Corrected Transcript

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Paymentus Holdings, Inc. (PAY)

Q2 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the Second Quarter 2026 Paymentus Earnings Conference Call. This call is being recorded. All participants are currently in a listen-only mode. There will be an opportunity to ask questions following management's prepared remarks. [Operator Instructions] At this time, I will now turn the call over to David Hanover, Investor Relations. Please go ahead.

David Hanover
Senior Vice President, KCSA Strategic Communications

Thank you, operator. Good afternoon. Welcome and thank you for joining the webcast to review our second quarter 2026 results. Our earnings results documents are available on the Investor Relations section of the paymentus.com website. They include the earnings presentation that we'll make reference to during this webcast. This webcast is being recorded. I hope everyone's had a chance to review those documents. Our Founder and CEO, Dushyant Sharma, will make some opening comments, before Sanjay Kalra, our CFO discusses the details of the second quarter and our guidance.

Following our prepared remarks, we'll take questions. Let me remind you that our remarks today may include forward-looking statements within the meaning of the federal security laws and the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and beliefs and involve a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. For a detailed discussion of these risk factors, please refer to our most recent Form 10-K and Form 10-Q filings with the Securities and Exchange Commission. We will also refer to non-GAAP financial measures during the webcast. Information about non-GAAP financial measures, including reconciliations to US GAAP, can also be found in our earnings materials that are available on our website. Finally, the company assumes no obligation to update any forward-looking statements made today, whether as a result of new information, future events or otherwise.

With that, I'd like to turn the webcast over to Dushyant Sharma. Dushyant?

Dushyant Sharma

Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.

Thanks, David. Paymentus delivered another strong quarter. We posted record revenue representing 28.8% year-over-year growth. This in turn drove 26.3% growth in contribution profit, and a phenomenal growth of 54% in adjusted EBITDA. Considering our year-to-date results, our exceptional Q2 bookings, and substantial backlog, we believe we are well on track to meet our 2026 financial goals and our longer-term targets.

And if we take a step back and look at our performance over five years or more, we are well ahead of our previously discussed long-term CAGR model of 20% top line and 25% adjusted EBITDA growth at midpoint of our range. In fact, we are so far ahead of our CAGR model that if you apply to our 2020 revenue and adjusted EBITDA as the starting point of this decade, the projected results for 2029, meaning end of this decade, would be approximately the same as our current revised guidance for 2026 that Sanjay will cover shortly. Meaning we have achieved a decade's worth of 20% compounded annual growth as a scale public company three years ahead of schedule. Isn't that amazing? Very proud of the team.

This excellent fiscal outperformance has been achieved despite macroeconomic challenges, unprecedented inflation, quarterly variability, diversification of customer segments, including enterprise, expanding verticals including in B2B, onboarding billions of dollars of total contract value while at the same time bringing patented products to market, and redefining the future of service commerce. And as exciting as this feat is, what is even more exciting is that we are strategically better positioned now with bigger TAM, and a market that is moving in our direction than we were even a few years ago.

And the groundwork for the success we are experiencing was actually laid out years earlier. Likewise, the foundation we are setting now will pay dividends for years to come. In sum, we believe we are building a long-term compounded growth business, and it's important context to share because despite our size, scale, and phenomenal success to date, I believe we are just getting started, and I'm just as excited, if not more now about the next five years as I was a few years ago when we announced our CAGR model. This is in part due to what we announced last quarter regarding our place in the AI economy. With Billeo, our AI-native service commerce suite announcement we have set a foundation for Paymentus to become a premium AI and software company in addition to a premium sophisticated billing and payment company.

Let me elaborate further with the growth of AI, we see billers and businesses in the service economy becoming increasingly concerned with AI disintermediation risk. This is something we anticipated over five years ago. We believe that clients will start relying on Paymentus for more of their AI infrastructure and service application needs beyond the customer engagement, billing and payments alone. Due to our patented BillWallet, Billeo, and other AI patents, our product capabilities, leading technology platform, years of experience in dealing with sensitive data while managing client-based data sovereignty, we believe clients will want Paymentus to manage their AI workflows and data security needs. And as a result, we have been building these capabilities, including our Billeo AI Infrastructure and Commerce Suite.

