Wish (NASDAQ: WISH)
Fourth Quarter and Fiscal Year 2021
Earnings Call Prepared Remarks
Tuesday, March 1, 2022
These remarks will be read on the live call.

Hi, everyone, and welcome to Wish's Fourth Quarter and Fiscal Year End 2021 Earnings Conference Call. I am Randy Scherago, VP of Investor Relations, and joining me today are our new CEO, Vijay Talwar; and our CFO, 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 Vijay and Vivian's remarks, we will hold a live Q&A session. Questions can be submitted via the Q&A window chat that will be displayed on your screen.

The remarks made today include forward-looking statements that are related to, among other things,our financial expectations, business and turnaround plans, timing for a turnaround, expectations regarding merchant relationships; the potential impact of our strategic, marketing and product initiatives; 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.

At this time I would like to turn the call over to the Company's CEO Vijay Talwar.

Vijay Talwar, Chief Executive Officer

Thank you, Randy. I would like to thank everyone on the call for joining our Fourth Quarter and Year End 2021 Earnings call.

On this call I will update you on our fourth quarter results and I will introduce the three pillars that we expect to drive our successful turnaround and future growth. After my initial comments, Vivian Liu, our CFO, will discuss the fourth quarter and year end numbers in more detail. Then I will provide some closing comments before opening up the call to your questions.

In the fourth quarter of 2021 total revenues were $289 million, a year-over-year decrease of 64% driven by lower ad spend. However, cost savings resulted in adjusted EBITDA[1] of a loss of ($23) million, which was an improvement of $95 million from a year ago.

In Q4, Free Cash Flow[2] was negative ($50) million, which was a material improvement to the negative ($344) million of Free Cash Flow[2] in the third quarter of fiscal 2021. We also finished the year with cash, cash equivalents, and marketable securities of $1.2 billion.

These numbers tell me we need fresh thinking to guide us back to the growth that we know is possible. Let me start by explaining the three foundational pillars that we believe are the most important to the long term financial health and growth of Wish. First, improving our user experience; second, deepening our merchant relationships; and third, achieving organizational efficiencies. When we get these three pillars fortified, we expect to drive Wish into a new era of growth. Let’s take a deeper look at each pillar.

For the Wish User Experience, we are investing to improve the platform to drive more daily engagement, which we expect will generate more traffic, higher conversion and, ultimately, increased revenues.

Several new consumer experience improvements were incubated and tested in the fourth quarter of last year. After a positive reception in consumer-facing tests, we are proud to announce a redesign of the Wish homepage which is designed to showcase trending products, underscore popular brands, and highlight popular merchant stores. The new Wish homepage experience is now available on Android phones in the United States, and we plan to roll out these enhancements to other platforms and additional countries over the next few months.

Another consumer experience that was in development and testing late last year is Wish Clips. We have discussed this with you on previous earnings calls. We are happy to announce that we recently rolled out the Wish Clips shoppable video feature to Android users in our top nine global markets. Wish Clips greatly enhances consumer interactivity; with one tap on their phone our users can view videos of products, look at product details, and simply and quickly add a product to their shopping cart. We will begin to roll out the new Wish Clips feature to iOS users this April. Over the course of 2022 we will continue to experiment, incubate, and invest in exciting features, products, and services that we expect will greatly improve our consumer experience.

The second pillar that I would like to discuss are the efforts we are making to deepen our Merchant Relationships.

As a marketplace, we recognize that our merchants sit at the heart of a great consumer experience. I would, therefore, like to re-emphasize how committed we are to improving the economics for those merchants who provide outstanding experiences to our Wish consumers.

In the fall of 2021, we began the roll out of a new program called Wish Standards, which rewards merchants that consistently provide an outstanding experience to our marketplace users. With this program, merchant performance is measured and those that consistently provide an outstanding consumer experience are rewarded with commission discounts, better payment terms, and increased visibility to buyers on the Wish platform.

The second part of our effort to strengthen our merchant relationships includes consistent and effective enforcement of our merchant policies. This means increasing the channels and ways that members of the public can report non-compliant product listings to us, and separately leveraging our internal systems and processes to help with the removal of such listings. Removing the listings and merchants that violate our policies is an important step in improving trust, not only among our users, but our merchants as well.

Our ability to provide end to end services, including logistics services, are a competitive advantage for Wish. Logistics services are highly valued by our merchants. We continue to focus on improving shipping speed and on-time delivery for our consumers, while remaining competitive in our pricing for logistics services to our merchants. We believe that our investments in logistics will not only generate financial returns for Wish, but also strengthen our relationships with merchants.

The third pillar is achieving operational efficiencies.

2022 is the start of a new chapter for Wish, with a new leadership team of experienced executives. In addition to joining as CEO, in the last few months we have added a new Chief Financial Officer, a new Chief Technology Officer, and a new Chief Product Officer to the executive team. We have a lot of work ahead to improve this business operationally, and our first steps are to rationalize corporate overhead and operating expenses.

