grow that number. We call that number about 20 now.

00:44:05

Second big dimension is growth in SFS footprint inside the country. Obviously, our attach rate is still very low, and we're working to build that. And one of the main things we're doing and making very good progress with is increasing the number of integrations that we have into what are the core systems that serve the university community there.

00:44:23

And so you've heard us call out progress with Unit4, with Oracle. We certainly talked about our work with Tribal. All of that is part of the ability to expand there. And as the

UK schools see us being successful with their peers, they are that much more inclined to work with us.

00:44:41

Question – Madison Suhr: Okay. Great. And then I want to follow up on the non-big four region as well. Obviously, it sounds like the near-term focus is more on winning clients that have a healthy level of international student enrollment. But just as we think about the longer-term opportunity there, do you think you have the similar ability to cross-sell adjacent products into that region? And I'm really just trying to get a sense of for the non-big four specifically, what can drive NRR growth in that region over time?

00:45:12

Answer – Michael Massaro: Hey, Madison. This is Mike. I think if you look at our other offerings in the education suite, we've always had global aspirations for those, and I think we continue to have them. I think what we see in a lot of international markets is part of a readiness question, right, is you'll see whether it's the student information systems, whether it's the partnerships, the integrations needed.

00:45:37

Oftentimes, we're digitizing that payment experience, and that is significant for them. And when they think of like a full student account portal and like the software you would see here in the United States or in a major market, they're not quite ready for that yet. So we'll be opportunistic whenever we see those opportunities. But also, it's a huge opportunity in the top four markets. So our focus is on that. It's on executing there, but we see opportunity for a lot of our product suite outside of the top four as well, just over that kind of longer-term horizon.

00:46:09

Question – Madison Suhr: Okay. I appreciate you taking the questions.

Operator

00:46:15

Our next question comes from Michael Infante with Morgan Stanley.

Analyst: Michael N. Infante

00:46:20

Question – Michael N. Infante: Yeah. Hi, guys. Thanks for taking my question. I wanted to ask a bigger question to contextualize the multiyear SFS opportunity and how you expect the unit economics to evolve. You've obviously spoken in the past about SFS being a real multiplier effect to both revenue and gross profit. But at the same time, the mix is obviously shifting more towards domestic volumes, carry structurally lower yields than cross-border. So I'm just curious how you think about the offsets to that mix shift on a relative basis and how much incremental volume you really think you can capture with SFS and really what it looks like over the next few years as you march towards that $1 billion revenue target?

00:47:03

Answer – Michael Massaro: Yeah. Hey, Michael. It's Mike, and then I'll hand it over to Cosmin to double-click on the numbers. So think of it at the level of the kind of gross margin mix being a positive, right? It is a mix, like you said, of software and domestic, but it still blends to something that is very good for Flywire and helpful in kind of maintaining strong gross margins.

00:47:24

I would also say think through the dynamic that we mentioned on the call as well around over time, we're seeing our economics actually improve in SFS over time, right? And so you're seeing average deal size go up. You're seeing renewals be strong. Those are both things that to us are very, very strong positives.

00:47:43

And ultimately, when you get SFS, you get all the volume, right? You are dealing with all the domestic, all the cross-border volume going through one platform. So that is a core part of the strategy. That is how we think we're maximizing value for our clients. And I'll let Cosmin double-click on the financial profile.

00:48:03

Answer – Cosmin Pitigoi: Yeah. So in terms of the numbers, just one disclosure we have around the size of the business. That's – the domestic business in the US is about one-third overall is what we've said. And think of that as, in terms of revenue growth, as above company average in general. It's been there. Given what you heard from Rob as far as SFS success, we expect that one-third of the U.S. business to continue growing faster. And that's one of the reasons why we're able to see and guide US education revenue to grow in the low single digits this year, given the pressure on the cross-border side. So really strong growth there from the domestic side.

00:48:44

And yes, in terms of – the gross margin is still very positive. And again, once you move from cross-border to domestic, you get more of the payment plans, you get software, as

Mike said. So there's a good – still a solid 2 to 3x kind of gross profit dollar increase, which – and again, runs over the same kind of cost rails for us. So as you heard me talk about, that's a strong EBITDA dollar flow-through from that because it is on existing clients and existing relationships.

00:49:06

Question – Michael N. Infante: That makes a ton of sense. And just a quick housekeeping follow-up on Madison's question just on the UK revenue growth. I think you guys remove that commentary in the presentation about the UK and EMEA growing at or above company average. So I guess, should we be assuming that UK revenue growth is dilutive to the aggregate business this year? And if so, by how much, right? Like the visa expectation was obviously reduced marginally, but that's obviously your deepest SFS and domestic payments market. So I'm just trying to contextualize that dynamic. Thank you guys.

