Wish (NASDAQ: WISH)
Third Quarter 2022
Earnings Call Prepared Remarks
Wednesday, November 9, 2022

Hi, everyone, and welcome to Wish's Third Quarter 2022 Earnings Conference Call. I am Randy Scherago, VP of Investor Relations, and joining me today are our interim CEO Joe Yan and our CFO and COO Vivian Liu.

Today's prepared remarks have been pre-recorded. There is also a slide deck that has been posted to our IR website which is available for your reference. Once we are finished with Joe and Vivian's remarks, we will hold a live Q&A session.

The remarks made today include forward-looking statements that are related to, among other things, our financial expectations, business and turnaround plans, the turnaround timeline, consumer experience and engagement, expectations regarding merchant relationships and strategic partnerships; the potential impact of our strategic, marketing and product initiatives, including ad spending and the rebrand; and the anticipated return on our investments and their ability to drive future growth. Our actual results may differ materially from the results implied by these forward-looking statements if certain risks materialize or assumptions prove incorrect.

Forward-looking statements involve risks and uncertainties which are described in today's earnings release and our periodic reports filed with the SEC. Any forward-looking statements that we make on this call are based on our beliefs and assumptions today, and we disclaim any obligation to update them.

Also, during the call, we will present both GAAP and non-GAAP financial numbers and metrics. A reconciliation of non-GAAP to GAAP results is included in today's earnings release, which you can find on our investor relations website and which is also filed with the SEC. A replay of this call will be posted to our investor relations website.

I'll now turn the call over to Wish's interim CEO, Joe Yan.

Joe Yan, Interim Chief Executive Officer

Thank you, Randy. I would like to thank everyone for joining our Third Quarter 2022 Earnings call. This is my first earnings call since I joined Wish two months ago. I am excited to be part of the Wish team at this important moment in the company's evolution. I joined Wish as I see tremendous growth opportunities for the company as one of the world's largest mobile ecommerce platforms. Wish's vision is to unlock the vast potential of ecommerce for the underserved, value-oriented consumers around the globe. I believe that Wish is uniquely positioned to capitalize on the growth where cross border ecommerce and the emerging trends in social commerce intersect.

Today I will start by highlighting some of the major accomplishments by the team, my observations on how the macro environment conditions are affecting Wish, then share our Q3 financial highlights, followed by updates on the foundational pillars of the business. Vivian will then comment on our operational efficiencies, provide a deeper dive into our third quarter financial results and share the fourth-quarter guidance. Lastly, I will provide additional closing remarks before opening up the call to your questions.

Stepping into the interim CEO role two months ago, I was immediately impressed by how much the Wish team has done in strengthening the foundation of Wish over the course of one year: improve app experiences, reduce shipping time and improve on-time delivery rate, adopt a new pricing practice for buyers, implement new commission structures for merchants, launch a rebrand campaign, relaunch our women's fashion category, and this list goes on. Many of these foundational fixes are in full swing, improving buyer experiences on the Wish platform and deepening our relationships with global merchants. We have received positive feedback from both our merchant and buyer communities, reflected by our improved customer NPS and merchant NPS results this year over last year.

At the macro level, we experienced a higher level of economic uncertainty that emerged in both our North American and our European markets, which we believe to have impacted consumer buying behaviors. Our "value-oriented" consumers, particularly in Europe, have been impacted by the dramatic rise in energy costs, which translated to a slowing of discretionary spending across the region. We expect this uncertainty to continue, potentially impacting our buyers' behaviors in the upcoming holiday season and even into 2023. During these challenging economic times, we will remain committed to our "value-oriented" consumers who seek out the Wish shopping experience to get more for their money.

At this time, I will share some high-level financial highlights for the third quarter. Total revenues were $125 million, down 66% from the third quarter of 2021, mostly driven by lower ad spend and our new pricing practice which was fully effective in Q3. However, I am glad to note that our order volume grew from Q2 to Q3, the first sequential quarterly growth since Q1 2021.

Our Adjusted EBITDA[1] in Q3 was a loss of $95 million, which was favorable compared to our previous guidance of a loss of $110 million to $130 million. Our balance sheet remains healthy with a balance of $837 million of cash, cash equivalents and marketable securities and no short-term or long-term debt.