Let me elaborate with a few examples. Our Billeo AI360 intelligence engine will replace our internal use third-party BI tool as we love the level of sophistication and simplicity it offers. We are already receiving positive feedback from clients and prospects on this. Second, we will be augmenting our human service center with Billeo Agentic service suite using Paymentus' own AI cloud infrastructure while maintaining client data sovereignty. Third, we have created intelligent data vault using Billeo AI360 pipeline for clients to store data that can be used by Billeo to build agentic workflows. Fourth, we have built one of the world's finest and most configurable transactional billing and reconciliation engine as part of the Billeo Commerce Suite. All of these are a subset of examples that are part of Billeo Commerce Suite. This also shows our preparation to date for the future, and we believe clients and prospects alike will continue to reward Paymentus' foresight and innovation while at the same time benefiting from the elimination of the disintermediation risk with BillWallet and Billeo.

And as a reminder, BillWallet is a unique instrument preserving service provider and customer identity along with payment credentials, to allow all interactions to be secure along with Billeo that powers intelligent interactions. Both of these innovations vastly improve the customer journey and payment experience, while bringing billers and service providers closer to their customers without the fear of disintermediation.

Along these lines, we recently participated in a study with Payments Intelligence regarding the importance to customers of the billing and payment experience from their service providers and billers. The study revealed the chasm that we already knew existed between the service providers and their customers. One of the key findings of this study was that customers in today's service economy largely consider billing experience as the new brand experience. Customers' billing and payment experiences greatly impact the strength and length of their provider relationships and also help determine critical payment behaviors. The study also revealed that a majority of consumers judge overall service quality through their billing experience. Therefore, the customer experience and payment journey is an extremely important factor for billers in terms of brand appeal and loyalty, in addition to affecting their cash flows.

And aside from customer loyalty, the study also projected that hundreds of billions of dollars in annual recurring revenue is exposed to payment delays. And that's because customers who are dissatisfied with the billing experience or find the process too difficult simply choose to delay their payments. So overdue payments aren't actually just an affordability issue, they are a customer satisfaction issue as well. And the study also revealed that the most dissatisfied customer cohort is the fastest-growing segment of the service economy, specifically the youngest customers. And this is a key point and why service provider need to care about this, because this segment is not just the youngest or the fastest growing, it will also potentially have the longest tenure with the provider. And what these customers experience now will shape the provider loyalty and payment patterns for decades. Paymentus' mission is to close this satisfaction gap. Our customers realize that the providers who close the gap first will obtain a loyalty advantage that compounds over a lengthy period of time. Our results show how successful we have been in doing this, and that this momentum is continuing. In other words, we believe the market continues to move in our direction.

Now, let me review our second quarter results in more detail. Second quarter revenue was a record $360.7 million, an increase of 28.8% year-over-year. At the same time, contribution profit was $118.1 million, up 26.3% year-over-year. Adjusted EBITDA was $48.8 million in the quarter, representing 54% growth year-over-year and a 41.3% margin. Once again, a majority of our year-over-year growth in contribution profit fell to our bottom line. We exceeded the Rule of 40 for the quarter coming in at 68% compared to 56% in Q2 of last year, and 64% last quarter. This reflects our team's solid execution and our focus on delivering consistent revenue growth alongside high quality earnings.

As we have stated before, we operate on a two-year fiscal horizon. So this outperformance is not just about one quarter, it actually gives us confidence and additional visibility for the rest of the year, and when combined with our backlog and bookings, we continue to feel very good about 2027.

Let's turn to our business results on slide 4. Our strong momentum continued in the second quarter with, as previously mentioned, robust bookings and a very substantial pipeline. We also continued to expand and diversify our customer base by signing new clients in several industry verticals, including utilities, government agencies, telecommunications, property management, insurance, banking, education, B2B, and consumer finance. Complementing this, we signed additional channel partners in telecommunications and insurance verticals. Likewise, onboarding this substantial backlog remains a priority for us. We continued to see better than expected seasonal performance in the second quarter, largely due to the large cohort of new customers that we added in the second half of last year. In addition, during the second quarter, we onboarded clients across multiple verticals, including utilities, government agencies, insurance, banking, telecommunications, healthcare, property management, B2B, and consumer finance.

And with that, I will now turn it over to Sanjay to review our financial results in more detail.

Sanjay Kalra

Senior Vice President & Chief Financial Officer, Paymentus Holdings, Inc.

Thanks, Dushyant. And thank you all for joining us today. Before I discuss our quarterly results and outlook, I'd like to remind everyone that the financial results I'll be referring to include non-GAAP financial measures. For the second quarter of 2026, we delivered another quarter of financial results that exceeded the top end of our guidance. We believe our continued ability to deliver such results demonstrates the inherent strength and durability of our business model.

