Wish (NASDAQ: WISH)
Third Quarter 2021
Earnings Call Prepared Remarks
Wednesday, November 10, 2021

These remarks will be read on the live call.

Jesse Beller, VP of Business Operations

Thank you. Good afternoon, and welcome everyone. Joining me today to discuss our results are Jacqueline Reses, our Executive Chair, and our interim co-CFOs Brett Just and Jennifer Oliver. Farhang Kassei, our CTO, Tarun Jain, our CPO, and Wish's new CFO, Vivian Lu, will join us for the Q&A session.

During the call, we will make forward-looking statements about our future plans and financial performance. These statements are subject to risks, uncertainties, and assumptions. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. We encourage you to consider the risk factors described in our SEC filings for additional information. The date of this call is November 10, 2021, and forward-looking statements made today are based on assumptions as of this date. We undertake no obligation to, and do not intend to, update these statements as a result of new information or events. This call is being broadcast on the Internet and is accessible on our Investor Relations website. A recording of the call will be available later today.

During the call, we will discuss GAAP and non-GAAP measures, including adjusted EBITDA, Free Cash Flow , and Statement of Operations data. We encourage you to read our earnings news release, which can be found on our Investor Relations website and on a Form 8-K, which we have filed with the SEC, as it contains important information about our GAAP and non-GAAP results, including reconciliations of historical non-GAAP financial measures.

We will now open with brief remarks and then we will take your questions. And with that, I'll turn the call over to Jackie.

Jacqueline Reses, Executive Chair

Thank you, Jesse, and welcome everyone.

Before we get into our third quarter overview, I'd like to start with an important announcement that we shared via press release shortly before this call.

As you may have seen, Piotr Szulczewski, Wish's Founder and CEO, is stepping down from his role as chief executive officer. Piotr made a personal decision that now is the right time to step away from the business and is fully committed to ensuring a smooth transition. Piotr will remain

CEO until the Board of Directors appoints a new CEO, or no later than February 1, 2022. Piotr will remain on the company's Board of Directors.

On behalf of the Board of Directors and the entire team at Wish, I want to express my sincerest gratitude to Piotr for his contributions to the company. Since founding Wish in 2010, he has helped scale the organization into a global, publicly traded marketplace focused on providing millions of value conscious shoppers with an entertaining and fun experience. Piotr also helped assemble a strong leadership team of highly qualified senior executives, which is well-prepared to execute on the turnaround strategy outlined on our 2Q call and oversee the company's daily operations while the Board searches for a new CEO. With the foundation Piotr helped develop, Wish is well-positioned to continue to evolve and grow.

Now, turning to Wish's third quarter results. During the third quarter, we made progress on our turnaround strategy while exceeding the Q3 financial outlook we provided on our last earnings call.

We achieved adjusted EBITDA[1] above the high end of our guidance range, in part due to more efficient digital advertising spend. Beginning in mid-July, we began to significantly cut back our digital ad spend while we focused on improving user retention and key core marketplace fundamentals. As expected, our third-quarter revenue experienced a decline that was in line with the lower digital ad spend. We will maintain a disciplined approach to cash and expense management that corresponds to our financial improvement as we execute on our turnaround strategy.

The two key pillars of our strategy to return to growth are as follows:

- Increase users' confidence in our marketplace, and
- Provide a more differentiated and engaging user experience.

We remain confident in our ability to return to growth during the second half of 2022 while also positioning Wish to create significant shareholder value over time.

I'd like to share more details about the progress we made in Q3.

First, we took a few major steps this quarter to improve users' confidence in our platform. We announced a new program for our merchants called **Wish Standards,** which is designed to reward merchants that consistently provide an exceptional user experience. We will evaluate merchants across performance metrics such as product quality, shipping & fulfillment, and user reviews and ratings. We will provide the highest-performing merchants with priority placement across our buying experiences as well as with commission discounts. The early results are

[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.

encouraging, as we have seen improved transaction NPS, reduced defect rate and improved retention as we ramp up the share of voice for higher quality merchants.

We also have increased our efforts to proactively prevent, detect and remove misleading, fraudulent, poorly reviewed and low-quality product listings from the platform. We intend to continue these efforts as we offer buyer protection for all qualified purchases on our platform.

