November 10, 2021

Marqeta, Inc. (MQ)

Q3 2021 Earnings Call Introductory Remarks

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Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Marqeta Third Quarter 2021 Earnings Conference Call.

At this time, lines have been placed on mute to prevent any background noise. After the speakers' remarks, we will open the lines for your questions. As a reminder, this conference call is being recorded.

I'd now like to turn the call over to Stacey Finerman, Vice President of Investor Relations to begin.

Stacey Finerman

Thanks, Operator. Before we begin, I would like to remind everyone that today's call may contain forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including those set forth in our filings with the SEC which are available on our Investor Relations website, including our quarterly report on Form 10-Q for the quarter ended September 30, 2021, and our subsequent periodic filings with the SEC. Actual results may differ materially from any forward-looking statements we make today. These forward-looking statements speak only as of the time of this call and the Company does not assume any obligation or intent to update them, except as required by law.

In addition, today's call includes non-GAAP financial measures. These measures should be considered as a supplement to, and not a substitute for, GAAP financial measures. Reconciliations to the most directly comparable GAAP measures can be found in today's earnings press release or earnings release supplemental materials, which are available on our Investor Relations website.

Hosting today's call are Jason Gardner, Marqeta’s Founder and CEO, Vidya Peters, Marqeta’s Chief Operating Officer, and Tripp Faix, Marqeta’s Chief Financial Officer.

With that, I'd like to turn the call over to Jason to begin.

Jason Gardner

Thank you, Stacey. Thank you, everyone, for joining us for Marqeta's third-quarter earnings call. Tripp and I are excited to share Marqeta's third-quarter results and the exciting ways we are using Modern Card Issuing to power the digital economy.

First of all this afternoon, I will cover off financial highlights for the quarter. I will then discuss how Modern Card Issuing, an industry that Marqeta pioneered, is powering the digital economy, before I discuss our strategic approach to deepen our moat in this industry. Later, Tripp will discuss the financial results in greater detail. With that, let's begin.

Our third-quarter results show the impact that Modern Card Issuing is already having and Marqeta's momentum in this market:

- $28 billion in Total Processing Volume, or TPV, a 60% increase compared to the same quarter of 2020.
- $132 million dollars in net revenue, a 56% increase compared to the same quarter of 2020.

We believe Modern Card Issuing is at the heart of global money movement. When I look back at Marqeta's third quarter, I see a wealth of examples that highlight the breadth and power of Modern Card Issuing. Marqeta's Modern Card Issuing platform enables unique, new payments use-cases for companies of all types, from digital disrupters who are looking for scale, to legacy payments providers looking to launch cutting-edge solutions to stay competitive.

Similar to how we've seen our Just-In-Time, or JIT, funding technology enable on-demand delivery and Buy Now, Pay Later services, we're now seeing JIT play a key role in enabling a new wave of innovative cryptocurrency card products.

Just-in-Time Funding, used in tandem with our open APIs, allows fiat currency to be spent at the point-of-sale from a crypto wallet, and for consumers to earn cryptocurrency rewards on traditional spending highlighted by companies like Coinbase, Bakkt, Fold, and Shakepay.

For Coinbase users, swiping a Marqeta-powered card at the point of sale and having a transaction funded in fiat currency in real-time, based on their cryptocurrency balance, is an exciting application of our technology. When you put this side-by-side with our recently announced partnership with Bill.com, it demonstrates the huge possibility for our technology in the market.

Our work with Bill.com is an innovative application of Modern Card Issuing in the payments landscape. Small and medium businesses represent the engine room of the global economy but have had little access to innovation to streamline their payment processes before companies like Bill.com came along. Using our best-in-class open API payments solutions, Bill.com plans to offer virtual card payment capabilities to its financial institution partners and their customers. This will give small and mid-sized businesses access to enterprise-level tools which can save time and money.

We see our third-quarter results as yet another proof point of the tremendous progress and the impact we are already having in global money movement. And we are only scratching the surface when it comes to the many ways Marqeta enables Modern Card Issuing, a market we estimate at $30 trillion dollars globally. As we look at this ocean of opportunity we see four key strategic pillars to growth, which will help us service this large addressable market in card issuing, as well as deepen our competitive moat:

Our First Pillar - adding new customers:

- Our value proposition for new customers is as strong as it's ever been. We have a proven track record of executing large and innovative payments programs. We've also shown how we can deliver innovation for large financial institutions that legacy card issuers cannot. Simply put, Marqeta can outscale new entrants to this market, and out-innovate legacy platforms.

- We recently added several major new customers to our platform. I've already highlighted our new partnership with Bill.com. The Marqeta platform is also powering Figure's new Figure Pay product, a digital payments account with native Buy Now, Pay Later functionality. And as spotlighted this quarter, a range of crypto innovators, Coinbase, Shakepay, Bakkt and Fold, chose Marqeta to build great card products,

Our Second Pillar - expanding and growing our relationships with our existing customer base:

- Uber has been a Marqeta customer since 2019, and we recently expanded our relationship. In partnership with Branch, we launched a new card product to power a unique driver card for Uber Freight Carriers, which lets them get paid in 2 hours, instead of 30 days.