Turning to slide 5. Highlights of our second quarter results include record revenue of $360.7 million, up 28.8% year-over-year. Contribution profit of $118.1 million, up 26.3%. And adjusted EBITDA of $48.8 million, up 54% year-over-year, and a record adjusted EBITDA margin of 41.3%. We generated $39 million in free cash flow while delivering a record Rule of 40 scale coming in at 68%. We continue to experience strong customer activity and demand in the second quarter. This drove bookings which enabled us to end the period with a significant backlog, and what we believe is solid visibility both for the remainder of 2026 and well into 2027.

We saw particular strength in the large enterprise segment of the market, spread across a broad vertical base. Based on our strong quarterly performance, the positive business trends, Dushyant just mentioned, and our expectations for the remainder of 2026, we are raising our full year 2026 guidance for revenue, contribution, profit and adjusted EBITDA, which I will discuss shortly.

Now turning to slide 6, let's review our second quarter financials in more detail. As mentioned, Q2 revenue was $360.7 million. This 28.8% year-over-year growth, which was ahead of our original expectations, was driven primarily by increased transactions across all aspects of our business, which includes the launch of new billers, same-store sales from existing billers, and to a lesser extent, improvement in average price per transaction. The number of transactions we processed in the second quarter grew to $213.4 million, up 21.4% year-over-year. Our average price per transaction increased from $1.59 to $1.69 during the same period. This was mainly due to the biller mix or more specifically, the large enterprise billers that we launched during the third quarter of 2025, with higher average payment amounts. This is now the third complete quarter where we are realizing the full benefits of these large enterprise customers.

Although the second quarter guidance we provided did reflect some of the potential upside from these large customers. But as you can see, performance still exceeded our expectations. Second quarter 2026 contribution profit increased to $118.1 million, up 26.3% year-over-year. This contribution profit increase was also higher than expected, and reflects the launch of new billers, the mix of billers launched as well as increased transactions from existing billers. Contribution margin was 32.7% for the second quarter, compared to 33.4% in the prior year period as we continued to add larger, higher volume enterprise billers to our customer base.

This change in contribution margin was offset substantially by year-over-year reduction in operating expense margin, which resulted in an adjusted EBITDA margin of 41.3% and incremental adjusted EBITDA margin of 69.6%. This is consistent with our continued focus on profitability, which I will elaborate on shortly. Contribution profit per transaction for the quarter was $0.55 an improvement compared to $0.53 in the prior year period, which we believe demonstrates both our ability to expand market share together with improving contribution profit per transaction. Also, as we've noted in the past, variables that are outside of our control, such as an increase in the average payment amount or changes in the payment mix, can substantially affect contribution profit on a quarter-to-quarter basis and therefore we treat this as a secondary metric. While our gross revenue and adjusted EBITDA remain primary metrics and focus areas by which we measure our business strategies and their execution.

Second quarter adjusted gross profit was $100.2 million, up 28.6% year-over-year. Better than our contribution profit growth. As economies of scale kick in as we anticipated, second quarter 2026 non-GAAP operating expenses increased year-over-year to $54.2 million. This 10.5% increase was primarily due to higher sales and marketing expenses. These increases were mainly driven by increased hiring in sales and marketing, and agency fees for business from our resellers and partners to convert our strong pipeline into bookings.

Second quarter non-GAAP net income was $32.4 million or $0.25 per share, compared to $19.3 million or $0.15 per share in the prior year period an increase of 66.7%. Second quarter adjusted EBITDA was $48.8 million, up 54% compared to $31.7 million in the prior year. Adjusted EBITDA also represented 41.3% of contribution profit for the quarter compared to 33.9% in the prior year. A notable 740 basis points improvement over last year. Our strong adjusted EBITDA performance was due to the same combination of positive factors I talked about earlier, all of which came together in the quarter. We believe this stronger adjusted EBITDA margin demonstrates the innate operating leverage we have in the business and our sustained ability to adapt to ever changing market conditions while we continue to grow. Interest Income from our bank deposits were $3 million during the second quarter, compared to $2.3 million in the prior year period.

Related to our performance. Once again, we exceeded the Rule of 40 for the quarter coming in at approximately 68% significantly better than 56% in the prior year period.

Now I will discuss our balance sheet and liquidity position on slide 7. We ended the second quarter with total cash and cash equivalents of $379.7 million compared to $342.1 million at the end of first quarter of 2026. The $37.6 million sequential increase was primarily comprised of $48.9 million of cash generated from operations offset by $11.2 million cash used in investing in financing activities, mainly capitalized software of $9.7 million. We do not have any debt. Free cash flow generated during the quarter was $39 million, primarily driven by strong adjusted EBITDA in the quarter. Driving organic growth continues to be our primary focus. Having said that, our strong cash position enables us to maintain financial flexibility to allow for working capital investments as we scale.