As part of these efforts, we will be implementing a restructuring plan and taking restructuring charges of approximately $3 million for severance and personnel reduction costs and a maximum of $21 million related to the exit of certain office leases. We are focused on making this a much leaner and more efficient business with a goal of becoming a more profitable enterprise long-term.

With that being said, today we notified Wish employees that we will undergo a reduction in our global workforce as part of a broader realignment of our resources. We anticipate that this reduction in force will decrease our global workforce by approximately 15%, or approximately 190 positions. This is an incredibly difficult decision to make and process to go through, particularly in my first few weeks, but it is critical that we right-size our spending to match the current size and scope of our business.

Another step to streamlining our business and more efficiently allocating financial and operational resources was our decision to end our marketplace operations for buyers in 79 countries. These markets provided a nominal contribution to our revenues but a noticeable drag on our margins, so it made financial sense to exit these markets. We will be laser focused on the 61 markets in which we have promising financial results and benefit from economies of scale. With our focus on a smaller number of select markets, we will also be reducing the operational complexity of our business.

In summary, our foundational priorities for 2022 are improving the user experience, deepening our relationships with merchants, and achieving organizational efficiencies

I will now turn over the call to our CFO, Vivian Liu, to discuss our financial results.

Vivian Liu, Chief Financial Officer

Thank you, Vijay.

Today I will discuss our fourth quarter and fiscal year 2021 results. I will also provide Adjusted EBITDA guidance for Q1 2022 and information on revenues in the quarter through January.

Our Q4 Adjusted EBITDA[1] was a loss of ($23) million, a significant improvement compared with a loss of ($118) million from Q4 2020. This exceeded the high end of the guidance we provided on our last call. Our Q4 total Net Loss was ($58) million, or a loss of $0.09 per share, which improved from a total Net Loss of $569 million or a loss $3.04 per share in Q4 2020.

Our Q4 Free Cash Flow was negative ($50) million, a decline year-over-year, but a significant improvement quarter-over-quarter compared to Free Cash Flow of negative ($344) million in Q3. We shared on the last call that we'd focus on cash flows and EBITDA[1] during the turnaround. The Q4 results are a reflection of our progress in EBITDA[1] improvement and cash flow optimization.

Since July 2021 we have kept our ad spend at a much reduced level, which impacted our user metrics and financial performance. In Q4, MAUs[3] and LTM Active Buyers[4] experienced a 58% and 41% decline, respectively, year-over-year. Total revenues were $289 million, a decline of 64% year-over-year. This revenue decline was across Core Marketplace, ProductBoost, and Logistics.

Q4 Gross profit was $120 million, representing 42% of revenues, a decline from 57% of revenues in Q4 2020. The decline in gross margin was primarily driven by logistics revenues accounting for a higher percent of total revenues in Q4.

Total operating expenses were $184 million, a reduction of 81% year-over-year. Sales and marketing expenses were $89 million, a reduction of $494 million year-over-year, representing 31% of revenues in Q4 2021 compared with 73% of revenues in Q4 2020. The change in Sales and Marketing expenses were primarily driven by reduced ad spend.

Product Development expenses were $51 million, a reduction of $99 million year-over-year. G&A expenses were $44 million, a reduction of $186 million year-over-year, representing 15% of revenues compared with 29% of revenues in Q4 2020. The change in Product Development and G&A expenses were primarily driven by higher stock based compensation in 2020, the year of Wish IPO.

Now, turning to Wish's year end results.

2021 revenues were $2.1 billion, a decline of 18% year-over-year. Core Marketplace revenues were $1.3 billion, representing a decline of $685 million, or 34% year-over-year. The decline was primarily driven by lower order volumes associated with lower ad spend during the year.

Additionally, ProductBoost revenues were $165 million, representing a decline of $35 million or 18% year-over-year driven by lower level of activities on the Wish platform. Logistics revenues were $743 million, representing an increase of $229 million or 45% year-over-year. This increase was primarily due to accelerated merchant adoption of our logistics offerings, as well as the expansion of our A+ program, in which Wish manages the majority of shipping-related activities for the merchants.

Gross Profit for 2021 was $1.1 billion, representing 53% of revenues, down from 63% of revenue in 2020. Similar to Q4, the decline in gross margin for the year was primarily driven by logistics contributing a higher portion of total revenues.

Total operating expenses for 2021 were $1.5 billion, a decrease of 34% year-over-year. Sales and marketing expenses were $1.1 billion, $606 million lower year-over-year, representing 53% of revenues compared with 67% of revenue in 2020.

Product development expenses were $208 million, $14 million lower year-over-year. G&A expenses were $165 million, $130 million lower year-over-year, representing 8% of revenues compared with 12% of revenues in 2020.