Our Third Pillar - broadening our global reach:

- Marqeta is enabled in 36 countries worldwide. We successfully launched our Australian office in Q2 of this year, and in Q3 announced our partnership with Zip Co. in the market. Our European business, launched in 2018, continues to see considerable growth and momentum in the market. We've seen over 340% year-over-year growth in the number of transactions processed by our European customers in the third quarter. In addition, we've doubled the number of Marqeta's European customers since September 30, 2020.

Our Fourth Pillar - expanding our ecosystem, product offering and partnership network:

- This is a critical strategic priority for Marqeta, to ensure we're properly attacking our total addressable market and continuing to deepen our competitive moat in Modern Card Issuing.

- Earlier in the year, we announced the launch of our credit product, which we believe makes us the first modern platform to offer prepaid, debit, and credit card issuing services. After launching our first credit program in Q2 of this year, we continued to onboard new credit card programs with our partner Deserve. The Owner's Rewards Card by M1 went live last month. It is a unique credit product that offers its clients up to 10% cash back when they transact at brands they own stock in through their M1 investment portfolio, and offers them the ability to reinvest their rewards in their portfolio. It's the flexible and innovative card experience we're excited to enable.

- Given that credit is a new offering for Marqeta, I'd like to highlight this for a moment. With 52 percent of card spend happening on credit in the US, this is a massive market opportunity that is underserved by current technology which has done little to modernize the credit card experience. Therefore, our credit card issuing platform is a critical strategic priority for Marqeta.

- To bring our vision to market we are working with an ecosystem of partners, who have a similar commitment to disrupting the status quo in the credit industry - our first being Deserve, a modern, mobile-first credit card platform. Through this ecosystem of partners, all card programs launched through Marqeta will be powered by modern underwriting models that incorporate non-traditional signals and mobile-first consumer experiences.

- In addition to new products, a robust ecosystem of partners is crucial to Marqeta to capture the significant market opportunity in front of us and embed Marqeta technology into a greater range of use cases. In Q3, we were named as a launch partner for Mastercard's new Installments program, which leverages the power of Mastercard's merchant network to build in the infrastructure to support Buy Now, Pay Later payments. This allows banks and fintechs to more easily tap into a new payment type. Alongside this, we recently announced partnerships with Payfare, Synctera and Amount, helping us embed our payments technology into driver payout and community banking-as-a-service programs.

In addition to our great Q3 results, I would like to inform you of a leadership change at Marqeta. Darren Mowry is resigning his position as Chief Revenue Officer effective November 30, 2021. Darren has decided to return to enterprise cloud software sales, where he worked for 10 years prior to joining Marqeta in June. We thank Darren for his contributions and wish him the greatest of success.

With Darren’s departure, we feel it is time to combine our entire customer Go-to-Market functions under one operational Leader. I am very excited to announce that Vidya Peters will become Marqeta’s Chief Operating Officer. Vidya’s professional experience is extraordinary and her success at Marqeta has led us to new heights. Vidya will lead our Marketing, Revenue and Program Management teams. Combining these three functions will lead to a superior customer experience overall. The positions of Chief Revenue Officer and Chief Marketing Officer will be eliminated. I will now turn it over to Vidya, for some brief remarks.

Vidya Peters

Thank you for the introduction Jason. I am excited to speak with you all today.

I am thrilled at the opportunity to move into this new role as the Chief Operating Officer at Marqeta. In the past two years at Marqeta, I’ve seen significant growth at the company, engagement with customers across industries, and a massive untapped opportunity in front of us. Building and scaling marketing while creating industry excitement for modern card issuing has been an impactful journey. I’ve also had the opportunity to take on interim leadership positions running our revenue and product organizations, overseeing vastly different parts of the business while unifying them behind a cohesive strategy.

We have a tremendous opportunity ahead of us. We currently process less than 1% of the world’s transactions. We believe a unified go-to-market vision and strategy across marketing, sales, customer success and delivery will create an integrated experience that puts the customer at the heart of all that we do.

I am excited about the unified experience we can create for our customers from their first interaction with us to their adoption and growth on our platform.

I look forward to sharing back with you in future quarters the progress and benefits this change has helped effect.

Thank you and back to you, Jason.

Jason Gardner

Thank you Vidya. Rolling up our entire go-to-market operation under one leader helps us create an even more unified global vision for Marqeta as we expand. We believe this role expands the scope of what we can achieve as a company and see Vidya as a seamless fit for this new position.

With that, I'd like to turn it over to Tripp Faix, Marqeta’s Chief Financial Officer, to discuss our third-quarter financial results.

Tripp Faix

Thanks, Jason. Good afternoon, everyone. I am excited to discuss our strong third quarter financial results and provide guidance for the fourth quarter.

Total net revenue increased by 56% to $132 million in the third quarter of 2021 from $84 million in the comparable quarter of 2020. The increase was primarily driven by 60% growth in Total Processing Volume or TPV compared to the third quarter of 2020, slightly offset by increases in our revenue share payments. As a reminder, revenue share payments are incentives to customers to increase processing volumes on our platform. As a result, net interchange fees increased 51% to $101 million and processing and other fees increased 73% to $25 million in the third quarter of 2021 versus the same quarter of 2020 primarily due to increased ATM fees.