In addition to this, our ample liquidity allows us to explore attractive M&A opportunities that may arise in order to expand our growth strategy. Our days sales outstanding at the end of second quarter was 27 days, compared to 29 days at the end of the prior quarter. Better than our expected range. Working capital at the end of second quarter was approximately $393.3 million, an increase of approximately 7.6% sequentially. We had 129 million diluted shares outstanding during the second quarter, relatively in line with 129.3 million diluted shares outstanding during the prior quarter.

Before I discuss guidance, I would like to provide some additional color on our recent bookings and backlog trends. Over the past two years, we have seen increasing momentum from large enterprise customers. In fact, as I mentioned earlier this past quarter, we saw particular strength in this customer segment across multiple verticals. Complementing this during the second quarter, we've experienced especially strong bookings in the large enterprise customer markets, resulting in a substantial exit backlog at the end of the quarter. This significant backlog is not only in terms of total backlog dollars, but also in the number of total customers, and a mix of small, mid-sized, and large enterprise customers, and diverse verticals within our backlog. These factors provide us much greater visibility for the rest of the year as well as into 2027.

Now I'll turn to our non-GAAP guidance for the third quarter and full year 2026 on slide 8. I want to emphasize that we are continuing to follow our prudent and disciplined approach to guidance that we have consistently followed in the past. For the third quarter 2026, we expect revenues to be in the range of $353 million to $363 million, representing 15.2% year-over-year growth at the midpoint, and 16.8% at the high end. Contribution profit to range from $112 million to $115 million, which is 15.5% year-over-year growth at the midpoint and 17% at the high end. Adjusted EBITDA of $40 million to $45 million, representing a growth of 18.5% year-over-year growth at the midpoint and 25.5% at the high end. This represents a 37.4% margin at the midpoint and 39.1% at the high end,

Along with our guidance, I also want to reiterate some key points related to our outlook for contribution profit growth rates and adjusted EBITDA margin. As our business grows and we continue to receive greater inbound interest from large enterprise customers as we scale. Not unexpectedly, these larger customers often seek volume discounts, which we're open to where the deal economics support it. In addition, our tremendous operating leverage allows us to attract and book these large customers. Said differently, volume discounts for large customers is typically more than offset by strong incremental adjusted EBITDA. This increased our efficiency as our onboarding time per biller is declining, while average customer size is simultaneously increasing. Furthermore, we have the ability to recalibrate OpEx spending relative to contribution profit in order to reach our desired adjusted EBITDA.

Based on our results and progress we have already made in the first half of 2026 and our expectations for the remainder of the year. For the full year, 2026, we now expect revenue in the range of $1.443 billion to $1.458 billion. This reflects a raise of approximately $18 million or approximately 1.3% from the midpoint of our previous guidance. The updated guidance now represents 21.2% annual growth at the midpoint and 21.9% at the high end. Contribution profit in the range of $460 million to $465 million. This reflects a raise of approximately $9 million or 2% at the midpoint versus prior guidance. This updated guidance now represents 19.7% annual growth at the midpoint and 20.4% at the high end.

Adjusted EBITDA to range from $175 million to $185 million, representing a raise of approximately $11.5 million, or approximately 6.8% increase at the midpoint versus our previous guidance. The updated guidance now represents a 31% annual growth at the midpoint, and 34.6% annual growth at the high end. This also implies a 38.9% margin on the contribution profit at the midpoint, and 39.8% margin at the high end. We are using a non-GAAP tax rate of 25%. This annual guidance implies a Rule of 40 scale range of 59% to 60% at the midpoint and high end, respectively.

Before I conclude my remarks, I'd like to provide some helpful context for understanding our guidance philosophy. Our guidance reflects what we can deliver with a high degree of confidence based on current visibility. This is a consistent approach we have followed for many, many quarters regardless of the macro environment. We manage the business and execute to maximize long-term shareholder value. We believe our most recent execution in the second quarter, together with the current state of business today, inclusive of extremely strong pipeline, phenomenal bookings, and very healthy backlog we currently enjoy, reinforces our confidence in how strong this year is shaping up, and the execution of our long-term CAGR framework.

More importantly, it demonstrates not only the resilience of our business over time, but also the durability of our growth trajectory looking forward.

With that, I'll turn it back to Dushyant for final remarks.

Dushyant Sharma

Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.

Thanks, Sanjay. I remain confident in Paymentus' continued success due to following factors that I've noted in the past, including our growing technology footprint and our ecosystem, our large diversified and increasing customer base, the vast non-discretionary and a still relatively untapped bill payment and service commerce market that we serve, the continued expansion of our innovation footprint, and our unique business model, and our proven track record of meeting or exceeding our long-term CAGR model on which we are executing years ahead of schedule.

