Riskified Second Quarter 2021 Earnings Transcript

CORPORATE PARTICIPANTS

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Good morning and thank you for joining us today. Riskified is hosting this call to discuss its second quarter earnings results for the period ended June 30, 2021. Participating on today's call are Eido Gal, Co-Founder and CEO, and Agi Dotcheva, Chief Financial Officer.

Earlier this morning, Riskified issued a press release announcing its financial results for the second quarter of 2021. A copy of this press release has been furnished with the Securities and Exchange Commission on Form 6-K. While this call will reflect items discussed within those documents, for more complete information about our business and financial performance, we also encourage you to read our final initial public offering prospectus dated July 28, 2021, as filed with the Securities and Exchange Commission on July 30, 2021.

Before we begin, I want to remind you that matters discussed on today's call will include forward-looking statements related to our operating performance, financial goals, and business outlook, which are based on management's current beliefs and assumptions. Please note that these forward-looking statements reflect our opinions as of the date of this call and we undertake no obligation to revise this information as a result of new developments that may occur. Forward-looking statements are subject to various risks, uncertainties and other factors that could cause our actual results to differ materially from those expected and described today. In addition, we are subject to a number of risks that may significantly impact our business and financial results.

For a more detailed description of our risk factors, once again please review our final IPO prospectus, where you will see a discussion of factors that could cause the company's actual results to differ materially from these statements. A replay of this conference call will be available on our website under the investor relations section.

I would also like to remind you that during the call, we will discuss some non-GAAP measures when talking about Riskified's performance. You can find the reconciliation of those non-GAAP measures to the nearest comparable GAAP measures in the earnings press release issued, and furnished on Form 6-K today and in our prior filings with the SEC, all of which is posted on our website at ir.riskified.com.

I will now turn the call over to Eido Gal, Riskified's Co-Founder and CEO.

Eido Gal, Chief Executive Officer, Riskified

Thanks, Chris.

And thank you all for joining us for our first earnings call as a public company. We are happy with the positive market reception to our IPO and very excited for the journey ahead.

We are also pleased with our results for the second quarter, which included revenue growth of 47% year-over-year and a 55% year-over-year increase in gross merchandise volume to $21.5 billion. We believe these results validate the degree to which the ROI we deliver strongly resonates with many of the world's largest online merchants.

In addition to these financial results, there are several achievements from the quarter that I would like to share with you today:

- First, we started reviewing orders for several new large merchants, who completed the platform onboarding process during the quarter. These additions to our merchant network represent a broad range of eCommerce verticals that are well positioned for continued organic growth in the future. Notably, several of these merchants also operate in online payment categories that Riskified has not previously served, including cryptocurrency brokerage as just one example.

- Second, while we do not plan to report on individual customer contracts on a regular basis, there was a significant in-quarter renewal that deserves an exception, owing to the size of the merchant and the depth of our relationship. Over the summer, we renewed an important partnership with Wayfair, one of the world's largest destinations for the home. Although we will not be disclosing the terms of the renewal, we are humbled and excited to continue working with Wayfair to solve complex problems related to online shopping, checkout and payments.

- Third, the Riskified platform continued to improve its performance capabilities in response to the exacting, customized needs of our large global merchants. During the quarter, our algorithms learned from more than 150 million new eCommerce transactions conducted on our platform. Simultaneously, we customized our platform implementations for several large merchants to address their unique pain points through the use of more than one Riskified product. We believe this ability to customize our platform at tremendous scale is yet another reason why many of the world's largest eCommerce companies trust us to review and guarantee the entirety of their online order volumes.

Agi will go into further detail on our strong financial performance shortly, but since this is our first earnings call as a public company, I'd like to provide a brief overview of our business, the tailwinds driving our growth, and a few strategic initiatives as background.

Our CTO and co-founder Assaf and I started Riskified in early 2013 to solve online payment fraud. At the time, we didn't fully appreciate how big eCommerce would become or how many industries it would impact. But we understood one of the key problems at the very heart of eCommerce: selling anything online involves unique risks that all connect back to fraud. The internet has always been overrun with people concealing their identities for financial gain, and most modern payment products place the cost of fraud squarely on the seller. These two realities create a very challenging situation for online merchants.

This seller liability poses a fundamental question with each and every order an online merchant receives: Which customers should they accept? Which customers should they decline? It's an incredibly complex question to answer. And left to solve this problem on their own, we believe too many merchants experience large amounts of missed sales, unnecessary expenses, and inferior results overall.

