Plastiq

December 07, 2022
02:10 PM EST

Rayna Kumar: Good morning, afternoon, everyone. I'm Rayna Kumar, and I run US payment processors and IT services equity research at UBS. Today, I am joined by Plastiq management, CEO Eliot Buchanan and CFO Amir Jafari. Thanks for joining us.

Eliot Buchanan: Of course [inaudible] glad to be here.

Rayna Kumar: Great. To start out with, can you provide a brief overview of the business? What is the problem you're set out to solve, and how big is the market you are serving?

Eliot Buchanan: Sure. Well, a massive market. But I think the way to phrase it, if you think about -- you ask any SMB in America, any industry, any geography, what's the number one problem they face every single day, every single month, it's a variety of things they'll label. But top-of-mind always is working capital. And so, we started the company, 10 years ago now, with that stress thesis in mind, which is, how do we build different software and sets of solutions, [inaudible] payments, that help SMBs basically achieve their working capital solutions? They're often left behind. They often can't get loans. And so, we do a variety of things, but first and foremost, is a platform that helps SMBs better grow by way of short-term working capital.

Rayna Kumar: You're going through a stock process to go public. Can you just walk us through the timeline?

Eliot Buchanan: Sure. Yeah. A bit controversial perhaps, in this market, but we have to talk about that. Yes. The timeline, we expect the SPAC to close sometime Q1. So, coming out, it feels like tomorrow, and we're years away, lots to do until then.

Rayna Kumar: Got you. Okay. You've been able to achieve rapid growth and scale in the SMB market, to -- what do you attribute the success to?

Eliot Buchanan: Sure. Well, that's generous. I mean, a lot of room left in the $9 trillion or $10 trillion SMB TAM that is in the US market. But, I think a few factors.

One, we started the business, we -- one of our founding theses was basically aligning -- call it aligning incentives. There's a lot of players out there who are -- nothing wrong with that, but taking share of wallet away from other players. In our case, in Plastiq's case, every transaction we do is basically converting a cash payment into a credit card payment. So a lot of the ecosystem networks, and [Nascar] was on earlier. Nascar Visa, the issuers, every transaction that Plastiq does, these partners also benefit. So it's accretive.

Why is that important? I'd say a lot of our -- we're lucky to have the growth we have, a lot of it has come because the ecosystem helps us grow, and vice versa. So it's kind of this symbiotic relationship that has allowed us to grow at the rate we have been.

Rayna Kumar: Who do you think your biggest competitors are?

Eliot Buchanan: Sure. So, I think product-wise versus category-wise, it's different. And so what I mean by that is, categorically we're in the space of providing short-term working capital SMBs, but we do so by way of an elegant sort of payment solution. And so, categorically if you think about -- you talk to a typical SMB, for us it's a restaurant owner or a small contractor, or a local dentist, all of whom have very different businesses, but very similar needs -- which is, they need short-term working capital. And if you talk to them about what they used before Plastiq, either they would make a payment late to their vendor, their supplier, or they would try and get a -- a small -- a SBA loan which not always would happen on time, or they would go to an alternative lender or invoice factoring. But you can argue those are sort of categorically some of the competitors that we are replacing. And instead of [inaudible] competitors, they instead go to Plastiq.com. They use credit they already have, that they feel like they've earned, which is the credit card that they have in their wallet already available. And they put that payment on the credit card, which gives them 30, 45 days of instant float. That's sort of who we are replacing, a different way to answer sort of who we're competing with.

Rayna Kumar: Okay. Walk us through your revenue level. How do you generate revenue? What are the different streams?

Eliot Buchanan: Yeah. I'm going to turn to my expert here, CFO, Amir, to give a few comments.

Rayna Kumar: Okay.

Amir Jafari: Yeah. Just to highlight it, too, to bring it back to what Eliot said, the origin [inaudible] business began with this notion of us driving volume through the platform, the platform services these payments through the payments solution. It's all obviously driven, as I mentioned, by our platform.

But as these SMBs come to us, there's two elements of what we do. The original path was, they would give us their invoices, [inaudible] be able to put those invoices on a credit card. Just you'd have to know, there isn't acceptance of credit cards in the B2B case for -- from an A/P perspective. We enable that [inaudible] to do so.