I would like to add one final note on that point. Although our CAGR model is for the long term, it's interesting to see how well this year is shaping up. We are currently pacing well ahead of our original CAGR model targets for 2026. Specifically, the top end of our revised guidance now implies a 21.9% growth over 2025, which itself is already 9.5% ahead of the 20% CAGR model. Likewise, the top end of our adjusted EBITDA guidance now implies 34.6% growth over 2025, which is already 38.4% ahead of our adjusted EBITDA CAGR model midpoint of 25%. This is rather remarkable because 2025 was also an excellent year, where we delivered 37.3% revenue and 45.9% adjusted EBITDA growth. Said differently, the midpoint of our 2026 revenue guidance is now over 65% higher than 2024 revenue and midpoint of our 2026 adjusted EBITDA guidance is now over 90% higher than our 2024 adjusted EBITDA, far outpacing any of the indexes and most premium and best-in-class software and SaaS companies.

With that, I also want to recognize and thank everyone on my team at Paymentus, who have helped to make all of our success possible. That concludes our prepared remarks. I'll now open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Madison Suhr with Raymond James. Your line is open.

Madison Suhr
Analyst, Raymond James & Associates, Inc.
Q

Hey. Good afternoon, guys. Appreciate you taking the questions. I wanted to start on the contribution profit dollar growth in the quarter, it accelerated for the fourth consecutive quarter now. Can you just provide maybe a little bit more color and double-click on some of the key drivers that's driven that acceleration? Is it simply a few large customers? Is it really broad-based? And then, also, any specific verticals that you would call out as being particularly strong that's driven this acceleration.

Sanjay Kalra
Senior Vice President & Chief Financial Officer, Paymentus Holdings, Inc.
A

Sure, Madison. The contribution profit dollar growth, which we are really proud of, actually, it's showing exactly the way we envisioned when we set our CAGR models. And this quarter is a phenomenal quarter where you see a very good growth. In fact, you will also see the revenue and contribution profit are more converging as we also envisioned years ago. But to specifically answer your question, it's broad-based. It's not limited to just the large enterprise customers. Definitely large enterprise customers do contribute and they contribute significantly. But that was anticipated. But the entire biller base is contributing to our growth of contribution profit dollars, it's large customers, small customers, mid-sized customers, and it's not focused or concentrated on any particular vertical as well. Verticals, I think every vertical is growing and every vertical is contributing. In fact, one thing which we have realized or noted in the past quarter, Madison, I would highlight is, the bookings which we did see in the past three or four quarters for which we are seeing a full quarter run rate which have leveled up to a good run rate. These are wonderful bookings we've had, phenomenal bookings, household names, customers which value our platform and technology, and we are able to get good pricing from them. They are highly profitable and that's what we are seeing the growth in contribution profit.

In fact, the contribution margin itself got improved sequentially, if you note, in the past four quarters, I believe the uptick there as well. So we feel very good about contribution profit growth, and the short answer is it's all broad-based and every biller is contributing there.

Madison Suhr
Analyst, Raymond James & Associates, Inc.
Q

Okay. Awesome. And then I want to follow-up on the AI products suite. Hoping you could maybe just touch on how user enrollment is progressing and any thoughts as to the timing of when this can start to really impact revenue. And then also, as it relates to the AI product suite, do you foresee any meaningful investment ramp as this product scales? Or do you think you can continue to deliver these strong incremental margins we've seen over the medium term, despite the rollout of these products? Thanks, guys.

Dushyant Sharma
Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.
A

Thank you for the question. I think you're seeing after the announcement last quarter, we are seeing very positive reaction from our clients and prospective clients, and partners. There is – as we talked about in the study we have conducted, there is clear need in the marketplace. In the service economy, it's not just about billing and payments, as we have highlighted in the prepared remarks, these experiences are actually directly tied to the brand experiences as far as the customers are concerned. It has far reaching impact on the billing companies and the service providers. So it is whether it's your website, how you enroll someone into the services, how you onboard them, how you build them, how you service them, how do you answer questions? What type of questions you can answer, how easily is that information available? How many options and what the payment journey looks like? So all of those things get factored into the entire service commerce spectrum. And what we're talking about here is basically the platform, the capabilities we have built is directly addressing that entire spectrum, which the payment operating system is the foundation of it. But on top of that, all of the AI capabilities we are building. So whether it is your data intelligence, the storing data securely, and then, from there, maintaining data sovereignty and making sure that the data is not leaving Paymentus cloud, Paymentus infrastructure, if you will.