Secondly, we are making progress in reinventing our shopping experience to make it more engaging, entertaining, and easier for our users to purchase products they love.
Our experiments with incorporating **live & video shopping** into our users' experience is an important component of our modernization initiative: **"Wish Clips"** is a new feature that allows users to shop directly from high quality and trusted-merchant-created videos. We are currently testing this feature on Android devices in the US. We believe that both play-back and live video shopping are key components of a discovery-based shopping platform and we intend to build one of the largest repositories of high-quality shoppable videos in the world.

We also made progress in redesigning our **Homepage** through active experimentation -- both to make it more visually appealing and to better showcase deals, trends, and unique products. And we are testing allowing users to freely browse the best of Wish without having to create an account.

Providing our users with more flexibility for payments is also a key initiative. In Q3, **we partnered with Klarna**, a leading global retail bank, payments and shopping service to allow flexible payment options for our users in the U.S. This is part of a broader drive to expand our 'Buy Now, Pay Later' offerings. With this Klarna partnership, Wish users in the U.S. have the flexibility to spread the cost of their purchase over four interest-free payments. We expect this new partnership will drive increased order volume and revenue.

Third, we continue to recruit additional top quality merchants and brands to our platform, and give them tools to drive their own success.

During Q3, we onboarded more than 12,000 new merchant partners. Earlier this week, we hosted more than 450 merchant partners at our Merchant Summit in China. At the event, we announced a variety of new features to support their businesses and the long-term sustainability of the Wish platform. Among these tools are a new Merchant Promotion platform that enables merchants to fund and run a variety of their own promotion campaigns. We believe this will provide our users with better value and reduce our own direct promotional costs, all while empowering our merchants with the tools to easily manage their campaigns.

As we focus more on direct-to-consumer brands, we will be launching improved merchant stores that will enable merchants to create a customized "storefront" on the Wish platform. We plan to provide tools for merchants to directly engage their customers and followers around the world.

Our Ads product, Product Boost, has been an effective tool for our merchants to drive incremental conversions and growth. We continue to invest in engaging ad formats, new pricing models, and ad load optimizations while delivering compelling ROAS to our advertisers.

On the logistics side, we continued to focus on reducing delivery times, increasing on-time rates, and improving consistency by narrowing the delivery window users see at checkout. Despite global supply chain shocks during the quarter we were able to reduce our delivery times and improve our on-time rates. As we look ahead towards the holiday season, we have taken steps to manage our 3PL costs, while ring-fencing air cargo capacity to enable a greater number of pre-holiday deliveries. Furthermore, to make planning easier for our merchants, we announced we will be maintaining fixed shipping costs for our quality merchants throughout the holiday season.

Along with all of the improvements to the user and merchant experiences, we have added to our leadership team to best position the company to execute successfully on our strategy. We recently announced the appointment of Vivian Lu to Chief Financial Officer. Vivian is a seasoned finance leader who joined Wish from Shutterfly where she oversaw the finance function while transforming the business to achieve accelerated topline growth and profitability. Her experience is directly in-line with our goals here at Wish.

I'd like to take this opportunity to thank Brett Just and Jennifer Oliver for stepping in as interim co-CFOs during what has been a transformational time for the business. With that, I will turn the call to Brett for a review of our financial results.

Brett Just, Interim Co-CFO

Thank you, Jackie. Please note that some metrics we discuss today will be on a non-GAAP basis. A reconciliation of GAAP to non-GAAP results is included in our earnings news release, which can be found on our investor relations website and is filed with the SEC.

During Q3, total revenue was $368 million. That represents a decline of 39 percent year over year and 44 percent over Q2. As Jackie mentioned, the decline in revenue was driven primarily by our decision to significantly pull back on our digital ad spend while we addressed the operating challenges we outlined on our last call. In fact, sales and marketing spend was only 40 percent of revenue compared with 64 percent in Q3 of last year. On a dollar basis, sales and marketing spend was 62 percent lower year-over-year. Q3 net loss was ($64) million and adjusted EBITDA[1] was a loss of ($30) million - well ahead of the high end of our outlook range, in part, as Jackie described, due to more efficient digital advertising spend. Adjusted EBITDA[1] margin improved 200 basis points on an absolute basis from Q2 to (8) percent and 300 basis points compared with Q3 2020.

As expected, our user metrics were directly affected by the lower digital ad spend. Total monthly active users[2] declined 40 percent year-over-year to 60 million and last-twelve-month active buyers[3] decreased 32 percent year-over-year to 46 million.