If you take a transaction as illustrative perspective, if it's a $10,000 invoice that comes to Plastiq, we charge a rack rate of 2.85% historically, that we've actually just changed that up. But historically, 2.85%, and the unit economics for us would have been $285 of revenue would come to us from that transaction of $10,000. And for a lot of what you see in our business today, over 80% of that is still tied to the core, the genesis of the company, this whole notion of card [inaudible] pay in A/P.

We've diversified that a little bit, probably a little over a year ago. We have the flip side of that equation which is on the A/R side, which is the ability to actually get paid without charging any fees to the merchant itself. Again, it's on the payer. But it's the same exact unit economics. That's where we are today with unit economics on the transaction side. But as you think about it on a prospective basis, and you think about our future, it's somewhat minimally discussed in terms of what we've shared publicly. But we've also had this notion that we will try to be the financial operating system for what an SMB needs, and with that, we also launched a SaaS solution this year called SmartPay. And that's really intended to be the command center that brings all these pieces. That will be SaaS. That will follow SaaS unit economic model, you could see on our site today. It's $59 a month, $119 a month, but that will be a traditional SaaS model going forward.

Rayna Kumar: So you just spoke about a 2.85% rack rate. Can you talk about like, part of that 2.85% you retain versus going to other players in the ecosystem?

Amir Jafari: Yeah. The way to look at our rack rate is, as we charge those pieces, the majority of the expenses that we incur, if not the entire share, is really tied to the interchange fee that we paid from an initial perspective versus some of the other components of the business. So as you walk it down for what we are at the top of our revenue chain down to our transaction profit, it's the 2.85%. The first thing that we do is, we have large SMBs that come to us -- large in the sense of what the SMB -- the notion of the definition is -- and where they have large volume and/or more reoccurring in their natures. We actually do give them concessions and rebates. So it's the first element that trickles it down from the 2.85% rack rate. The only thing that's left after that is really our interchange and process, [inaudible] minor. And so that's what -- that's reflecting what we've historically reported, right around the 40 bps or so of transaction profit. That's with volume as a denominator.

Rayna Kumar: Okay. That's really helpful. What do you think are the unique differentiators of your business model versus your competitor's?

Eliot Buchanan: Sure. I can speak first about that. Think of a few vectors, right. One is sort of, again, holistically if you look at the market for the past few decades, most of the payments players have chosen to go after sort of the merchant side, where call it the supplier for decades has been trained, that the supplier that they want -- if he or she wants to accept a credit card, they eat the merchant discount, they eat the interchange. Our whole model is the entire antithesis to that, the entire opposite. We believe fundamentally the buyer, the SMB who is paying the bill, is the one who should bear the interchange and who is willing to pay the fee, hence, the 2.5% that Amir talked about in our revenue model. They should be paying that fee. So that's just -- it's just a very different way of going out to the market.

Now, that also brings, I think, a few other differentiators. One is because every transaction is, again, accretive to the ecosystem. There are other models, but one of the few where again, most of our acquisition, most of our growth, comes by way of partners who are just bringing us growth for basically more or less free, which is a nice benefit.

The other thing, probably like any payments business, is scale of sort of the flywheel. Buyer pays supplier, we then bring the supplier on board to bring more buyers, and the cycle repeats. And if you can build -- if you're lucky enough to build that moat, then we have some scale but obviously we have a lot more runway and a lot more areas that we need to continue growing on. Then if you can get that scale of your merchant directory, that's a powerful moat.

Rayna Kumar: Maybe just to have a better understanding of your business, give us an example of like, a customer, customer type, and how they might use Plastiq?