So all of those capabilities are receiving very positive feedback. And in terms of your other questions were related to BillWallet itself, which is how the traction is, it's going well, the number of users are higher, we will provide more update once annually probably on that. But in terms of your question on the investment, I think our goal remains to be a very prudent operator of the business. We want to make sure that we are able to consistently deliver growth while also delivering incremental margins. But at the same time, if we see opportunities where we are seeing tremendous growth opportunity, we'll be happy to bring it. But right now, part of the innovation framework Paymentus has laid out is how can we use the network effect that we have already created as a way to distribute the products, and services, and innovations we are bringing to market in a way that it is actually additive, not subtractive to the margins or to the revenue growth.

So and the last part of your question, when do we see the results in the P&L? First of all, I am very proud of one fact, which is that we have been building all these things, and you can see on the expense side of the P&L as much here, because we have been making investments, but we have also been delivering great results, as you saw our success for the entire six or seven years for this decade. And then in terms of the top end of the top line, we see next few years, you will start to see results from these.

Madison Suhr
Analyst, Raymond James & Associates, Inc.
Q

Okay, awesome. I appreciate I know I snuck in a multi-part there. So appreciate all the extra details.

Dushyant Sharma
Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.
A

Thank you.

Operator: Thank you. Our next question comes from David Koning with Baird. Your line is open.

David John Koning
Analyst, Robert W. Baird & Co., Inc.
Q

Yeah. Hey, guys. Great job again. And I guess my...

Dushyant Sharma
Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.
A

Thank you.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, yeah. My question, historically, sequential growth in transactions, Q2 was the low point in average for many, many years average right around 2% sequential growth. This quarter, Q2 was up 5% sequentially, the strongest we have since I think 2019. So it seems like either momentum is somehow accelerating or there's something a little bit changed in the sequential pattern I guess the seasonal pattern of transaction growth. I'm just trying to figure out why it was so good sequentially.

Sanjay Kalra
Senior Vice President & Chief Financial Officer, Paymentus Holdings, Inc.

A

Thanks, Dave, for the question. I'll say we are ourselves trying to understand where these new large customers, and diversification of verticals take us to the trends. Historical trends were mainly driven by a few verticals. Now I think that as the diversification has happened, it's a great question, and we are also trying to see what the seasonal trends would be. Short answer is, we are very pleased with the growth of the business overall. Will the past trends continue from seasonality perspective? Maybe, maybe not, because the pace of our growth is so significant that actually it's hard to keep up with the similar trends and they definitely will change.

So we are pleased to see the second quarter growth of transactions which actually transactions grew 21%, and I think seeing them in 20s again, rebuilds our future forecasting of these new customers. So short answer is we don't know how the trends will continue. I think the right way to model, if I can be helpful for your modeling purposes is use our guidance, I would say be at midpoint. And use the revenue per transaction as an average of what we have delivered in the past few quarters that would give you the transactions for Q3, and maybe from an implied Q4 guidance, you can [indiscernible] (00:40:44) as well.

That's the minimum you could do. But the trends definitely are evolving and we are learning as our customers of different sizes are coming on board.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, great. Great answer. Thank you. And then I guess my follow-up, the network fee growth as a percent of gross revenue was the smallest it's been in a long time, I think over two years. And that's despite fuel prices going up. I don't know how exactly that hits all the utility bills, but maybe describe that. And if that – it sounds like that's going to converge now, meaning contribution profit, and gross revenue numbers, and growth are going to converge. But maybe just describe that dynamic.

Dushyant Sharma
Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.

A

Well, short answer Dave, is the customer mix, which we highlight on every earnings call, and in every discussions we have, because customer mix drives the contribution margins, and they evolve over time, although the seasonality impact is maybe getting little bit muted because the customers and the scale we are seeing is overtaking the seasonality in my view. So I think customer mix is the short answer and good pricing, better platform, good customers with – who see lot of value in the product, I think that's the short answer here.

David John Koning
Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thanks. Great job, guys.

Dushyant Sharma
Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.

A

Thank you.

Operator: Thank you. Our next question comes from Steven Wahrhaftig with Wedbush Securities. Your line is open.

Steven Wahrhaftig
Analyst, Wedbush Securities, Inc.

Q

Hey, guys. Thanks for taking the question and congrats on the quarter. It was really impressive to see some of the numbers that you've been putting up. I want to talk a little bit more about the bookings composition. Just because you mentioned that it was phenomenal bookings, and it was very diversified across multiple industries and some smaller and larger players, can you breakdown how much of that bookings and that backlog growth was tied to new and expansion deals? And then can you breakdown the average deal size moving upward just because of the fact that we're seeing a lot more large billers there? And then last thing just on the bookings, can you talk about if the large billers are actually seeing faster deployment timelines or is it consistent with prior quarters?