From the very beginning, we believed that we could build a ubiquitous machine learning solution that would outperform anything an individual merchant could build on their own. The end result was Riskified, a new paradigm in fraud management.

Today, our platform aggregates data from more than a billion historical full-lifecycle

eCommerce transactions, creating network effects that we believe drive superior performance and compelling ROI for our merchants. As our algorithms continuously get smarter, it enables our merchants to realize ROI that goes beyond just preventing fraud. As a result, our highly satisfied customers include many of the world's largest online merchants including Wayfair, Wish, Macy's and StockX.

We believe so strongly in the superior accuracy of our platform that we guarantee performance levels that are precisely customized to each merchant's business. More specifically, we provide guaranteed minimum approval rates for our merchant’s online order volumes while also contractually agreeing to bear the cost of any fraudulent sales approved by Riskified. This allows our merchants to maximize the conversion of incoming orders into successful sales, without worrying about who's a good customer and who’s a fraudster. In return, we charge our merchants a percentage-based fee on the value of every transaction that we approve. And we do this all seamlessly in the background of each online session so legitimate consumers can experience a fast, frictionless shopping experience.

In the end, we believe that this approach results in higher merchant revenues, reduced expenses, and superior consumer experiences relative to what any merchant is capable of producing on their own. Based on an internal analysis of our ten largest merchants providing sufficient data, the average merchant working with Riskified experienced an amazing 8% increase in revenue after integrating with our platform. Those same merchants experienced a 39% average decrease in fraud-related operating costs and chargeback expenses, net of our fees, during that same period.

All of this drives a powerful flywheel effect. Our risk management platform gets stronger from each transaction we process and each merchant we add to our network. Each transaction we review enhances our data sets and our ability to identify similar characteristics between transactions on our network. As we grow, this sophisticated transaction matching enables us to deliver a strong return on investment for our merchants and drives robust product innovation that enhances the consumer shopping experience. We then leverage this improved ROI for our merchants and our enhanced product suite to attract more merchants, which drives more transactions to our platform and fuels further organic growth.

As our business has grown over time, our merchant network and the portfolio of potential chargebacks it contains have become increasingly diversified across a broad range of consumers, industries, and geographies. Today, we serve large-scale merchants in representative categories such as sporting goods, furniture and homewares, travel, apparel, accessories, consumer electronics, and jewelry, to name just a few. Our merchants range from direct-to-consumer brands, online-only retailers, omnichannel retailers, online marketplaces, and other eCommerce service providers that bear the liability for payment fraud. And each year, we review transactions on their behalf that represent consumers located in more than 180 countries -- providing truly global coverage for merchants looking to grow into new, overseas markets.

As we improved our ability to manage payment risk, we discovered other similar risks facing our merchants. For example, we realized account takeovers were a popular fraud vector, bank declines were a huge source of missed sales opportunities, and policy abuse was a common occurrence with a sizable financial impact. As a result, we launched several new products, which are now important parts of our overall platform. Our plan is to continue to enhance our platform by developing new products, features, and functionalities to further strengthen our market-leading technology and serve the most complex and evolving needs of every merchant. We hope to share more details on those products in the future.

Now, I’d like to touch quickly on the structural tailwinds benefitting our business.

We believe that our business benefits from several macro trends that are driving continued demand for our products. First, our opportunities increase as more sales are transacted online. According to eMarketer, global eCommerce sales grew 28% year-on-year to approximately $4.3 trillion in 2020 and are expected to grow to approximately $6.4 trillion by 2024. Furthermore, the prevalence of omnichannel sales strategies like buy-online-pick-up-in-store is expanding the range of large scale merchants we can serve, while also complicating their fraud-decisioning processes.

Second, fraud is continuously on the rise. Merchants face an increasingly sophisticated range of fraudulent threats every year, including stolen payment credentials, compromised consumer accounts and illegitimate refund claims. Fraudsters can easily impersonate legitimate consumers, resulting in enormous financial losses and damaged brand reputations. And consumers can falsely claim that their orders never arrived, or that the product they purchased was damaged on delivery. As a result, Juniper Research estimates that merchant losses due to online eCommerce fraud will exceed $25 billion in 2024, up from $17 billion in 2020.