I will now discuss some of the key drivers of our TPV growth in the quarter. TPV for the quarter was $28 billion, an increase of 60% compared to the third quarter of 2020. We view TPV as a key indicator of the market adoption of our Platform, the growth of our business, and our customers' continued usage of the Platform. Similar to the second quarter of 2021, growth was driven by outperformance from both our Digital Banking and BNPL customers. This growth was offset in part by some reductions in our on-demand delivery volume from the considerable peaks we saw last year in the midst of the COVID pandemic.

We want to call out that our top customer concentration decreased from 72% in Q3 of 2020 to 68% in Q3 of 2021 as we continue to both add new customers to the platform and expand with our existing customers as they add additional programs and volumes. Furthermore, we continue to benefit from the key secular tailwinds within payments accelerated by government stimulus and the COVID pandemic. I will highlight that our non-Top Five customers grew 226% from a volume perspective in Q3 of 2021 as compared to Q3 of 2020, and we are very pleased with this result.

Gross profit increased by 67% year-over-year to $59 million compared to $35 million from the third quarter of 2020. Gross margin increased from 42% in the third quarter of 2020, to 45% in the third quarter of 2021. As we stated on the Q2 call, we did expect this to be in line with our long-term gross margin target. Of note, we amended one of our card network incentive agreements which will result in higher incentives to Marqeta going forward and provided a $2 million catch-up benefit in the third quarter of 2021. These incentive agreements are a testament to both our strong alignment with our network partners in these strategic relationships and the powerful operating leverage that can be achieved in the payments business. Excluding this one-time benefit, our gross margin would have been 43% in the quarter. Furthermore, for the nine-month period ended September 30th, we have achieved a gross margin of 43%. As we discussed during our second quarter call, our margins can vary quarter-to-quarter, as interchange and network fees can vary considerably by merchant, MCC code, transaction type, card-present or not, and the like. Therefore, rather than pay too-strict attention to quarterly gross margin results, we maintain that we remain committed to our long-term gross margin target of between 40% and 45%.

Overall, our GAAP net loss was $46 million driven by our continued investment in people as well as an increase in stock-based compensation. In fact, the third quarter represented our largest hiring quarter to date as we welcomed 77 net-new Marqetan employees from a quarter over quarter perspective. As of the end of the quarter, we had a total of 696 Marqetans.

On a non-GAAP basis, Adjusted EBITDA for the quarter was negative $4.9 million compared to positive $686 thousand in the comparable quarter of 2020. The change was largely driven by compensation-related costs, excluding stock-based compensation, which increased 61% from the same quarter of 2020. We view this spending as critical as we look to invest back into the business to support future growth. Our four key strategic pillars of growth are (1) adding new customers; (2) growing our existing customers; (3) broadening our global reach, and (4) expanding our ecosystem.

We ended the quarter with over $1.7 billion in available liquidity in cash and marketable securities which is constant from the end of the second quarter. We believe that we are just scratching the surface of a large addressable market. Therefore, we feel that the best way to capitalize on that opportunity is to invest in our products, our technology, and our people.

I'll now move on to guidance. As we noted in our press release, we are providing the following guidance for the fourth quarter of 2021 based on our current assumptions.

Net revenue for the quarter is expected to be in a range of $134 million - $139 million. At the midpoint, this would represent growth of 55% on a year-over-year basis. Our top-line guidance for the fourth quarter reflects continued strength from the BNPL and Digital Banking sectors which we believe will be especially strong owing to consumer spending and consumers' financing their holiday purchases. From a full year 2021 perspective, net revenue would be in a range of $496 million to $501 million. At the midpoint, this would represent growth of 72% on a year-over-year basis. Our range for Adjusted EBITDA for the quarter is negative $10 million - negative $7 million. Also, for the full year 2021 perspective, Adjusted EBITDA would be in a range of negative $24 million - negative $21 million. This guidance takes into account increased headcount investment as we look to add additional talent primarily in our product and technology teams to deepen our moat within Modern Card Issuing.

In summary, we are pleased with our strong Q3 results overall and are optimistic about our business, our customers, and the opportunity ahead of us in Modern Card Issuing.

Jason Gardner

Thanks Tripp. It's a theme you're going to hear from us a lot, the huge opportunity we see in front of Marqeta.

During the remarkable events of 2020, Marqeta supported mission-critical sectors of the economy that consumers turned to in large numbers out of necessity. The question we got throughout all of this, is this growth sustainable? We sit here one year on and are seeing considerable year-over-year growth from what at the time felt like a peak people questioned would be sustained.

When we look out at the next year, we're more energized than ever. We look forward to reporting back on new customers we've signed to our platform, new geographies where we're enabled, and an ever-deepening stack of money-in, money-out technologies that will empower modern global money movement.

Now, I'd like to turn the call over to the operator and open up the line for Q&A. Operator?