00:49:50

Answer – Cosmin Pitigoi: Yeah. So at least the way I think about the UK is decelerates in the second half given these assumptions. And again, this is us taking a prudent view, still a lot of the quarter to go, and we'll update you there. But yes, it is assumed that UK would at least exit at a lower rate than the overall company.

00:50:11

And then I would just, again, remind you, we're taking a prudent approach. And second, that we have SFS and other levers there that give us confidence that long term, we will continue to gain share. And again, you heard some of the stats from Rob around our ability to gain more of those types of 90% clients. So again, it is – but it's all in the guide. And again, that's overall taking a prudent approach to the overall guide given that view.

00:50:45

Question – Michael N. Infante: Thanks, Cosmin.

Operator

00:50:46

Our next question comes from Cris Kennedy with William Blair.

Analyst: Cristopher Kennedy

00:50:50

Question – Cristopher Kennedy: Yeah. Good afternoon. Thanks for taking the question. Cosmin, you mentioned the stronger revenue guidance this year may create a more difficult comp as we get into 2027. I know you're not going to give official guidance, but any way to think about some of the growth dynamics as we get into 2027?

00:51:11

Answer – Cosmin Pitigoi: Yeah. I think generally, as always around this time of halfway through the year, you can look at exit rate. I think given some of the dynamics I talked about in terms of timing, I think looking at second half. And so that is sort of a high teens kind of FX-neutral growth rate. But then if you kind of take out the sort of, call it, 2 to 3 points, or call it closer to 3 points or so of payment processing ramps that I talked about in the second half, you get closer to a kind of normalized for payment ramps of roughly in the mid-teens.

00:51:45

And that's kind of how you tie back also kind of a normalized gross margin decline comment into next year. And then the only thing I would add to that is just remember that last – this year, Q1 was extremely strong. We had not – obviously, we have organic and inorganic piece, but then we had a mid-single-digit tailwind and really strong performance from EDU in Q1. So that's the other component to think about. So hopefully those help. Again, still early, and we're not yet guiding into next year, but those comments should help kind of directionally start you for next year.

00:52:25

Question – Cristopher Kennedy: Great. Thanks for that. And then any – can you give any more color on your K-12 business and kind of compare and contrast that relative to higher ed? Thanks for taking the questions.

00:52:37

Answer – Robert S. Orgel: Yeah. Hey, Cris. Rob here. So K-12 has been a long-term segment for us. It's not a new thing that we talk about pursuing. What has been interesting is that around the world, there are interesting pockets, interesting markets where we may not previously have pursued that, and we are now going ahead and doing that. It's all part of what you would call under the umbrella of sort of diversifying international mobility, and we are making sure that our sales team is looking out for those opportunities, and we're seeing ourselves winning good ones.

00:53:10

Question – Cristopher Kennedy: Thanks, guys.

00:53:14

Answer – Robert S. Orgel: Thanks, Cris.

Operator

00:53:15

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

Analyst: TienTsin Huang

00:53:21

Question – TienTsin Huang: Hey. Thanks so much. You went through a lot here. Just wanted to ask on just thinking about your expense base and visibility there, given what you talked about, for example, in your prepared remarks on AI and then you have the scaling efforts beyond the big four, you're scaling SFS. I'm just curious, is there any change in your visibility on expenses, especially given AI inference costs, maybe some productivity of people, that kind of thing? Thank you.

00:53:48

Answer – Cosmin Pitigoi: Yeah. Thanks, Tien-Tsin. We – I think we've obviously gained quite a bit of better visibility into our OpEx as we've dug deeper in the last – over the last few years, as we've gone through a lot of transformation. I think – think of the improvements from the transformation investments as benefiting sort of three different components of the business.

00:54:10

One is just the individual Flymate. Once you hand them a lot of these AI tools, I think everyone is individually more productive and then functions and enterprise. So functions are becoming more productive. We give you examples all the time around client service, but sales and marketing, risk, operations, payments, I mean certainly, the engineering team all have access to the latest kind of LLMs and most of the codes being written through that. So it's a good share of that.

00:54:40

And then obviously, G&A, we're watching the opportunity to reduce manual work. So all those things are benefiting along the way. And so we haven't had any surprises as far as OpEx. And so we feel pretty good that we – again, this year is up kind of in the mid- to low single digits next year, as you kind of look at the implied, it will be in the low to mid-single-digit growth.

00:55:08

And then again, based on what you heard from my prepared remarks, expect it to be relatively flat, and we feel quite good about that, just given the visibility into the cost base and the improvements on the transformation side, which really hit on the enterprise level opportunities for us to be more efficient across the whole enterprise, which is quite unique, I think, for us in terms of the approach to transformation.