Eliot Buchanan: Yeah. Sure. So I mentioned, we're not really concentrated in any one industry. We sort of -- as I tell our investors, we represent real America, not -- we're from the Bay Area, but most of our customers are not startups. They're real SMBs of the United States who are from all parts of the US, who have maybe $500k to $5 million in revenue, maybe 10 to 50 employees. Restaurants, construction suppliers, heavy in medical, pharma, etc. They -- a [inaudible] example they'd come in is, they have a bill for $10,000, $20,000, they come to Plastiq. And they want to defer that payment. And so with Plastiq, they simply use a credit card, again, they already have. They don't have to apply for a new loan. They sue a Visa, Mastercard, AmEx, doesn't matter to us. They're all partners of ours. And they're putting that payment on a credit card. And then they don't have to pay back that card for 30, 45 days, depending on your credit card cycle.

So for the SMB they're paying 2.85%, they're getting 2% in cash or rewards back. So on a net basis they're only paying 85 basis points for what is essentially a 45-day instant loan, which on an APR basis, can't name a lending product that can compete with that. That's how they -- so that's how the SMB thinks about it.

Rayna Kumar: Got it. Okay. Let's dive in a little bit deeper on your partners. So obviously, the card networks are -- is -- are partners of Plastiq. Who else are your partners there, and how do you work with them?

Eliot Buchanan: Sure. So a few different categories. I'd say the networks like you alluded to, the traditional issuers, some of them are formal partners meaning there's signed agreements. Some are more informal, but think of the large US banks. Many of them obviously are just down the street here. Why are they interested in partnering? Because again, every transaction at 2.85%, they're taking often over 2% of that for their interchange. And that's interchange that they didn't have before Plastiq existed, because before Plastiq existed, the small business would write a check or send a wire transfer, which the bank makes a lot less money on than if they get that payment on an interchange-bearing credit card. So their partners.

The new age context, a lot of them are partners. So the Brexs, the Ramps, the Divvy, which is now part of Bill, of course, but the Divvys of the world. And there seems to be new ones all the time. Those three are, for example, formal partners of ours. Again, for a similar reason, which is, I can be a happy customer with a Brex card. We even use them ourselves. But I still can't use that card to pay most of my accounts payable as a small business. So if I want to pay vendors who don't accept my Brex card, I can go to Plastiq, type in a vendor name, use my Brex card, get all the benefits I get with that card or any other credit card, and Plastiq will then take that money and forward it to the vendor downstream.

Rayna Kumar: Okay. Talk to us about your financial model. What's your outlook here for revenue or named free cash flow?

Amir Jafari: Yeah. Well, we've shared publicly, and that's just the way we see it today, is we've shared where we are from a unit economics perspective in terms of the business being transaction-based, to more of our recurring subscription base. As you look at this here, I think what we have again shared in terms of our investment presentation, is that we would end this year a little bit north of $75 million, all of which we're on track for, with regards to revenue increasing to slightly over $100 million going into 2023. For us as well, as we have spent the majority of our prior year investments in building out the product, the [inaudible] has actually launched our software solution and some of the other things that we've done this year. It's what's giving us the financial leverage, as you see it, in terms of just the -- our ability to lower operating expenses going into 2023. That's where you're seeing the leverage come in, and where we're going to spend in terms of use [inaudible] proceeds from this transaction and what we're really going through is really going to be on the go-to-market side more than anything.

Rayna Kumar: If anyone has any questions for Elliot or Amir, just a reminder, you can type it into the TMT Conference app and I will read them out loud. So let's keep going on my questions.

How have you gone to market historically, and how might that change in the future? What do you think is unique about your go-to-market strategy?

Eliot Buchanan: Sure. I think I touched upon this a little bit earlier, but let's add -- let's [inaudible] the comment. So a big part of our strategy -- [inaudible] a cold -- but a big part of our strategy has relied on the fact that every payment on Plastiq is net new to the ecosystem, and so therefore, the ecosystem defined as the Visa, the Mastercard, the bank, we talked about as partners, they are incented to send customers to us. And so acquisition-wise, a healthy amount of our growth has come by way of these partners that are happening to -- to part of [inaudible] send customers our way. That's one.

Number two, I talked a little bit earlier that most payments companies that are successful at scale are two-sided networks in this part of the moat. Well, we also are no different than that, which is, we have buyers who are primary customers, the SMB who is paying the bill. That SMB is paying a bill to some vendor who's also a stakeholder in our ecosystem. Every payment on Plastiq that goes to a new vendor, that vendor becomes basically a -- it's lead gen. It's a lead for us to then inform that vendor that they should use Plastiq as a way to accept money and promote us to more of their payers.