As anticipated, each of our three main revenue streams saw declines during the quarter. Core Marketplace revenue decreased 55 percent year-over-year to $183 million, primarily due to lower order volume associated with reduced MAUs and LTM Active Buyers.

ProductBoost revenue decreased 24 percent year-over-year to $37 million, due to an overall lower volume of impressions that Wish was able to deliver as traffic to the Wish app slowed, driven by the pullback in ad spend.

Logistics revenue in the third quarter was $148 million, or a 3 percent year-over-year decrease, driven by the overall lower parcel volume.

Now turning to our costs and expenses. Cost of revenue for the third quarter of 2021 was $201 million, a 17 percent year-over-year decrease. Non-GAAP cost of revenue, which excludes stock-based compensation, was $196 million, a decrease of 19 percent year-over-year. The overall decrease was primarily due to lower logistics-related costs as we had significantly lower order volume compared to the prior year.

Q3 gross profit was $167 million, down 54 percent year-over-year. Non-GAAP gross profit, which excludes stock-based compensation, was $172 million, down 53 percent from Q3 2020. GAAP and non-GAAP gross margin declined on a year-over-year and sequential basis to 45 and 47 percent of revenue, respectively, primarily due to a higher mix from logistics revenue, which has a much lower margin profile than Marketplace revenue.

Third quarter sales and marketing (S&M) expenses of $147 million were 40 percent of revenue, down from 64 percent of revenue in Q3 2020 and 60 percent of revenue in Q2 2021. Non-GAAP S&M expenses, which exclude stock-based compensation, were 39 percent of revenue, down from 64 percent of revenue in Q3 2020. GAAP and non-GAAP S&M expense was down 62 and 63 percent, respectively, year-over-year primarily due to lower digital advertising spend as we work to address our operational challenges. We plan to resume our investments in user acquisition once we begin to see positive user engagement trends, which we continue to believe will be achieved in the back half of 2022.

Third quarter Product Development expenses were $54 million, or 15 percent of revenue. Non-GAAP Product Development expenses, which exclude stock-based compensation, were $37 million, or 10 percent of revenue, as we continue to invest in improving the user experience.

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[2] 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.

[3] 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.

Third quarter General & Administrative (G&A) expenses were $29 million, or 8 percent of revenue. Non-GAAP G&A expenses, excluding stock-based compensation, were $25 million, or 7 percent of revenue.

Looking at our balance sheet and cash flow statement, Wish ended Q3 with a solid cash position of $1.2 billion in cash, cash equivalents and marketable securities. Free cash flow[4] was negative ($344) million, primarily driven by our net loss which was primarily driven by lower order volume and unfavorable net working capital changes due to the timing of cash outflows to merchants and vendors. The negative Working Capital changes in Q3 were mainly driven by accounts payable, merchants payable, and accrued and refund liabilities. These changes should be one-time in nature to bring us down to the lower operating level. Going forward, we expect free cash flow to remain near breakeven until we start investing in growth again later next year.

While we are not providing Q4 revenue guidance, we expect Q4 revenue to be below Q3 despite the holidays. This is primarily driven by the benefit of higher ad spend at the beginning of Q3. Specifically, Q4 revenue through the end of October is down approximately 20% compared to our average Q3 revenue adjusted for a similar number of days.

In terms of outlook for the fourth quarter, we expect adjusted EBITDA[5] loss in the range of ($35) million to ($30) million. We will continue to maintain a disciplined approach to cash management and closely monitor our adjusted EBITDA[5] on a go-forward basis.

Now I would like to turn the call back to Jackie to provide our closing remarks.

Jacqueline Reses, Executive Chair

Thank you, Brett.

At its core, Wish has an incredible opportunity within the mobile ecommerce space. We believe we have the right technology and platform to be a global ecommerce leader, and we are building a great team to be able to capitalize on the opportunity. But certainly, we still have work to do. We face macro headwinds and the challenge to enhance our platform into the differentiated and engaging eCommerce experience we know that it can be. We will continue to maintain significantly lower digital ad spend while we focus on improving user retention and key core marketplace fundamentals.

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[4] 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.

[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.

We are at the beginning of an aggressive turnaround strategy that we believe will transform the way we operate and improve the experiences of our users and our merchants. We made solid progress during the third quarter, and we are confident that we will be continuing our strategic momentum as we close out 2021 and proceed into the new year. We expect this momentum will build and, ultimately, translate into growth in the second half of 2022.