Lastly, the policies implemented by payment networks and banks are introducing meaningful friction points that have the potential to block large volumes of eCommerce revenue. Online merchants depend on these partners to conduct their business, yet these partners and their policies can be extremely punitive for merchants. As just one example, Edgar Dunn

& Company estimates that $720 billion will be lost due to payment declines by 2022. And approximately 72% of these payment failures will happen to good consumers.

Simply put, the eCommerce landscape is rife with bad actors and multiple counterparties that even the most sophisticated merchant with the most dedicated internal fraud prevention team may struggle to manage effectively in the long run. Particularly as consumers expect fast and simple shopping experiences, merchants are forced to decide, with limited information, which consumer transactions to accept and which to deny. And they need to make those decisions in the blink of an eye.

I should also mention that there is one notable headwind that is impacting our business, at least for the time being. The online payments industry in Europe is currently adapting to a new payment regulation, called PSD2. As a result of PSD2 and existing card network rules, online merchants will no longer be liable for fraud for some portion of their European eCommerce volume. The market is still adjusting to this new regulatory framework, but we believe the associated GMV those online merchants submit to us will decline and, as a result, impact our near-term revenue potential to an extent. The magnitude of the liability shift is difficult to quantify with certainty and several important dynamics have yet to play out, which means that the impact on our European eCommerce volumes remains uncertain. But the important takeaway here is that all of this will result in a one-time reset to a portion of our growth, and not a reduction to our overall market potential.

All that said, when I step back and I look at the global market ahead of us, I see a tremendous opportunity for long term growth. Enterprise-class merchants continue to generate the lion share of direct-to-consumer GMV online. And they increasingly look to third party vendors such as Riskified to manage non-core elements of their businesses. At the same time, our platform also serves many other parties impacted by online fraud, including some of the world's largest online marketplaces. We believe the value we create far exceeds the cost of an in-house solution, enabling us to drive meaningful ROI. These compelling economics -- both for our merchants and for Riskified -- allow us to say confidently that we will continue investing aggressively to capture market share in this exciting new industry. That's why we've recently opened offices in China as well as the UK and Australia. And there will be others to come in the near future.

Before I turn it over to Agi, I want to thank all of our team members for their hard work and dedication over the last 8 years. In addition to growing our business, we have also managed to make a meaningful impact on our communities both in Israel and in the US. In the last 3 years alone, we have worked with 52 non-profits on 136 projects, committing over 4,000 volunteer hours along the way. We also donated shares in the company that were valued at $7.6 million at the time of our IPO, and close to $13 million as of Sept 3rd, which will be allocated to non-profits across Israel. We hope to continue our dedication to service as we grow our Corporate Social Responsibility initiatives in the future.

I'm very proud of what we've achieved to date, and I look forward to what's to come. With that, I'd now like to turn it over to Agi to discuss our second quarter financial results and outlook.

Agi Dotcheva, Chief Financial Officer, Riskified

Thank you, Eido, and everyone for joining today's call. As this is Riskified's first earnings call, I would like to begin with an overview of our financial model, so that everyone understands the fundamentals behind our business. Then I'll discuss our second quarter financial results in detail, and, finally, I'll provide our guidance.

Business and financial model

Fundamentally, our business model aligns our interests with our merchants' interests—we win when they win. We generate revenue by granting merchants access to our eCommerce risk management platform and reviewing, approving, and guaranteeing eCommerce transactions for legitimacy. We charge our merchants a percentage of every dollar of GMV that we approve, so our incentive is to approve as many orders as we safely can on the merchant's behalf. We believe that this merchant-centric approach, coupled with our rigorous decisioning process, maximizes our financial results and those of our merchants.

If an approved transaction that we guaranteed results in an eligible chargeback, we will reimburse the merchant for the amount of the lost sale. In this situation, we record a chargeback guarantee expense in cost of revenue and typically provide the payment to the merchant in the form of credits on future invoices.

Since we charge our merchants a percentage of every dollar of GMV that we approve, we define our "take rate" as the percentage of billings divided by GMV. As a result, our take rate is driven by two main factors:

1) Risk-adjusted fee - The fee we charge our merchants, which is established at contract inception, is a risk-adjusted price, which is expressed as a percentage of the GMV we approve. Our risk-adjusted price is a function of the type of merchant, the risk level of the end market, the percentage of GMV we review from the merchant, and the guaranteed approval rates we agree to provide.
2) Approval rate - The percentage of GMV that we approve.