So I want to say between banks and the vendors, over half of our acquisition comes by way of both channels. And most of the time, that's our -- those are low-cost or free acquisition channels which, as I have learned, often through mistakes as well, being in the SMB space, SMB acquisition is notoriously expensive and difficult. And so that's kind of our -- the last point of your questioning, perhaps one of the unique aspects about our acquisition models. It's very, very efficient as a result.

Rayna Kumar: Any plans to move upmarket from SMBs and outside of the US?

Eliot Buchanan: Well, two -- so a few more things. Funny enough, upmarket, again, if you think about working capital, it's historically predominantly focused on small-medium businesses compared to -- well, the upper-mid market maybe still, but enterprise typically will have strong lines of credit with commercial bank, etc. What we are seeing is very, very relevant. You asked the question, is recently, because we're in a higher -- a rising interest rate environment, even commercial lines of credit, etc., are pegged to the Fed funds rate. And therefore, the comparative cost, even for large organizations, of using a line of credit versus using a large commercial card or purchasing card, we're actually seeing -- even though historically it was not a focus, we're seeing this amazing sort of free benefit of some enterprises. We had one recently as -- in the last quarter fairly recently that was putting a payment well over $20 million, $30 million, a single credit card payment, and paying 2%. So that they paid $1 million to [inaudible] Plastiq, right. And that's something we've never seen before. One of the largest transactions probably in Mastercard's recent history.

And so that's an example of upmarket. I think geographically, emotionally it's exciting, like at least as a founder, to say, let's go global. Obviously, small-medium businesses are not unique to America. There's [inaudible] all around the world, more than ever before, which is great to see. Cash flow is not a unique need to America, it's a need to SMBs around the world. Rationally, as a company that needs to maintain focus, the $9 trillion, $10 trillion, depending on who you ask, TAM in the US has plenty of runway that we want to stay focused on that for at least the next two or three years.

Rayna Kumar: What is the average transaction amount that goes through Plastiq?

Eliot Buchanan: Oh, god, must be somewhere -- $5,000 or $10,000? Every -- it's very high average transaction size.

Rayna Kumar: Are you seeing that go up given inflation, and do you see any headwinds into next year as we see inflation start to stabilize?

Eliot Buchanan: Yeah. I think -- I mean, our average transaction size is probably -- I'd say our average transaction sizes remain probably relatively in that range, maybe a little bit of an upward trend. What has dramatically grown up is the average spend per user, which means the number of transactions they're making as the need for credit grows. You know, in terms of inflation, I mean I think for us it's -- the trend we're seeing more is in a cycle like we're in macro-wise right now, the more credit needs there are for SMBs, we're actually seeing increased activity. So we're kind of a counter-cyclical beneficiary of a market that is a little bit unstable, because we see more reliance on credit than there was in a market where people were all cash-rich.

Amir Jafari: And really, just to complement what Eliot says, too, this whole focus that we have on engagement is no different than what we're trying to do versus for any of the folks who were in here just about on a [inaudible] listening to the CEO of PayPal talk about their engagement. We have a large flow of customers that are coming through, and so to Eliot's point where he's saying, where we're trying to get them to just transact more and more, it's getting the entire wallet share, mind share, of the SMBs to come through Plastiq.

Rayna Kumar: Great. So we have several questions from the audience. I'll start with these. Which parts of the payments ecosystem network, or say the A providers, will become more relevant in the future, and who is [inaudible] pressure on these massive [inaudible] SMBs in the [inaudible]?

Eliot Buchanan: Sure. Yeah. Let me -- I mean, in reverse order, I think that's -- everyone talks about interchange pressure. You ask this question, you know, with the rise of -- well, not -- even though [inaudible] with crypto, but with the rise of faster payment methods, etc., does that disrupt or affect sort of B2B. I'd say a little bit, but you're seeing speed of payment interchange, and the other day doesn't really justify itself for speed. It justifies itself for a few things. One is security, but the other thing is really around the benefits to the end buyer, right. So it's US more than other countries are somewhat addicted to rewards, and now funds, a lot of interchange.