With that, Operator we are ready for the first question.

POST CALL WRAP UP

Jacqueline Reses, Executive Chair

Thank you everyone for your questions today. We look forward to providing an update on our next call in February. Thank you.

Use of Non-GAAP Financial Measures

Wish provides Adjusted EBITDA, 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 expenses; remeasurement of redeemable convertible preferred stock warrant liability; and other items. Additionally, in these prepared remarks, we provide 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 in our earnings news release, which is available on our investor relations website. 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 attributable to common stockholders, 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.

Wish also provides Free Cash Flow, a non-GAAP financial measure that represents net cash provided by (used in) operating activities less purchases of property and equipment. The reconciliation of Free Cash Flow to net cash provided by (used in) operating activities, the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP is provided below. Wish believes that Free Cash Flow provides investors with additional useful information to measure operating liquidity because it reflects the amount of cash generated by the company's operations after the purchases of property and equipment. Free Cash Flow should not be considered as an alternative financial measure to net cash provided by (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.

Wish also provides non-GAAP Statement of Operations, which excludes the impact of stock-based compensation expense and related payroll taxes and lease impairment related expenses. This measure is not a key metric used by Wish's management and board of directors to measure operating performance or otherwise manage the business. However, the company provides non-GAAP Statement of Operations as supplemental information to investors, as the company believes the exclusion of stock-based compensation expense and related payroll taxes and lease impairment related expenses facilitates investors' operating performance comparisons on a period-to-period basis. Non-GAAP Statement of Operations should not be considered in isolation or as a substitute for analysis of Wish's results as reported under GAAP.

Forward-Looking Statements

These prepared remarks and related call contain forward-looking statements within the meaning of the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. All statements other than statements of historical fact could be deemed forward-looking, including, but not limited to, statements regarding Wish's outlook including expectations with respect to free cash flow, revenue and adjusted EBITDA, priorities, initiatives including actions to enhance the user experience and engagement, expectations relating to our advertising spend and plans with respect to investments in user acquisition, expectations regarding our Founder, CEO and current director Piotr Szulczewski; expectations regarding turnaround efforts,; timelines regarding our ability to achieve growth, new executive hires, product quality, app performance, reducing delivery times and growth opportunities. In some cases, forward-looking statements can be identified by terms such as "anticipates," "believes," "could," "estimates," "expects," "guidance," "intends," "may," "outlook," "plans," "potential," "predicts," "projects," "seeks," "should," "will," "would" or similar expressions and the negatives of those terms. These forward-looking statements are subject to risks, uncertainties, and assumptions. If the risks materialize or assumptions prove incorrect, actual results could differ materially from the results implied by these forward-looking statements. Risks include, but are not limited to: our ability to attract, retain and monetize users; risks associated with software updates to the platform; increasing requirements on collection of sales and value added taxes; compromises in security; changes by third-parties that restrict our access or ability to identify users; competition; disruption, degradation or interference with the hosting services we use and infrastructure; our financial performance and fluctuations in operating results; pressure and fluctuation in our stock price, including as a result of short selling or short squeezes; challenges in our logistics programs; challenges in growing our Wish Local program and other new initiatives; the continued services of members of our senior management team; our ability to effectively hire additional members of our senior management team; our ability to offer and promote our app on the Apple App Store and the Google Play Store; our brand; legal matters; the COVID-19 pandemic; and economic tension between the United States and China. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Further information on these and additional risks that could affect Wish's results is included in its filings with the Securities and Exchange Commission ("SEC"), including the Annual Report on Form 10-K filed with the SEC on March 25, 2021, and future reports that Wish may file with the SEC from time to time, which could cause actual results to vary from expectations. Any forward-looking statements made by Wish in these prepared remarks are as of today, November 10, 2021. Wish assumes no obligation to, and does not currently intend to, update any such forward-looking statements.

The unaudited financial results set forth in the earnings news release are estimates based on information currently available to Wish. While Wish believes these estimates are meaningful, they could differ from the actual amounts that the company ultimately reports in its Quarterly Report on Form 10-Q for the quarter ended September 30, 2021. Wish assumes no obligation and does not intend to update these estimates prior to filing its Quarterly Report on Form 10-Q for the quarter ended September 30, 2021.

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.