So, for example, when our merchants ask us to review transactions from end markets that carry higher risk, we may charge higher fees. Or, when we upsell and review additional volume from an existing merchant, it will usually be coupled with a lower risk-adjusted fee.

Periodic changes in the overall take rate can be attributed to shifts in merchant or industry mix in our portfolio of merchants due to the different risk profiles and individual merchant take rates.

Therefore, unlike traditional payment companies, our take rate changes are not primarily driven by volume tier discounts, but rather by overall business trends.

Our take-rate was approximately 26 bps in Q2 2021 which represented a decrease of 3 bps from 29 in Q2 2020, largely due to an increase of our GMV from a few merchants upsells in our portfolio for a lower risk adjusted price.

As a result of the strong value add that we provide to our merchants, we have experienced strong merchant revenue retention. The compelling ROI we deliver has also resulted in merchants increasing the use of our platform over time. An important indicator of our ability to grow our relationships with our merchants and to increase their use of our eCommerce risk management platform is Net Dollar Retention Rate which has been well over 100% over the past few years.

Second quarter results

Now, I'll turn to our second quarter results. We ended the quarter with GMV growth of 55% year-over-year to $21.5 billion and revenue growth of 47% year-over-year to $55.7 million. The strong year-over-year growth in revenue and GMV is primarily driven by the expansion of our platform from new and existing merchants who continue to experience tailwinds in overall eCommerce volumes, as Eido noted earlier. Accordingly, our cost of revenues, which primarily consist of chargeback expenses, increased by 27% year-over-year to $22.4 million, due to the previously described growth.

The changes in revenue and cost of revenue that I noted earlier, drove a 65% year-over-year increase in gross profit to $33.3 million.

Before discussing gross profit margin, I want to remind everyone that this is a metric that is best analyzed on an annual basis as individual quarters can experience variability due to seasonality, the industry mix shift of our revenues and changes in the risk profile of transactions approved.

Gross profit margin for the second quarter was 60%, reflecting a 7 percentage point year-over-year improvement from 53% in the second quarter of 2020. This improvement is primarily driven by a lower risk profile of the transactions approved in the period and ongoing improvements in our models and algorithms.

Although we are very pleased with this margin performance in Q2, we do not expect to maintain the same level of gross profit margin in the back half, and this is primarily the result of merchant mix and seasonality. More specifically and as is customary, we tend to experience higher chargebacks when we first enter a new industry. These levels trend lower over time as our platform learns from more industry-specific performance data. In addition we expect a pick up in higher risk profile travel industry-related volume due to summer and holiday related seasonality.

For the remainder of the P&L, I will refer to non-GAAP metrics. You can find the reconciliation of non-GAAP to GAAP numbers in the accompanying press release issued this morning.

Total non-GAAP operating expenses in Q2 2021 were $31.9 million, or 57% of revenue, driven by planned investments in research and development, sales and marketing, and general and administrative costs, as we continue to extend our platform and build new products, as well as go-to-market activities towards geographic expansion and market coverage. We do expect non-GAAP operating expenses as % of Revenue to go up in Q3 and Q4 to reflect ongoing investments as well as the incremental costs of operating as a public company.

Adjusted EBITDA in the second quarter was positive $1.6 million, representing a margin of 3%. As mentioned above, we expect to accelerate investments in the near term and therefore produce negative Adjusted Ebitda for the remainder of the year and for the full fiscal year.

Our balance sheet remained strong with $149.7 million of cash and cash equivalents, restricted cash, and short term deposits. We do not carry any debt on our balance sheet.

Following the end of the second quarter, on August 2, 2021, we completed our initial public offering ("IPO") on the NYSE, raising net proceeds of approximately $386.7 million.

The capital we have raised gives us a strong foundation to continue to invest in our technology and future growth opportunities and to enable our merchants to create trusted relationships with their consumers.

Guidance

Turning to guidance, let me remind you that PSD2, which European Union countries have begun to adopt, will be a headwind on revenue relative to earlier quarters for the remainder of this fiscal year. Since the PSD2 regulation started in the beginning of 2021, with gradual adoption by country by the end of the year, we expect that Q4 will carry the most significant impact.

For the full-year 2021, we anticipate revenue between $224.4 million and $225.4 million and negative Adjusted EBITDA between $(26.3) million and $(25.3) million. Our general practice will be to provide annual ranges for guidance, which we believe is consistent with the long-term approach we take to managing our business. However, given the unique timing of this first public earnings release occurring so late in the quarter, we are comfortable to provide a revenue outlook for Q3 of between $50.7 million and $51.2 million.