But in SMB world and B2B, it's all about working capital. And so if you ask -- if you ask a buyer, hey, did you know your supplier now takes same-day ECH so at least you don't have to write a check, you know, would you -- will that affect your usage of a credit card, i.e., Plastiq, most of them will say no. Because just getting the payment there faster doesn't actually allow them to defer the payment. Their need is working capital. And people have always been willing to pay quite a bit of money for access to credit, and that hasn't changed for probably a thousand years.

The medium in which we've used credit has changed. It hasn't always been a credit card. But the need for credit has been there long before Master and Visa existed. So I think as long as that maintains -- I don't see interchange being affected as much on that front. Acquirers, I think, we're lucky to partner with several. I think you've seen there's been consolidation. I think it's a little bit of a race. I don't want to say a race to zero, but if you look at most acquirers, it's mostly taking large merchants and moving them from one portfolio to another. It's more of stealing share than it is creating net new share.

Rayna Kumar: The Fed now is expected to be really [inaudible] 2023. What do you expect to be the impact [inaudible]?

Eliot Buchanan: I don't expect it to be released on time, but if it does, again, I think same things for me -- at least speed of payment is really essential, and security of payment. I think that now will help with. But again, categorically, we opened the conversation up, what problem are we addressing? Not necessarily how we're addressing it -- is we're a payments company. We don't take any balance risk, which is core to our thesis and belief. But what category, what problem we're solving, is cash flow. And it's not -- it's not how do I pay faster, which is -- which is when you ask small businesses, it's not top-of-mind for them how they pay faster. It's how do I survive the next month, where do I access cash, can I afford to hire my next employee. Those all come back to cash flow, which probably will not be affected by that type of innovation even though it's helpful and valuable to see that type of innovation, in my opinion.

Rayna Kumar: Right. That actually brings us to our next question from the audience. Given the challenging macro environment, what are you seeing out there in terms of health of your SMB customers?

Eliot Buchanan: Yeah, it's interesting. We had this before, and [inaudible] over to Amir for some comments. We had a unique lens in the early stages of COVID in terms of cross-border payments and seeing some slowdown there. And then similar with supply chain, and we actually saw some customers that maybe decrease usage, and then some customers that relied on us more as they needed more credit. I think again, we serve sort of that established SMB $500k-plus in revenue on average. It's not like a hard criteria, but that's our typical sort of range. And therefore, those estimates are actually fairly healthy. And I say when I talk to SMBs, at least, given what happened in COVID and how unprepared everyone was around sort of the dip there, people that seem to have more resilience, are more prepared this time around, they plan, which is not always something SMBs have done historically. I think our base overall is fairly healthy but it also depends on the duration of what, and the nature of what we see 2023 and where it is.

Rayna Kumar: I guess, what is your recession playbook? If we do enter a recession, the UBS economists think there could be a mild recession next year. Like how, how should we think about your business in that environment?

Eliot Buchanan: I'd say mild recession, we'd be a great beneficiary. I'd say a major recession is hard to -- for moral reasons and otherwise, to claim that we'd be a great beneficiary. And I don't know what the playbook would be but I think mild, we'd be a great beneficiary because our SMBs aren't micro. They're mid-sized. And when there are a micro recession, they plan for it and they may need to use credit cards more. And in a mild recession, as we've seen interest rates rise, the comparative cost of using us at 2.85%, which doesn't really change, compared to a rising set of rates that are pegged to a growing Fed rate, makes our cost and our solution comparatively cheaper and cheaper.

Rayna Kumar: What are your top areas of investment in 2023?

Amir Jafari: For us it's been really beyond -- prior to 2023, in a sense that going into 2023 what we wanted to do was, we wanted to give SMBs the ability to have financial freedom in terms of how they make payments, which is something that we've done. Going into 2023, it's the launch of our SaaS solution for smart pay is all around this whole notion of as we enter a recession, or whatever the [inaudible] may be as we try to look forward, is more SMBs don't need digital transformation. They need digital organization for what they do. And so our whole notion is to go into 2023, stay focused, we're purpose-built, we are very much centered around what a SMB does, and to help penetrate that market to keep SMBs in business. They're what powers the United States economy, and they'll be a big part of what happens in terms of our future.