Sanjay Kalra
Senior Vice President & Chief Financial Officer, Paymentus Holdings, Inc.

A

Well, Steven, it's a loaded question.

Steven Wahrhaftig
Analyst, Wedbush Securities, Inc.

Q

Sorry about that.

Sanjay Kalra
Senior Vice President & Chief Financial Officer, Paymentus Holdings, Inc.

A

And we don't disclose the details of bookings and we don't quantify those. But let me see if I can be helpful here and provide you some additional color. The bookings are broad-based. We've got many verticals, I'll start, we've got utilities, insurance, telecom, property management, mortgage. We've got many, many verticals. And all of them are doing well. The bookings we had in the quarter were not concentrated on any one or two verticals. In fact, Dushyant highlighted the verticals where the more concentration was, that's where the bookings came from.

Of course, they are all new customers. They are not – in our bookings, we don't count expansion of existing customers. So we feel very good about the total bookings which came in and exiting the quarter with a very solid backlog. In fact, we've also seen a good visibility for 2027 based on the bookings. So it's all diversified. In terms of timeline, the timelines are improving. In fact, timelines have been improving as a trend since past many, many quarters as our processes become more efficient, our implementation teams' processes are very efficient, and we've got economies of scale as well. So efficiencies are coming in from every direction, I would say. So timeline is improving. Large customers or small, all of them are getting implemented faster than what we envisioned when we booked a customer.

In fact, last two years, if I may remind, we had strong results. One of the reasons for that our implementation phase was faster than what we originally anticipated. So that trend continues and I think we have great backlog ahead, and teams are busy implementing on time or even before the scheduled time.

Steven Wahrhaftig
Analyst, Wedbush Securities, Inc.
Q

Perfect. Thank you for the color.

Sanjay Kalra
Senior Vice President & Chief Financial Officer, Paymentus Holdings, Inc.
A

Thank you.

Operator: Thank you. Our next question comes from Darrin Peller with Wolfe Research. Your line is open.

Josefina Ruggieri
Analyst, Wolfe Research LLC
Q

Hi, guys. This is Josie on for Darrin Peller. Thank you for taking my question. First question just on – so rev per transaction, while showed growth again year-over-year, seemed to decline quarter-over-quarter while contribution profit per transaction did increase. And then in terms of the back half guidance, seems that contribution profit growth is meant to outpace revenue growth. So just wondering if you guys could provide any color on maybe what's driving the strength in the contribution profit and maybe not as much in revenue. Thank you.

Sanjay Kalra
Senior Vice President & Chief Financial Officer, Paymentus Holdings, Inc.
A

Well, let me take a step back. I think there are three things which you're asking. So revenue per transaction, definitely, per transaction metric is more of an output of the business rather than being an input to the business. So at the end of the month or at the end of the quarter when we close, then we actually find out what was the revenue per transaction. It is never our go-to when we are booking a customer or with that, what revenue per transaction are we trying to drive. So our North Star remains the CAGR model which Dushyant shared earlier. Revenue per transaction is just a resulting output, but at the same time, the variability quarter-over-quarter will always continue on revenue per transaction and same will continue in CP per transaction. So I think, quarterly, you can see that. But overall, the business is heading in the right direction with the kind of scale and growth we have.

In terms of contribution profit per transaction which actually is like $0.55 this quarter, I think that comes mainly from the mix of the billers and that's getting better, I would say. So if that mix is giving us a better contribution profit eventually falls downward to our EBITDA. And this quarter was a phenomenal quarter where approximately 70% is the incremental EBITDA margin. So whether one particular KPI revenue per transaction or CP per transaction moves a bit here or there, I don't think that's disrupting the long-term model. In fact, long-term model remains intact with incremental margin touching almost 70%.

And I think on your last question regarding the guidance, I think it's important to understand that any implication could come out from the current guidance we have given. However, that would not be the right takeaway of the business. I would like to take a step back and explain a bigger picture on how to interpret the guidance. First of all, look at the annual growth, the top line is already 21.9% on revenue and 34.6% on EBITDA, adjusted EBITDA. We are already ahead of our CAGR model, which is 20% top line and 25% for adjusted EBITDA just within one year and only six months are behind us, remaining six months are still yet to go. And I also want to make sure I explained that there is a separation of the execution of the business philosophy and our guidance philosophy.