For modeling of Earnings Per Share, we expect to have approximately 109 million and 161 million weighted average shares outstanding for our third and fourth quarter, respectively.

We are very pleased with our strong results through the first two quarters of the year, and we expect to continue to benefit from strong underlying growth in global eCommerce, fueled by the expansion of omnichannel purchase options and a higher eCommerce penetration rate. We intend to leverage our proprietary technology, aggregated data advantages and scaled merchant network to drive even higher return on investment for our merchants and create frictionless shopping experiences for consumers. In particular, we are excited to continue our growth with aggressive global expansion into several major geographies in the coming years. We look forward to reporting on our progress in achieving this vision along the way. With that, I'll turn it over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator
(Operator instructions) Josh Beck, KeyBanc.

Josh Beck KeyBanc Capital Markets - Analyst
Congratulations on the first public quarter and the IPO, team. Really, really good to see. I just wanted to start high level just with the product roadmap. You had talked certainly about some areas that you'd like to get into. Maybe just give us a little bit -- I know you can't be too specific, but may be a little bit more of a flavor for where you'd like to see the product expanded on over time.

Eido Gal Riskified Ltd. - Cofounder and CEO
Sure thing. Hey, Josh. So our product roadmap right now consists of Account Secure, which helps verify accounts at creation and login; Policy Protect, which kind of saves merchants from abuse in their different policies like returns; and Deco, which helps optimize payment declines and also PSD2 to help with that regulation.

Really, our focus is to help generate ROI throughout the purchase funnel. We view that as either helping merchants increase sales, decrease their operating costs, or create a better frictionless, really seamless environment for their end customers. So that's really what we have in mind.

And taking a step back, I'm really kind of happy with the traction and the value that these products are creating together with the synergistic qualities that they have working with each other. They are all kind of live with a multitude of enterprise clients and it's really helping create this type of platform approach for us.

Josh Beck KeyBanc Capital Markets - Analyst
Excellent. And really good to hear about the Wayfair renewal, so thank you for the context there. I'm curious -- I know you can't get too specific about some of these larger new merchants that you have onboarded, but maybe just what have been some of the early learnings as you started to obviously work more closely with them and actually onboard them to the system?

Eido Gal Riskified Ltd. - Cofounder and CEO
I think we've been pleasantly surprised how applicable the solution is not just for credit card e-commerce transactions but also alternative forms of payment, whether it's ACH, whether it's digital tokens or wallets. So that has been kind of our assumption, but it's been reinforced throughout this quarter.

And I think that we've always had the thesis that even the world's largest merchants would be happy to partner with a Riskified on noncore elements of their business. And we feel that the Wayfair is a great example, but also kind of other things that we can't discuss right now.

Josh Beck KeyBanc Capital Markets - Analyst
Okay, excellent. Let me squeeze one more financial question on, just related to the guidance. Obviously, you have really strong momentum, as you mentioned, within the quarter and certainly good visibility into Q3. Maybe just with respect to Q4, what are some of the key assumptions? Obviously, you mentioned PSD2 is like going to be more of a factor in that quarter. Just what are some of the big moving parts that we should be thinking about as we go into the fourth quarter of the year?

Agi Dotcheva Riskified Ltd. - CFO
So I will take this one. So when we think about Q4, we already know that some of the -- most of the European countries have already started to adopt PSD2. And this is definitely something that we are watching and we expect that most of the effects and impact on our merchants will happen in Q4. Having said that, it is something that we have already included -- the risk in our financials based on the expectations based on what we see.

And in addition of that, we're just very excited about the continued strength and growth coming from our existing customers. And can also say that we have seen generally that the COVID has a positive impact, like a tailwind to the e-commerce growth. And that's also something when we think about kind of the fluctuations between travel and just the continuous growth in e-commerce, we're very well positioned as like a portfolio that kind of is very balanced. Seeing the impact of e-commerce, but also kind of netted potentially by some of the softness in travel.

Josh Beck KeyBanc Capital Markets - Analyst
Very helpful. Thank you, team.

Operator
Timothy Chiodo, Credit Suisse.