Rayna Kumar: Going back to your SPAC process, what were the reasons behind choosing Colonnade?

Eliot Buchanan: Sure. A few comments. So we met the two principles of Colonnade, [inaudible] not recently. It's been a while, June of 2021. So I guess rewind the clock 18 months ago or so, and we stayed in touch with them. Got to know them really well. I guess you could say, did our diligence during the time when SPACs -- there's a pretty blanket sort of sense of what they are, and I think there's reason for that because there are some pretty terrible SPACs and there's some really good ones. Unfortunately, everyone labels them the same. But we sort of got to know our SPAC partners over 18 months rather than 18 days, like some of these deals have come together historically. And so I think we were able to get a sense of who their top -- who are their actual top shareholders, what are they like to work with, what's their track record. Again, you can't control the overall macro where we are now, but I think in isolation of that, we felt like, oh, these are partners that we can get in business with. And we think it's actually not a -- it's not -- [inaudible] counter-intuitive but it's not a bad time to try and execute on it.

Rayna Kumar: I guess, I mean, I guess as a follow-up, like, why now? Why not wait for a more stable macro environment?

Eliot Buchanan: Yeah, sure. I mean, I think there's something to be said -- well, there are a few factors. One, a year and a half ago, capital was not a competitive advantage, especially in late -- we were a late-stage start-up, right. Everyone could raise whatever they wanted. That was part of the problem. Obviously, it was an anomalous year. And now, capital is absolute, and liquidity is an absolute competitive advantage which means I think from our perspective, if we feel like we believe if we can properly execute on a transaction that sufficiently capitalizes the company, value it in a -- I'll pick a word, a mature way, right. Ignore private valuations. Value it in a mature way, and have sort of this ability to execute on our plans. In my -- at least in my perception, is long-term, at least markets are efficient and they'll reward execution of hitting your numbers and repeating that pattern.

And if you look at a lot of the companies right now, I mean, everyone's kind of down obviously, but even ones that are in the payments space -- if you actually ignore the stock price and look at their fundamentals and their execution plans of how their acquisitions are going or how they're upselling on some of their SaaS software, a few point-of-sale, a restaurant provider comes to mind as doing, in my opinion, on fundamentals really well. If you look at that, then I think in the long term, it'll be rewarded. I think that's the -- that's a fundamental reason.

There's other secondary reasons around just -- we're in financial services, and trust, and sort of a stamp of rigor of going public is important to sort of your longevity as a fintech company.

Rayna Kumar: In the medium term, how do you think about balance in investment versus progressing in margins?

Amir Jafari: Sure. Well, we've been very margin-focused, if you think about the investments we made in those past, prior years. Because for us, it's been every product initiative, or every feature, and any new product we launch has a whole notion of being far more accretive in terms of our margins, not just for payment processing is for the most part, but also where we are on the technology from a SaaS perspective. Because at the end of the day, we're really serving this whole notion of payment automation. So, going into 2023, you'll see us have investment scenarios like the ability to [inaudible]. These are going to be investments, that again, are highly accretive as you think about margins.

So without going into maybe what the next three, four, five years looks like, every decision that we've made, I would say, prior to this, or prior to where we are at this moment where it's a little bit cloudy and people ask these questions, have already been around this notion of engagement, first and foremost. And second, how do we drive more of a wallet-share mind-share of the SMBs, and that is highly accretive to us from a margin perspective.

Rayna Kumar: What are your capital allocation priorities?

Eliot Buchanan: Sure. I mean, probably [inaudible] if you want to near-set, I mean, for us you asked earlier what's one of the unique aspects about our go-to-market strategy. And I said that we are lucky to benefit from the ecosystem driving a lot of our growth, the success [inaudible] term. And for us, again, now that we have this ability to apply our SMBs in a landscape that is increasingly expensive and difficult to [inaudible] in, our next focus is how do we basically expand this [inaudible] towards -- Amir alluded to it, but our sort of newer SaaS offering that are more subscription, margin-based.

