

Block, Inc. Fourth Quarter 2023 Earnings Call - Prepared Remarks

Nikhil Dixit, Head of Investor Relations

Hi, everyone.

Thanks for joining our fourth quarter 2023 earnings call. We have Jack and Amrita with us today.

We will begin this call with some short remarks before opening the call directly to your questions. During Q&A, we will take questions from conference call participants.

We would also like to remind everyone that we will be making forward-looking statements on this call. All statements other than statements of historical fact could be deemed to be forward-looking. These forward-looking statements include discussions of our outlook and guidance as well as our long-term targets and goals, and we may decide to shift our priorities or move away from these targets and goals at any time. These statements are subject to risks and uncertainties. Actual results could differ materially from those contemplated by our forward-looking statements. Reported results should not be considered as an indication of future performance.

Please take a look at our filings with the SEC for a discussion of the factors that could cause our results to differ. Also, note that the forward-looking statements on this call are based on information available to us as of today's date. We disclaim any obligation to update any forward-looking statements, except as required by law. Further, discussion during this call of Cash App's banking services refer to those offered through our bank partners.

Within these remarks, we will also discuss metrics related to our investment framework, including Rule of 40. With Rule of 40, we are evaluating the sum of our gross profit growth and Adjusted Operating Income margins.

Also, we will discuss certain non-GAAP financial measures during this call. Reconciliations to the most directly comparable GAAP financial measures are provided in the Shareholder Letter, and our Historical Financial Information spreadsheet on our Investor Relations website. These non-GAAP measures are not intended to be a substitute for our GAAP results.

Finally, this call in its entirety is being audio webcast on our Investor Relations website. An audio replay of this call and the transcript for Jack and Amrita's opening remarks will be available on our website shortly.

With that, I would like to turn it over to Jack.

Jack Dorsey, Block Head

Thank you all for joining us. Last quarter, I focused our shareholder letter on how we're going to grow Square through our four priorities. This quarter, our letter is about Cash App's strategy and our goal to become one of the top providers of banking services to households in the U.S. If you haven't yet, please read that letter for details. As we did last quarter, to maximize time for your questions, we're going to focus our opening remarks on Amrita providing more details on the financials. With that, I'll now turn it over to Amrita.

Amrita Ahuja, Chief Operating Officer and Chief Financial Officer

Thanks Jack.

There are two broad topics I'd like to cover. First, where we've been. In particular, our performance for the full-year and fourth quarter of 2023, where we saw strong growth and meaningful improvements in profitability, driving progress against our investment framework.

Second, where we're headed. Our expectations for 2024, our guidance for the first quarter, recent trends we've seen, and ways we'll look to drive improvements on Rule of 40.

Let's start with our strong growth and efficiency in 2023 as we continue to drive toward our Rule of 40 target in 2026.

We ended 2023 with \$7.50 billion in gross profit for the year, up 25% year over year, or 24% on a combined company basis. Our heightened focus on efficiency helped us improve profitability during the year.

Adjusted EBITDA was \$1.79 billion, up 81% year over year, and 24% margin on gross profit, our highest ever. Adjusted Operating Income, which as a reminder includes expenses related to stock based compensation and depreciation, was \$351 million, our highest yet, representing a 5% margin on gross profit and compared to a loss of \$145 million a year ago. Cash flow generation also improved this year, as Adjusted Free Cash Flow for 2023 was \$515 million up from negative \$346 million a year ago.

Taking the components together, we achieved Rule of 29 in 2023, on a combined company basis which was a few points higher than our guidance as of the third quarter.

The other component of our investment framework is gross profit retention, which shows our ability to retain a customer over time and is an indication of whether our products, pricing, and support are valued by our customers.

During 2023, Square and Cash App each achieved positive gross profit retention in aggregate across their annual cohorts. Square cohorts saw strength in software and banking offset

softness in processing volumes during the year. Cash App benefited from growth in inflows per active driven by financial services products and monetization from pricing changes.

In the fourth quarter, gross profit was \$2.03 billion, up 22% year over year. Adjusted EBITDA was \$562 million and Adjusted Operating Income was \$185 million, both higher than our guidance driven by continued discipline on discretionary spend.

On a GAAP basis, Operating Loss of \$131 million was impacted by a goodwill impairment of \$132 million, severance expenses of \$70 million, primarily related to our recent organizational restructuring, and lease impairment restructuring expenses of \$34 million. Also as a reminder, starting in the fourth quarter we restructured our commerce efforts by moving our BNPL Platform fully into Cash App. We are reflecting this change in our fourth quarter and 2023 gross profit results, as well as prior periods. Let's get into the drivers for each of Square and Cash App in the fourth quarter.

Square generated \$828 million in gross profit, up 18% year over year. Square GPV was up 10% year over year in the fourth quarter. While we experienced positive acquisition and stable churn of existing sellers compared to prior periods, GPV per seller continued to be affected by slower discretionary spending in the U.S., and, consistent with what we shared last quarter, we've also seen a lower gross profit contribution from ramping cohorts of sellers.