I will now quickly highlight some of the progress we have made on **two of our foundational pillars: Improving the Consumer Experience, and Deepening Merchant Relationships.**

Over the past twelve months, we have made tremendous investments to upgrade the mobile app, improve listing quality, reduce delivery time, and enhance customer services and better address our buyers' pain points.

Those improvements were first reflected in customer NPS results. As previously shared, we have seen customer NPS improve compared to last year. Next, we have seen significant

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improvements in refund and order cancellation rates. Our monthly customer refund rates have fallen 34% from January to September of this year, and customer order cancellations dropped 68% within the same time period as well.

I would also like to update you on our relaunch of Women's Fashion offering which was started in mid-August. The new experience is now available across both the Android and iOS platforms. Data so far shows that both add-to-cart rates and average order value are improving with the new Women's fashion experience. We also now have over 2,700 women's fashion merchants on-boarded in this experience providing a wide range of over 160,000 women's fashion garments and accessories to our consumers.

As we continue on our path to improve the customer experience, we will focus on the areas that enhance the ease of use, interactivity and entertainment value of the platform. One example is our new logged-out experience. Under this new design, consumers on iOS, Android, mobile and desktop web will no longer be required to download and install the app and create a new account in order to browse the products available on Wish.

We have made great strides in deepening and enhancing our merchant relationships. Throughout the year the Wish Standards Program continued to improve the quality of merchants and listings on Wish. We also enhanced transparency in our pricing practice with both our buyers and merchants globally.

Additionally, we began implementing a new commission structure in Q2 to align with the industry practice and bring greater clarity and more competitive commission rates to our merchants. We rolled out the new rate cards for European markets in Q2 and successfully completed the global launch by deploying to the Rest of the World, including the U.S., in Q3.

We now also offer our merchants more tools to merchandise their products on Wish. We already have banners, collections, and store fronts, but will be adding in certain markets a dedicated 'Deals Hub' where merchants can showcase their products even more. During the month of November, we will be running "Everyday is Black Friday" campaign where we will have daily deals and weekly flash sales for our popular categories such as electronics, accessories, home, toys, gifts, and fashion. For the month of December, we will continue to run daily and weekly "Holiday sales." We intend to partner closely with our merchants in providing great value and satisfying holiday shopping experiences to Wish customers.

At this time, I would like to turn the discussion over to our CFO and COO, Vivian Liu, to discuss our operations, as well as our third quarter financial results in more detail.

Vivian Liu, Chief Financial Officer and Chief Operating Officer

Thank you, Joe.

First to comment on the third pillar of achieving operational excellence– we believe that a competitive logistics offering is a critical differentiator to our global merchants. Therefore, we are committed to improving our logistics operations in terms of Time to Door (TTD) and on-time delivery rates.

During the third quarter we overcame multiple Covid-related lockdowns in China. The average TTD in five of our major markets has improved by 5 days since the beginning of the year. Our on-time delivery rate was around 92% in the third quarter, an improvement from approximately 80% during the third quarter of last year.

We are also taking steps to expand our merchant base outside of China. In Q3 we officially launched our merchant operations in Vietnam with a highly capable and driven team on the ground. We will continue to expand and strengthen our merchant bases in Europe, Southeast Asian countries and Americas. Over time we expect this initiative to enhance our product variety in categories important to Wish, and reduce our reliance on any particular country for merchandise supplies.

Now, I would like to discuss the financial results for the third quarter of 2022. I will also be providing Adjusted EBITDA[5] guidance for the fourth quarter.

In Q3, we had 24 million monthly active users (MAUs[3]) and 16 million LTM Active Buyers[4], which was a decline of 60% and 65% respectively, year-over-year. This decline was mainly driven by the cumulative reduction in marketing spend over the past year. Our total marketing spend during the past four quarters (Q4 2021 through Q3 2022) was approximately 85% lower compared to the marketing spend of the four quarters prior. Marketing spend was the most important driver of our topline performance from a year-over-year standpoint. We noticed that the decline in MAUs[3] has started to stabilize. Further, Q3 was the first quarter since Q1 2021 where our MAUs[3] increased quarter over quarter. As Joe mentioned earlier, order volume also increased in Q3, the first sequential quarterly growth since Q1 2021. We are cautiously optimistic that over time more operational metrics will show similar improvements.