When it comes to execution, the business is doing exceptionally well. Bookings are strong, backlog is strong, pipeline is strong. Our CAGRs are far ahead, and there's a momentum in the business. In fact, Q2 results are – a lot of record KPIs were delivered. But when it comes to guidance, we follow a very disciplined approach to guidance. Our guidance reflects what we can deliver with a very high level of confidence based on the current visibility we have on the date we are giving the guidance. And this is a consistent approach regardless of the macro. As you know, we've historically demonstrated we prefer to earn credibility through our consistent execution rather than embedding any assumptions in our guidance, which have not materialized yet. So it's a long way of saying, but short answer is, the guidance is very disciplined and followed consistently. Over-reading the guidance for one quarter would not give you the right conclusion, and that's what I would encourage all the investors not to read too much into any one particular quarter's guidance in isolation. Look at our guidance philosophy over time and see the results we have delivered.

Josefina Ruggieri
Analyst, Wolfe Research LLC
Q

Thank you for that.

Sanjay Kalra
Senior Vice President & Chief Financial Officer, Paymentus Holdings, Inc.
A

Sure.

Operator: Thank you. [Operator Instructions] Our next question comes from Tien-Tsin Huang with JPMorgan. Your line is open.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

Hi. Good afternoon. Great results, good execution as usual here.

Dushyant Sharma
Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.
A

Thank you.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

Dushyant, on the enterprise momentum, my question was just maybe giving us a little bit more detail on the momentum itself. Any change in how, for example, the business is being sourced? Is there a shift in inbound versus outbound sales effort? Are your win rates improving? Is your mix of sole-sourced going up? I'll let you answer however you'd like, but just go a little bit more detailed maybe on the enterprise momentum.

Dushyant Sharma
Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.
A

So, I think what has transpired over last several years is that our years of hard work is sort of starting to pay off, which is building a great franchise, great platform, having a tremendous fiscal discipline, and having the public profile, including seeing how well we treat our customers during great times and not so great times with macro and so on, as we saw several years ago. So all of that is now is all out in the open. And what enterprise customers have started to recognize is that what used to be and it's still is to a large extent, the old legacy model, which is payment companies, not Paymentus, but payment companies in general are basically just a processing company. They're basically the goal is to take a API call from one place and then send it to another place, and then the money settled in the customer's account. That used to be the history of payment companies and that has a place and obviously is an important function but not sufficient. As far as the new enterprise segment of the market is concerned, there are a lot of sophisticated workflows, there are a lot of custom logic. All of that business rules, all of those have to be factored in before a decision could be made to think about what more – how much of the workflows off a given organization or enterprise can Paymentus platform take over.

So when that question comes in, Paymentus shines phenomenally well, because the way we have designed our platform, we recognize the payment is one part of the function and especially how we get paid. But the platform itself handles tremendous workflows, lot of data, lot of intelligence layer, lot of workflows, business rules. Then all of that is put in front of the executive team of an enterprise, what used to occur, the CIOs and CTOs used to be on the opposite side of the table to us, years and years ago, are now on the same side of the table and saying, Paymentus actually does a lot more than what meets the eye, it's not just a payment company, payment is what they do and get paid for, but there's a lot more workflow that could be included in Paymentus platform. And as a result, what happens is some of these discussions take place in many different ways.

So some is, you're reaching out to clients and explaining to them based on some of these are household names of national accounts. You're looking at them as, hey, we already know how your systems work, and what the capabilities are and how many myriad of applications you are hosting, and Paymentus can eliminate all of them with one platform, with one integration. So that could be our outreach. That outreach could result into inbound calls to us as well from other players. And then as you can imagine, as we reported last year, we have almost 53 million unique users who transacted in December last year. Since then, obviously, it is higher. You're approaching a sizable portion of United States' households as well as businesses. And if you think about a buyer psychology here, you might be a customer of Paymentus in one area, while you might be CFO of a large company in your work and you are seeing that Paymentus has taken care of lot of stuff you would like your team to take care of. So you may have an outreach to Paymentus. And then we have built amazing partnership ecosystem, which is increasingly more sophisticated list of partners and well-known names.

So all of that combined is actually leading to inroads into enterprise. But the front and topmost I would put it put is the capability of Paymentus platform, which is far more than what has ever been built before by a company that had payment in its name.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

That's interesting. Thank you for sharing.

Dushyant Sharma
Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.

A

Thank you.

Operator: Thank you. This concludes the question-and-answer session. I would now like to turn it back to Dushyant Sharma for closing remarks.

Dushyant Sharma
Founder, Chairman, President & Chief Executive Officer, Paymentus Holdings, Inc.

Well, thank you, everyone. Have a great day. Appreciate everyone's time. Thank you.

Sanjay Kalra

Senior Vice President & Chief Financial Officer, Paymentus Holdings, Inc.

Thank you.

Operator: Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.