And so a lot of our resources from an R&D perspective, and go-to-market, are going to be fixed on this sort of newer product that we call Smart Pay, which is all about taking this sort of elegant acquisition product we've built, which is pay a vendor on a credit card where you can't otherwise pay them -- and then push that SMB into the sort of higher margin, super-sticky, SaaS-based product.

Rayna Kumar: How much of your revenue right now is SaaS-based?

Eliot Buchanan: Very low. We just -- it's like, this is in beta. We just -- just launched this, are still testing this. So we are dominant, dominant transaction-based. And by the way, importantly, the more successful that the SaaS product is, if we get it there, it's actually -- we think maybe on a 30%, 40% of our revenue will be SaaS long-term, potentially in the far future. But the more that that succeeds, the more transaction revenue succeeds. It doesn't replace it because -- and so that's how we see them going in balance.

Rayna Kumar: And what's that margin differential between SaaS versus transaction-based revenue, if you can help quantify that?

Eliot Buchanan: Yeah. Probably what you'd expect. I'll have Amir chime in.

Amir Jafari: Yeah. I think what we've said publicly is, you've looked at our investor presentations, is for the most part we view the long [inaudible] of the SaaS business to be where the margins are north of 70% as an example. It's not a business that we have the margins to guide to today, and these aren't numbers that will be [inaudible] included in any of our filings. It's not enough of the business, because it's brand new, to what Eliot mentioned. But that's the way to think about it in this [inaudible], as you think about the SaaS components of our business, this notion of [inaudible], it'll follow the traditional software like elements of every KPI that we go through. Not just margins, but engagement as well, which is, as I said, highly critical to us.

Rayna Kumar: Are there any regulatory issues, you know, surrounding cards and payments that we should be aware of that could potentially impact or provide opportunity to your business?

Eliot Buchanan: Sure. I mean, you know, if you -- none come to mind at the service level. I mean, SMB lending is -- consumer lending is even more regulated. SMB lending, there's obviously rules and regulations, as there should be. Importantly, we've made -- we are a payments/ fintech company, not a lender. The category we're solving for happens to be a pain point that's so critical, which is as an SMB, I want to get lent money. But we don't lend money directly. So we're just payment sort of processor, technology company there.

We move money. And so money transmission licenses, etc., but pretty standard stuff that we're already involved in.

Rayna Kumar: Let's take another one from the audience. Brex, earlier this year, made the decision to move away from SMBs because they didn't find their customers economically viable. Did this have any impact on your business?

Eliot Buchanan: [Inaudible] obviously in other businesses better than I do, but we happen to be a partner of Brex's, have been, and still are. And I'd say they moved away from mostly, not entirely, but mostly away from SMBs. I would just double click on that for the finer point, which is, they moved away from SMBs predominantly who were startups. A lot of their business was -- not just [inaudible] but Series A, Series B-fueled startups. And so in a year where -- and they're underwriting based on your balance, right, in your account, since it's a card you pay off every month. And so they're basically, in my view, they were underwriting the wallets of VCs who are pouring money into SMBs.

Our SMBs are not venture-funded, venture-backed. They're much smaller, but they're -- you know, SMBs around America with $500k to $10 million of revenue. They're not raising money. And so there's more -- they're less apt to buy a venture capital cycle. And so I totally get, it was probably smart, why Brex did that. That's one.

Two, because they carry the balance sheet risk, I think you have to moderate your portfolio a little bit. Then we have no balance sheet risk. So, some SMBs, you know, naturally in the US they churn out the US economy. It's part of the SMB cycle of America. And that happens, and we see that. But we don't carry any balance sheet risk so we don't really have to modify our portfolio at all.

Rayna Kumar: As you look out 5 to 10 years from now, how does your business look differently than how it does now?

Eliot Buchanan: Yeah. I think lots we don't know, which is fine, and I think it looks very different than it did 10 years ago when we started. I think if you look at maybe -- if I look at thematic trends that are beyond sort of one company, certainly beyond us, that we believe we want to be a part of, one is just embedded finance. Broadly speaking, there's a lot of players, not just traditional fintechs or banks, but marketplaces -- the Shopifys of the world, so to speak -- that are increasingly getting -- well, Shopify is already far into payments and has a very strong fintech practice. But our increasing look to monetize on payments and engage on payments and banking products.