Timothy Chiodo Credit Suisse - Analyst
Great, thank you. Good morning, everyone. I want to dig in a little bit to the longer-term growth outlook. So I think this would be something that would be extremely helpful to investors. When we think about that, let's call it 25% to 30% medium- to longer-term growth outlook, getting past the near-term impacts from PSD2 and whatnot, how does the management team think about this algorithm in terms of the components? When we think about one portion is the underlying end-market growth, so e-commerce growth very strong. Then you have this other driver of wallet share gains with your existing customers. And then of course, you have new customer wins.

So if you were to kind of put some rough numbers around those to add up to roughly 30% or so, how should we think about those? Clearly, the e-commerce underlying is sort of in the mid-teens, maybe higher, but those other two components sort of bridge us to the 25% to 30%. Thanks a lot.

Eido Gal Riskified Ltd. - Cofounder and CEO
Hey, Tim. So definitely when we think as a management team on kind of the really long-term persistent growth opportunities that we have, it's like you mentioned. It's the underlying growth of the e-commerce market that we're part of, together with expanding the wallet share with our existing clients. And we have a very kind of considerable expansion opportunity there, together with gaining new clients, it's still kind of a massive opportunity.

I will say that we also think about expanding into additional categories. I mentioned ACH and digital tokens earlier. We're also thinking about geographical expansion. We're also thinking about some of the new products that are kind of very nascent in their revenue opportunity. So I think those are all kind of the different factors into that very long-term persistent growth outlook.

When we think about the exact percentage points, I don't think it's something that we're sharing at this point. But I would say overall, the way that customers tend -- especially the larger ones, which are more significant for us, they tend to start with a smaller section and expand usage over time as they kind of become more comfortable with the platform as we prove our ROI and expand with them.

So because of that dynamic, we tend to see more of the revenue growth from existing clients and expansion within the existing cohort. But the net new business is what's helpful in kind of the future growth opportunities.

Timothy Chiodo Credit Suisse - Analyst
Okay, great. Thanks a lot; that's really helpful context. My quick follow-up is -- and actually, maybe it's not so quick of a follow-up, but it's a question around PSD2 offsets. So clearly, there is some portion of volume that will cease being sent over in this quarter, in Q4, et cetera, with PSD2. That's more the inter-European volume. Of course, the cross-border piece is still very much in scope for you guys.

Can you talk about the applicability of the new products? In other words, if the core chargeback guarantee product is impacted by PSD2 in Europe, to what extent could the other new products still be sold into those same customers that you clearly already have good relationships with?

Eido Gal Riskified Ltd. - Cofounder and CEO
Right. So the PSD2 directive, which creates the payment security in the EU, it forces customers. It's a strong customer authentication. A byproduct of that is that we see more customer drop-off. The second thing we see is a shift in liability from the merchant to the card issuer. And like you mentioned, because of that liability shift, there might be a one-time reset to a portion of the European volume.

And the second question is does our PSD2 optimize product. That helps offset some of that revenue impact over time. But the remainder of the platform -- the Account Secure, the Deco product, the Policy Protect -- are still as relevant as ever, correct.

Timothy Chiodo Credit Suisse - Analyst
Yes, exactly. That's what I was getting at. So a couple different products that could still be sold into those same customers is kind of what I was getting at. Okay, well, thank you, everyone, for taking the questions.

Operator
Ramsey El Assal, Barclays.

Ramsey El Assal Barclays Capital - Analyst
Hi, guys, and thank you for taking my question this morning. I wanted to ask about kind of following up on the assumptions underpinning your expectations in 2021 and whether they have changed between a couple of months ago in the pre-IPO period and today.

I'm actually asking specifically about Delta variation impact, whether the Wayfair renewal was contemplated in guidance, and whether you've had to adjust your expectations around a travel recovery. Those three sort of items. Has your view changed; has it caused your projections to change effectively?

Agi Dotcheva Riskified Ltd. - CFO
Thank you, Ramsey. I will take this one. So we're constantly monitoring macro trends such as the COVID involvement on travel and just the general growth in e-commerce. And when we think about the different factors that are impacting it, we don't see any huge impact based on where we thought it will be.

Maybe there is just some shift in some categories, either specifically. For example, if I think about travel, we do see like domestic travel or domestic accommodation growing much faster and kind of recovery, where our international is not recovering as fast. So there's kind of specific variations to some of our assumptions, but overall, we're very strong about our position of where we were just a month ago.