Within our card-not-present volumes, we saw solid growth in online volumes, up 11% year over year. This was partially offset by a decline in manual-keyed entry, or MKE, volumes where a seller manually enters card information into a payment device either in person or over the phone. This has been an ongoing trend, with MKE volume now representing just 13% of Square GPV in the fourth quarter of 2023 compared to more than 16% two years prior. We expect the headwind from MKE transactions to remain for some time, although its impact should moderate as we expect software-enabled payments to become an increasing driver of our business.

While Square GPV growth has moderated, driven by GPV per seller and MKE declines, our banking products and vertical point of sale solutions delivered strong growth, with gross profit from these products up 28% and 27% year over year, respectively.

Cash App generated \$1.18 billion in gross profit in the fourth quarter, an increase of 25% year over year. Looking at the components of the inflows framework which, as a reminder, does not include our BNPL platform:

As of December, Cash App had 56 million monthly transacting actives, up 9% year over year. Inflows per transacting active averaged \$1,137 in the fourth quarter, up 8% year over year, driven by increasing adoption of our financial services products over the past year.

Cash App Card continued to increase its scale and introduce customers to financial services within Cash App. Cash App Card reached 23 million monthly actives, representing more than

40% of our total actives base in December, and growing 20% compared to the prior year, more than twice as fast as overall monthly transacting actives.

Monetization rate was 1.48%, up 9 basis points year over year and 5 basis points quarter over quarter. Improvement from the third quarter was driven by a number of factors, including an increase in bitcoin gross profit from pricing changes implemented during the quarter.

Turning to our BNPL platform, which contributed \$242 million of gross profit to Cash App in the fourth quarter. GMV from our BNPL platform was \$8.6 billion in the fourth quarter, up 25% year over year driven by strength across our Pay-in-Four offering as well as Single Use Payments, which allows customers in the U.S., UK, and Australia to shop via the Afterpay app at merchants we don't have a direct relationship with, and pay using BNPL.

Losses on consumer receivables were 1.00% of GMV, consistent with historical ranges. As Jack included in his letter, integrating commerce payment tools is a key focus for us into next year, and we see powering BNPL through Cash App Card as a significant opportunity.

Turning to our guidance. We're committed to achieving our Rule of 40 target in 2026. Our primary objective in 2024 is to deliver an improvement from the Rule of 29 we achieved in 2023, on a combined company basis.

To achieve this, we have put forward an initial guidance that we intend to exceed, by at least one point of outperformance during the year, either on gross profit growth or Adjusted Operating Income margin, or both. As we did last year, we are working to identify growth opportunities and additional efficiencies that further progress us towards Rule of 40.

For the full-year 2024, we are expecting at least \$8.65 billion in gross profit, or at least 15% growth year over year. By ecosystem, we expect Cash App to grow faster than Square, but for growth to moderate from 2023 as we lap pricing changes and other initiatives that improved our cost structure. As we look to 2024 and beyond, we are focusing our efforts on driving engagement through product adoption and product velocity.

Within Square, we expect software and integrated payments, and banking to be continued drivers of growth. We believe the work we put towards our new strategic priorities and the investment behind several go-to-market initiatives can improve seller acquisition over the next few years.

On profitability, we are raising our full-year guidance and now expect Adjusted Operating Income of at least \$1.15 billion compared to our preliminary guide of \$875 million, and Adjusted EBITDA of at least \$2.63 billion vs. \$2.4 billion. This represents year over year margin expansion of approximately 9 points on Adjusted Operating Income and 7 points on Adjusted EBITDA.

As we continue to focus on managing costs, we expect to achieve leverage on share based compensation expenses as a percentage of gross profit, compared to 2023. This guidance on growth and profitability is based on the visibility we have into our business today with no significant changes to the macro environment.

Lastly, our guidance for the first quarter of 2024. We expect to deliver between \$2.00 to \$2.02 billion in gross profit, or 17% growth at the midpoint. For Square, we expect gross profit and GPV to moderate slightly compared to the fourth quarter's 18% and 10%, respectively. So far this year, weather has periodically impacted Square GPV in the U.S., and particularly in January, where we saw it drive a 3 to 4 point moderation in growth, as certain regions experienced impacts to in-person volumes, particularly within food and drink and retail.

For Cash App, we expect growth to be driven by actives and inflows per active in the first quarter. We expect the gross profit growth rate to moderate compared to the fourth quarter's 25% as we'll be lapping tougher comparisons.

Looking at profitability, we plan to deliver both quarter-over-quarter and year-over-year growth with Adjusted Operating Income of \$225 to \$245 million, and Adjusted EBITDA of \$570 to \$590 million. The respective midpoints represent margins of 12% and 29% and year-over-year growth of 361% and 57%, demonstrating our continued focus on driving profitable growth.

With that, I'll now turn it back to the operator to start the Q&A portion of the call.