Total revenues in Q3 were $125 million, a decline of 66% year-over-year. The decline was across Core Marketplace, ProductBoost, and Logistics. The revenue performance was attributable to lower marketing spend as mentioned above and the new pricing practice implemented throughout Q1 and Q2 this year. As communicated during the previous earnings calls, we expected those pricing changes to drive better customer engagement and pricing transparency with our merchants. But for the near term they'd create downward pressure on both revenues and profits. Q3 was the first quarter where the new pricing practice was fully effective at a global scale. Thirdly, we believe that the high inflation rates and market uncertainty in most of our buyer markets, particularly the European markets, also contributed to the revenue decline year over year.

Q3 gross profit was $34 million, a decline of 80% year-over-year. Gross margin was 27% vs 45% in Q3 2021. The gross margin decline was driven by the aforementioned pricing changes as well as the logistics business which has a lower margin now contributing a higher percentage to the total revenues.

Total operating expenses were $162 million in Q3 2022, a reduction of 30% year-over-year from the $230 million in Q3 2021.

Net Loss was $124 million, compared to a net loss of $64 million in the third quarter of 2021. Our Q3 Adjusted EBITDA[1] was a loss of ($95) million, compared to an EBITDA loss of ($30) million from Q3 2021. The EBITDA performance year over year was mainly driven by the movements in revenues and gross profits described earlier. However, the Q3 2022 EBITDA result does compare favorably to our guided loss of ($110 million to $130 million). The more favorable EBITDA outcome versus our guidance was due to lower than expected marketing and outside services spend, as well as higher than expected gross profits.

Our Q3 Free Cash Flow[2] was negative $100 million, a significant improvement from a negative free cash flow[2] of $344 million in Q3 2021.

We ended Q3 with $837 million in cash, cash equivalents and marketable securities with no debt.

Now turning to our outlook. We expect Adjusted EBITDA[5] to be a loss in the range of ($90) million to ($110) million for Q4 2022. As a reference point, our estimated revenues in October 2022, the first month of Q4, is expected to be flat or slightly down when compared to our revenues in July 2022, the first month of Q3.

As the global economy continues to experience uncertainty due to geopolitical risks, high inflation and interest rate hikes, we will remain focused on operational efficiency and unit economics. Building upon the much strengthened Wish foundation, and with a strong sense of urgency, we are actively working to acquire and retain customers more efficiently, drive organic growth and improve the lifetime value of our core customers.

Before turning the call back to Joe, I'd also like to address another topic for investors:

On October 28, 2022, we received a letter from NASDAQ that we were in non-compliance with the NASDAQ Listing Rule that requires listed securities to maintain a minimum bid price of US $1.00 per share. The Company has been provided 180 calendar days, or until April 26, 2023, to regain compliance. The management team will be considering a number of alternatives, including the possibility of a reverse stock split to bring the company back into compliance with NASDAQ listing requirements. We remain committed to creating shareholder values; first through the successful execution of our turnaround plans and developing a strategic path to long term sustainable growth and profitability.

Now, I will hand over the call to Joe for his closing remarks.

Joe Yan, Interim Chief Executive Officer

Thank you, Vivian.

To close, I'll leave you with a few final thoughts.

During the past two months I've been able to assess the situation, draw up plans, and begin to drive execution. I was able to hit the ground running, since I was previously at Wish as VP of Merchant Services in 2020, and I have spent most of my career in the operations of ecommerce companies.

So I would like to share a few notes with you that are based upon what I've seen these last two months as interim CEO.

First off, it is a simple fact that turnarounds are hard. I've met with all of our teams, and am tremendously impressed with the dedication everyone has shown to make this turnaround successful.

What I have seen over and over is that Wish employees have been making tough decisions over the last year, to make sure we are building for long term success. Implementing simplified pricing, changing the commission rate structure and significantly reducing our ad spend, were difficult decisions that are clearly reflected in our short-term numbers, but those fundamental changes have also set us up with a strong foundation for us to leverage for the next stage of the turnaround.

What's ahead of us is to use this platform now, to accelerate our pace of innovation, and drive the product toward our mission: "**Bargains made fun, discovery made easy**."

That's why I am excited. *Discovery* is a completely different approach to solving search and relevancy in ecommerce. It's like the mall in real life; we take people who have a general intent to purchase something and inspire them to build a basket of interesting items that delight them at a reasonable price.