Ramsey El Assal Barclays Capital - Analyst
Okay, so not a lot of change in the view. Okay. Then secondly, I wanted to ask about gross margin came in a little better than our model. And if you could just comment on the performance of chargebacks in the quarter. And also maybe more broadly, should we expect -- not having a lot of historical context at this point, how volatile cannot performance be quarter to quarter?

Agi Dotcheva Riskified Ltd. - CFO
Yes, sure. So when we think about gross margin, the percentage and just growth in general, we do manage this more on an annual basis. And as we kind of explained, there is going to be variability in different quarters because of seasonality, because of different industry and merchant mix, different ramp-up of new clients. But on an annual basis, we are very kind of close of where we thought we were going to be and I think this is kind of the best way to look at the way we are managing this internally.

Ramsey El Assal Barclays Capital - Analyst
Okay, all right. Thank you very much. Appreciate it.

Operator
Tien-tsin Huang, JPMorgan.

Tien-tsin Huang JPMorgan - Analyst
Thank you so much and congrats again on the IPO and the first quarter here. It looks really clean. I wanted to follow-up on Ramsey's question just with EBITDA coming in better, gross margin coming in a little bit better, and the outlook was better than what we had forecasted for EBITDA. How much of that is gross margin performance versus perhaps slower

investment ramp? I know that there was a lot of plans to invest in people, et cetera, so just curious if there's been any change on the cost side. Thanks.

Agi Dotcheva Riskified Ltd. - CFO
Sure, Tien-tsin. Thank you for the question. So I think that a lot of it is coming from gross margin out-performance. And regarding our investments, we are back on track and we're continuing to speed up and to ramp up. I would say that the majority of this investments I expect to happen over Q3 and Q4 and this is reflected in some of our guidance.

Tien-tsin Huang JPMorgan - Analyst
Okay, great. That is high quality then. Great; just a terrific year. And maybe for you Eido or Agi, just on the -- we get a lot of questions on buy now pay later. There has been a lot of activity there; a couple of acquisitions. And I've had some people ask about Riskified and how buy now pay later might play a role in your flow. Do you participate and if so, how?

Eido Gal Riskified Ltd. - Cofounder and CEO
That's a great question. So taking a step back, like I mentioned, we don't just focus on credit card transactions. We already work with ACH, with PayPal volume, with digital wallets. And from that perspective, the technology and work with by now pay later just as well.

When we think about the buy-now-pay-later vendors themselves, their service is to provide an end-to-end payment processing that also includes the risk component in the chargeback liability. And they face the same problems that our enterprise e-commerce merchants face; namely that they make mistakes, they accept bad transactions, and they have loss as a result of that. They turn away good customers because they do not want to receive those loss and they have to invest very large amount of resources to upkeep these teams and tools and processes and systems.

So we definitely kind of feel that our platform just dedicated to solving this one unique problem is very applicable and is directly within our strike zone to help them. I will say that one just kind of nuance to help understand; I'm just talking about fraud-related loss. Not any type of underwriting related to credit, which I think is more of their specialty, and obviously, they are better than us at that portion.

Tien-tsin Huang JPMorgan - Analyst
Perfect. Thanks for going through that, guys.

Operator
Terry Tillman, Truist Securities.

Terry Tillman Truist Securities - Analyst
Hi, Eido and Agi. Congratulations on the IPO as well from me and the quarterly results. I had a couple of questions. One thing I wanted to kind of take a look at is you have a growing merchant base on the platform. And they are at various kind of cycles in terms of whether they are early onboarding, they are starting to move into broader swaths of their GMV, to fully kind of ramped.

What I'm curious about is it's kind of like a visibility question I'm asking: how much of your merchant base is like really fully ramped, you've got the most attached you can get on GMV reviews, as opposed to it is ramping or it's really early stages? That's the first question.

Eido Gal Riskified Ltd. - Cofounder and CEO
Yes, so I would say definitely at the earlier cohorts, and I'm talking about 2016, 2017 cohorts, you can see that the wallet share has been steadily increasing. And I think we shared some of the cohort expansion numbers or the net dollar expansion numbers that are a great reflection of that.

When we think about the most recent cohort this year, the previous two years, there's definitely a lot of expansion opportunity there left. We have added some of the world's largest e-commerce merchants that are underpenetrated today.

So we definitely think there's kind of massive opportunity. We don't have -- for various kind of also technical and sometimes legal issues, we can't share the exact whitespace, but on our internal models it's very significant.