00:55:34

Question – TienTsin Huang: Yes. That's great, Cosmin. And I think you said – real quick, just on the M&A front, it sounds like you're still being patient there. I'm just curious if that's an appetite thing or resourcing or maybe a valuation-driven patience. Any additional color? Thank you.

00:55:52

Answer – Michael Massaro: Yeah. Hey, Tien-Tsin. It's Mike. I think we continue to like to see the organic investment opportunities we have in front of us. I would say, from a capital allocation perspective, if there's a chance to buy back our stock, we still think there's some dislocation there. And so think of us as being very active, but also knowing we have two deals that we're continuing to integrate and want to make sure they go well.

00:56:15

So our team is still paying attention quite well to what's out there in the market, and we have to find the right balance of something that fits our strategy, something that is, we believe, good for shareholders and also something that we think is priced at a reasonable rate that makes it interesting and exciting for us. And I think you still see some of that private public dislocation valuation. So being patient, but again, I don't think we're missing out on anything right now.

00:56:49

Question – TienTsin Huang: Okay. Thank you all for the update.

Operator

00:56:54

Our next question comes from Jeff Cantwell with Seaport Research.

Analyst: Jeff Cantwell

00:57:00

Question – Jeff Cantwell: Hey. Thanks, guys. I wanted to ask you about the future $1 billion in revenue and 30% adjusted EBITDA margins. Those numbers both are positive here. As you think ahead, can you maybe help us out on the timing? Do you see that happening perhaps in two or maybe three years, for example? Just trying to get a feel for that because if current trends hold, it seems like those potentially can happen sooner rather than later.

00:57:21

And just to underline what Dan asked about, are there any particular callouts from a vertical standpoint as you think about the $1 billion target in particular? It seems like Sertifi and core travel have been doing well for a decent amount of time. So curious if that's the reason for the confidence in this $1 billion target. Are you able to talk more about that? Thanks.

00:57:39

Answer – Cosmin Pitigoi: Yeah. Thanks, Jeff. So we're obviously very excited about this milestone and since it's coming closer into our sight as part of our normal sort of planning cycle, think of it as our normal three-year planning cycle. We didn't want to put a date out there, a specific fiscal year. Think of it less as a kind of point in time, more of a milestone and moving through it.

00:58:02

But I think one way to think about it is – listen, we've given you also roughly 25% EBITDA margins into next year. That gives you some level of a stepping stone. And so I think in terms of the mix, we may get to a sustainable annualized run rate of the revenue or the margin at different points in time, around that sort of the three-year planning, whether that's 12 months around that. We're not too stressed about that. We feel good about this overall number.

00:58:29

And again, remember, we've taken the same approach with this, which is prudent, and it is all organic. So it gives us, I think, optionality in the future. And you do the math on the free cash flow, I think it's quite an exciting view from a free cash flow and share count perspective, given the dilution targets that we've also kind of set out.

00:58:48

Answer – Michael Massaro: Yeah. And Jeff, I'll just add. This is Mike. I would say we expect all our verticals to contribute to getting to that milestone. But if you look at really some of the stuff we're seeing adding more software and geographic growth in non-top core and education being notable. If you look at travel, the combination of the luxury experiential and hospitality businesses, both are seeing really good metrics, right?

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Deal size being increased, sales cycles trending faster, I feel really good about our ability to layer in additional products, different geographies, sub-segments into that business. So we feel really good about the path to get there, and we have lots of different growth levers to help us.

00:59:34

Question – Jeff Cantwell: Okay. Thanks for all that color. And then my other one was the announcement about Driftwood that you guys highlighted during the quarter, they have brands like Marriott and Hyatt and Hilton under their umbrella. So I'm curious if you could tell us anything on how that came about since I thought that was an interesting call out by you guys to talk about it within the hospitality vertical. It also sounded like a land and expand opportunity you guys executed on. So I just want to get more details and hear you guys talk about that? And maybe anything on what the ramping is that we should be aware of there as far as revenue and volume and so forth. Thanks.

01:00:05

Answer – Robert S. Orgel: Yeah. So this is Rob speaking. Just a quick reminder of sort of the structure of the industry. You have the major brands. You have hospitality management companies that tend to either own or operate a whole series of hotels. They may operate them under multiple different brand marquees. And then you've got the properties themselves.

01:00:24

So Driftwood is a great example of a hospitality management company with a great portfolio of clients. They have worked with us across a whole bunch. And as you saw in the press release, we're doing sign and pay authorization and payment across a whole range of their properties.

01:00:44

Question – Jeff Cantwell: Okay. Appreciate that. Thanks.