This is a fun experience for buyers, and of course, we are working hard to make this more fun, with gamification and incentives. This is also fun for Wish employees to build, as we are a technology company, and this is cutting edge data science and personalization at scale, along with bold user experience and design innovation.

Where I'd like to end my discussion today, is to highlight what my focus will be for the next several quarters. My plan is to build much stronger operational muscle across all of our teams. Our vision is amazing, but that is not where we need to focus. What we're going to fight for inch-by-inch, is making sure that we can drive business results using all of the tools and capabilities we've built or can build as a technology company.

This is what I joined Wish to do, and I invite all of you to join me as we push forward with the transformation of this company.

At this time, operator, could you please open the call for the analyst and investor questions?

[1] Adjusted EBITDA is a non-GAAP financial measure that represents net income (loss) adjusted to exclude: interest and other income (expense), net (which includes foreign exchange gain or loss, foreign exchange forward contracts gain or loss; and gain or loss on one-time non-operating transactions); provision or benefit for income taxes; depreciation and amortization; stock-based compensation expense and related payroll taxes; lease impairment related expense; remeasurement of redeemable convertible preferred stock warrant liability; and other items

[2] Free Cash Flow is a non-GAAP financial measure that represents net cash provided by (used in) operating activities less purchases of property and equipment

[3] We define MAUs as the number of unique users that visited the Wish platform, either on the mobile app, mobile web, or on a desktop, during the month

[4] We define LTM Active Buyers, As of the last date of each reported period, the number of unique active buyers is determined by counting the total number of individual users who have placed at least one order on the Wish platform, either on the mobile app, mobile web, or on a desktop, during the preceding 12 months

[5] Wish has not provided a quantitative reconciliation of forecasted Adjusted EBITDA to forecasted GAAP net income (loss) for total Adjusted EBITDA or to forecasted GAAP income (loss) before income taxes for segment Adjusted EBITDA within this earnings release because the company is unable, without making unreasonable efforts, to calculate certain reconciling items with confidence. These items include, but are not limited to: income taxes which are directly impacted by unpredictable fluctuations in the market price of the company's stock.

Use of Non-GAAP Financial Measures

We provide Adjusted EBITDA, a non-GAAP financial measure that represents our net income (loss) adjusted to exclude: interest and other income (expense), net (which includes foreign exchange gain or loss, foreign exchange forward contracts gain or loss and gain or loss on one-time non-operating transactions); provision or benefit for income taxes; depreciation and amortization; stock-based compensation expense and related payroll taxes; lease impairment related expenses; remeasurement of redeemable convertible preferred stock warrant liability; and other items. Additionally, in this news release, we present Adjusted EBITDA Margin, a non-GAAP financial measure that represents Adjusted EBITDA divided by revenue. The reconciliation between historical GAAP and non-GAAP results of operations is provided below. Our management uses Adjusted EBITDA in conjunction with GAAP and other operating performance measures as part of its overall assessment of the company's performance for planning purposes, including the preparation of its annual operating budget, to evaluate the effectiveness of its business strategies and to communicate with its board of directors concerning its financial performance. Adjusted EBITDA should not be considered as an alternative financial measure to net loss, which is the most directly comparable financial measure calculated in accordance with GAAP, or any other measure of financial performance calculated in accordance with GAAP. We also provide Free Cash Flow, a non-U.S. GAAP financial measure that represents net cash used in operating activities less purchases of property and equipment. We believe that Free Cash Flow is an important measure since we use third parties to host our services and therefore we do not incur significant capital expenditures to support revenue generating activities. The reconciliation between net cash used in operating activities and Free Cash Flow is provided below. Free Cash Flow has limitations as an analytical measure, and you should not consider it in isolation or as a substitute for analysis of our net cash used in operating activities, which is the most directly comparable financial measure calculated in accordance with GAAP, or any other measure of financial performance calculated in accordance with GAAP.

A Note About Metrics

The numbers for some of our metrics, including MAUs, are calculated and tracked with internal tools, which are not independently verified by any third party. We use these metrics to assess the growth and health of our overall business. While these numbers are based on what we believe to be reasonable estimates of our user or merchant base for the applicable period of measurement, there are inherent challenges in measurement as the methodologies used require significant judgment and may be susceptible to algorithm or other technical errors. In addition, we regularly review and adjust our processes for calculating metrics to improve their accuracy, and our estimates may change due to improvements or changes in technology or our methodology.