Terry Tillman Truist Securities - Analyst
Okay. And maybe just a follow-up question is omnichannel. I mean, people have been talking about it for quite some time, but I think the brick-and-mortar companies or brands are still trying to work through that and it's a journey.

What I'm curious about is what's the cadence in terms of some of these large brands that are really trying to embark on omnichannel BOPUS or curbside and just really get their house in order there. Do you all tend to follow those initiatives? Do you tend to be in parallel? And does it open up more opportunities or GMV? Thank you.

Eido Gal Riskified Ltd. - Cofounder and CEO
It does. When I think about some of the categories like groceries that from a traditional retail have gone much more omnichannel in the past 18 months, that's definitely opened up more opportunities for us. The reason being these kind of more complex undertakings, like buy online curbside pickup, fraud tends to gravitate to those areas because they are newer and there's less data and it's easier to perform fraud there. Which means that it's also kind of a better opportunity for us to service these merchants once they start getting into these roles. So we'd only feel that various omnichannel flows are a good driver for the business.

Terry Tillman Truist Securities - Analyst
Congrats. Good luck in the second half.

Operator
Brent Bracelin, Piper Sandler.

Brent Bracelin Piper Sandler - Analyst
Good morning and thank you for taking my questions here. I guess I wanted to focus a little more on Q3 activity, given the range for Q2 numbers here were known, public, and updated in the S-1 ahead of the IPO.

Eido, could you provide a little more color on how the platform is addressing the digital wallet and online payment use cases? I mean, how much interest activity are you seeing now from that use case in Q3? Could broader adoption provide a lift to revenue? Just trying to understand the mechanics on how it works and how it may impact the model. Thanks.

Eido Gal Riskified Ltd. - Cofounder and CEO
Right. So I will say -- and I'm putting Q3 aside for a second. We onboarded some new categories around kind of payment platforms and digital wallets in the second quarter. They are still underpenetrated or there is still a lot of wallet share and whitespace opportunity there. It tends to take a longer term for us to ramp to fully realize the opportunity within these accounts, so I wouldn't imagine that it would be a significant portion in Q3 at least.

Brent Bracelin Piper Sandler - Analyst
Over time, could that be an incremental lift? Drive a higher tax rate to GMV? Could it be a material lift or it's just too new at this point to really tell?

Eido Gal Riskified Ltd. - Cofounder and CEO
I think on the very long term, it could definitely be part of that persistent long-term growth that's expanding the TAM. It's making sure that we're applicable to more geographies, verticals, categories, which is kind of that long-term vision that we have. So definitely.

Brent Bracelin Piper Sandler - Analyst
Perfect. And then on the international expansion, I think you specifically referenced Australia, China. How has the merchant receptivity to Riskified been in there? Walk through any sort of color you can provide on appetite to partner and outsource in those two new regions.

Eido Gal Riskified Ltd. - Cofounder and CEO
We're very happy with the expansion, both in Australia and we also have planned in Shanghai and in Japan. Our London offices have been very successful so far. We're ramping on Mexico and Brazil. And really, I think the common thread is that the problem of fraud is global and the platform is able to provide a great service in all these different geographies.

So again, to date, even before we had a local representative in those countries, we were able to support our global partners when they were selling globally. But now that definitely helps us both with the go-to-market but also in a way to service the clients. So very happy with the reception so far.

Brent Bracelin Piper Sandler - Analyst
Great. And then last one here for you, Agi. PSD2 volume kind of headwind risk was well known kind of going into the second half of this year. I'd be curious how you are seeing those headwinds play out so far. So any sort of kind of change relative to what you were thinking going into the second half? Any thoughts there on what's happening in real-time would be helpful. Thanks.

Agi Dotcheva Riskified Ltd. - CFO
Yes, sure. So I mean, we kind of expected that countries are going to gradually adopt, start ramping up and we do see most of the countries kind of going in as planned. So in that respect, everything is not unexpected of where we are right now. Countries, both countries and merchants are adopting PSD2.

In terms of projection, I think the regulation is too difficult to predict. And I believe that long term, PSD2 will provide a growth opportunity for us once we are past this cycle and we create this reset and we will be able to really help all these clients that we have today to kind of attract more GMV and to really help them with solving their newly kind of arising friction points as well.

Brent Bracelin Piper Sandler - Analyst
Helpful color. Thank you so much for the call and taking my questions.

Operator
(Operator instructions) Ladies and gentlemen, there are no further questions. This concludes today's conference call. We thank you for your participation. You may now disconnect.