Our 2021 Adjusted EBITDA[1] was a loss of ($199) million, an improvement from a loss of ($217) million in 2020. Our total net loss was ($361) million, improved from total net loss of ($745) million in 2020. The improvements in profitability are the net results of significant cost savings across board more than offsetting the decline in revenues after we reduced ad spend.

A few comments about cash flows.

We ended 2021 with a solid cash position of $1.2 billion in cash, cash equivalents and marketable securities.

In 2021, net cash used in operating activities was $951 million. This was primarily driven by our net operating losses and unfavorable changes in working capital. I'd like to note that some of the unfavorable changes in working capital are not expected to recur in 2022. For example, we negotiated payment term extension with some vendors in 2020. Those terms expired in Q1 2021, resulting in additional cash use of roughly $170 million. We do not anticipate similar events this year. As previously shared, our cash flows in Q4 significantly improved quarter-over-quarter reflecting cost savings and less volatility in working capital since Q3.

At this time I will be providing our outlook for Q1 of 2022. We expect Adjusted EBITDA[5] to be in the range of ($70) million to ($60) million. We expect Q1 EBITDA[5] to be lower relative to Q4 due to seasonality as well as price changes in select areas that were implemented during Q1. Collectively those price changes are expected to reduce revenues and EBITDA[5] for the quarter but enhance user engagement and conversion rate going forward. We also continue to rationalize advertising spend until we see consistent improvements in metrics such as buyer retention and NPS. Q1 revenues are expected to reflect the relatively low ad spend level during the quarter. As a reference point, our revenues in January 2022 were down 28% relative to October 2021, the first month of the last quarter.

During my first three months at Wish, I have spoken with a number of existing and potential investors. I received feedback that Wish may consider disclosing additional metrics to help the investor community evaluate the business's operational and financial performance.

As a reminder, currently Wish reports actual results on KPIs including, but not limited to, Monthly Active Users, Last-Twelve-Month Total Buyers, Revenues and Adjusted EBITDA. Wish also provides quarterly guidance on Adjusted EBITDA. The management team is actively assessing the feasibility of adding new KPIs to our disclosure, either in actual results, future guidance or both. We will keep you informed as we finalize that decision. I will now hand it back to Vijay.

Vijay Talwar, Chief Executive Officer

Thank you, Vivian.

We must be objective in our outlook and realistic that any successful turnaround doesn't happen overnight. We are refocusing on our roots of providing an affordable and entertaining shopping experience for our marketplace users. We greatly appreciate the support from our investor community, our employees, our merchants, and other key stakeholders and we expect to see the first green shoots of our operational progress later this year. However, to achieve sustainable growth and a full turnaround, we expect this journey to take many more months.

At this time I want to thank all the hard working employees at Wish. As the new CEO, I would be remiss not to acknowledge that our employees have been through a lot in the past year. Wish is at its heart a people business, and our success has been and will continue to be driven by your creativity, hard work, talent and focus. I am thrilled to be your CEO and I look forward to being in the trenches as we work hard each and every day to make this a more successful company.

We will now open up the call to questions from analysts and investors. In addition to myself and Vivian, our Chief Technology Officer, Farhang, and our Chief Product Officer, Tarun, will also be available to answer your questions.

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[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] 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.

Forward-Looking Statements

This news release contains 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 revenue and adjusted EBITDA, priorities, new business strategies and restructuring efforts, including cost-saving measures, expectations regarding turnaround efforts, including a reduction in force and real estate footprint, timelines regarding our ability to execute on new business strategies and our restructuring plan, material weaknesses in internal controls and expectations regarding a remediation plan, new executive hires, including CEO transition, growth opportunities, and quotations from management. In some cases, forward-looking statements can be identified by terms such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "forecasts," "guidance," "intends" "goals," "may," "might," "outlook," "plans," "potential," "predicts," "projects," "seeks," "should," "targets," "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; the effectiveness of our CEO transition; increasing requirements on collection of sales and value added taxes; the success of our execution on new business strategies; 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 and short squeezes; challenges in our logistics programs; challenges in growing new initiatives; the effectiveness of our internal controls; the continued services of members of our senior management team; our ability to offer and promote our app on the Apple App Store and the Google Play Store; the dual class structure of our common stock; our brand; legal matters; the ongoing COVID-19 pandemic; supply chain issues; 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 its most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, 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 statement made by Wish in this news release speaks only as of the day on which Wish makes it. Wish assumes no obligation to, and does not currently intend to, update any such forward-looking statements after the date of this release.

The unaudited financial results in this 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 Annual Report on Form 10-K for the fiscal year ended December 31, 2021. Wish assumes no obligation and does not intend to update these estimates prior to filing its Annual Report on Form 10-K for the fiscal year ended December 31, 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.