And so rather than our view has been, in the far future, rather than us just owning the SMB outright, where the SMB goes [inaudible] dot com we have that relationship with that SMB. We have developed a set of sort of white-label APIs that basically expose our services to others. And so, I'd say within 5 to 10 years I could see a lot of our revenue being driven similar to the portion that Amir mentioned, which is still heavy transactional, a healthy portion of SaaS. But it's not actually happening at Plastiq.com, it's happening by way of our products embedded within an online bank, or within a Shopify type of product.

Rayna Kumar: What are some of the new products you're working on, and like, the priority [inaudible]?

Eliot Buchanan: Sure. I mean, at a high, high level, I guess a lot of the focus next year is, as I mentioned, moving -- moving customers to this sort of newer Smart Pay product. Because it is brand new, as we alluded to, a lot of the R&D efforts, a lot of what we're coming out with, is how do we -- how do we add to that software suite? If a customer is paying X dollars every month subscription, one of the unique benefits of a SaaS product for an internal culture, forget the revenue model, is it drives accountability to your product team. Because if you're going to be charging the customer something every month, you should, in my opinion, be delivering them new value every month. And so, a feature set, I'd say, will be driven a lot around that. We can share more as it comes out.

Amir Jafari: Rayna, just to go back to what you said, and tying it -- what we think about 5 to 10 years, somebody who's in this field, who's constantly being sold payment solutions or different capabilities, in this next 5 to 10 years whatever happens, there's a massive revolution or an evolution that needs to happen with regards to just how all CFOs handle payments and credit cards. They are still untapped for what we do in the A/P side of the house. There's all kinds of cards issued, but that's for your T&E side of it.

I think to the point that Eliot brought in, and as we bring it all together with regards to how we solve the SMB problem, we feel like we're on the right side of the equation regardless of where the winner is, whether it's the Mastercard [inaudible] or whatever the different types of slices that you're hearing from a broader macro perspective for [inaudible] payments. It needs to be moved to an easier class of payment, simpler abilities to drive reconciliations and all these other components. We serve on that side of the house for SMBs to make their lives simpler while giving them freedom. That's the beauty of the next 5 to 10 years, without knowing what's going to happen at all.

Rayna Kumar: Okay. I know we only have a few minutes left, so my final question is for both of you. What are you most excited about? And conversely, what keeps you up at night?

Eliot Buchanan: Well, probably the same answer for me, which is, talent. We're in this unique environment where it's funny, talent has always been a battle, and historically I'd argue it was harder because talent could go anywhere. And now that that sort of power dynamic has shifted, but there's this sort of -- especially the younger talent, I guess, I see there's this great -- [inaudible] pay for this great sort of burnout generation. And like, just as -- as the founder has seen that ebb and flow first hand, and knowing that next year, no matter the outcome, is going to be -- it's going to be volatile, right. Who knows how much, but it's probably going to be volatile. I think managing the culture of that talent through increasing volatility when it's already been an interesting few years, I think it's both exciting because if you get it right, talent is the single biggest differentiator for any company. And -- but also, challenging, given that it's been a rocky few years.

Amir Jafari: Execution, I think, is going to be the most important part. We have our mandates; we know what we are marching towards; we know where the vision and the mission is with regards to being the financial operating system for SMBs, specifically. Creating that messaging, creating the ability for folks to understand I think is what keeps us up at night, which is you've got to constantly deliver that message to make it clear as to what our value outcomes are. So that's also equal to what makes this exciting, because as we get more and more customers that come onboard and we're able to help deliver those value options for them, it's how do we pour more fuel on that fire so that we can make this much more of a robust [inaudible].

Rayna Kumar: Great. Well, Eliot and Amir, thanks for joining us today.

Eliot Buchanan: Thank you.

Amir Jafari: Thank you.

Rayna Kumar: We appreciate your participation at the UBS TMT conference.

Eliot Buchanan: Happy to be here. Thanks.