Wish (NASDAQ: WISH)
First Quarter 2023
Earnings Call Prepared Remarks
Thursday, May 4, 2023

Good afternoon, everyone, and welcome to Wish's First Quarter 2023 Earnings Conference Call. I am Ralph Fong, Director of Investor Relations, and joining me today are our 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 Investor Relations 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; logistics and operational efficiencies, including flat rate shipping; initiatives to improve customer experience and engagement; expectations regarding merchant relationships and strategic partnerships; the impact of our strategic, marketing and product initiatives, including ad spending and promotional events; execution timeline of the authorized share repurchase program; supply strategy; ESG efforts; 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.

With that, I will now turn the call over to Wish’s CEO, Joe Yan.

Joe Yan, Chief Executive Officer

Thank you, Ralph. I would like to thank everyone for joining our First Quarter 2023 Earnings Call.

On this call, I will share with you our Q1 financial updates, discuss the business highlights and key strategic focus for 2023. Vivian will then provide a deeper dive into financial results, share the second quarter guidance, and comment on our operations. Finally, I will provide additional closing remarks before opening up the call to your questions.

In the first quarter of 2023, we generated total revenues of $96 million, down 49% year-over-year. The revenue decline was largely driven by the unfavorable impact from the pricing changes implemented by the end of the second quarter of 2022, combined with our lower advertising spend in the quarter. On the bottom line, we reported Adjusted EBITDA loss of $62 million in Q1, which was well ahead of the guidance range of a loss of $70 million to $80 million. This better-than-expected EBITDA result was attributable to the unit economics improvements made throughout the quarter, which Vivian will provide more color later on in the call. We ended the first quarter with cash, cash equivalents and marketable securities of $627 million.

We began our transformation journey in 2021, and I'm happy to say that the work carried out in the first quarter of the year and throughout this past month has been another positive step in the transformation of the company. I will now discuss the recent business highlights.

First, as part of our efforts to drive basket building and improve the customer experience, we introduced flat rate shipping on eligible orders in the U.S. in late January, followed by other major markets throughout Q1. Since inception, we have rolled out flat rate shipping to over 20 countries, including the U.S., Canada, Australia, the UK, Italy, Spain, France, Germany, Czech Republic, Japan, Brazil, Mexico, etc. We believe flat rate shipping remains a critical component in addressing one of the major pain points amongst our users on the Wish platform. Not only has this improved the shopping experience for our customers, it has incentivized them to build larger baskets. Our internal data shows that the average transaction value increased by double-digits attributable to the launch of flat rate shipping. This is encouraging for the team, and we are confident flat rate shipping will continue to have a positive impact on order values, conversion rates and customer retention, going forward.

Second, the Wishmas shopping event was a success for the company. I'm very pleased that Wishmas, which ran from March 30th to April 5th, was well received by our merchants and buyers. More than 7,000 merchants participated in the week-long shopping event, enrolling over 800,000 product listings and 92,000 doorbuster deals. Importantly, we saw more than a 30% increase in GMV and >50% order volume growth during the week-long shopping event.

I am pleased with the strong results. Coming out of the event, we have seen a lot of momentum and a lot of excitement from our merchants, buyers and employees alike. Additionally, Wishmas allowed us to activate and re-engage with our dormant or inactive users, as one of the priorities for us is to leverage our broad merchandising offering to activate our cumulative user base. More importantly, I am proud of our team's cross-functional collaboration and execution. A special thank you to our employees for their dedication, hard work and efforts! Wishmas marked the first in a series of major shopping events planned throughout 2023, and it has taught us valuable lessons, and we expect to leverage what we have learned to build on that success in Q2.

Following the Wishmas event, we will be running other merchandising events across the 60-plus markets we serve throughout the year. And, the merchandising events will be available not only on mobile app platforms but also mobile web, which is becoming an important channel for our platform distribution. At Wish, we are excited about our merchandising strategy, and expect merchandising events to result in incremental GMV growth, user acquisition and retention.

Third, in March, we announced that our online marketplace had returned to app stores and search engines in France after the French regulators had lifted the delisting measure. France is a strategically important market for Wish, and we are excited to welcome new and inactive French users back to our platform so they too can enjoy all the enhancements we have made to the shopping experience. Over the coming months, we will be dialing up our marketing activities in France to ensure our customers know we're back.

Fourth, in the first quarter, we formed strategic partnerships with ecommerce integrator BaseLinker, ecommerce fulfillment service provider ShipSage and ecommerce shipping solution providers ShipStation and ShippingEasy. As a result of the partnership established between Wish and BaseLinker, more than 18,000 European merchants can now connect with Wish users seeking a discovery shopping experience. From a business development perspective, this is an exciting opportunity as we look forward to adding more merchants to the Wish marketplace and bringing them together with our Wish community across the globe.

In the past year, we have made a lot of improvements to our overall Time to Door and on-time delivery rates, and the partnerships with ShipSage, ShipStation and ShippingEasy allow us to build on that success by providing even more logistics and fulfillment capabilities to our merchants and delivering an overall better experience to our users.

Fifth, as we continue to optimize the browsing experience, we introduced a number of enhanced personalized category navigation and category product feeds on both Android and IOS. The improvements we have made to the category browsing experience are for the benefit of our users. This has helped them explore the Wish catalog in a fun and engaging way, browse through the breadth and depth of Wish's product catalog and discover products through shopping inspiration. Essentially, the Wish app is designed to help users discover new and exciting products, even when they are not searching for anything specific. We want to facilitate exploration and highlight specific moments where our recommendations can drive users' engagement. In addition, personalization on our platform will go far beyond product recommendations. We will continue to strive to tailor every aspect of the app experience to our user's preferences, from which modules to show them to the sequence in which they encounter them. We will look at their interests, priorities, and which attributes of our products matter most to them to continually adapt the experience to their needs.

Finally, we continued to improve our operational excellence. In Q1, our on-time delivery rate was ~92%, compared to ~86% during the same period of 2022. We also saw our average Time to Door further improve in the top markets we serve, positively impacting customer order cancellation rates, refund rates and customer experience. Our customer order cancellation rates dropped more than 50% year-over-year in Q1, and customer refund rates also declined within the same time period. Moreover, we continued to see improvement in customer NPS and encouraging buyer conversion and customer retention trends in Q1 versus a year ago. In particular, buyer conversion and customer retention improved by 18% and ~10%, respectively in the first quarter of 2023, when compared to the same period last year.

Bringing it all together, I'm pleased with the progress we are making as we continue on our transformation journey.

Now, I would like to spend a couple of minutes discussing our strategic focus. As I mentioned last quarter, we strive to grow buyer retention through repeat purchases this year, which I would like us to expand on. Over the past 18 months, we have improved merchant quality and listing quality. Our key focus for 2023 is to keep improving the customer experience, which we believe plays a pivotal role in driving user growth.

As part of our growth strategy, we intend to increase our DAU by investing in our guest experience, accelerating the use of incentives for buyer conversion, and further driving operational excellence with our unpaid & paid channels. Some of the key initiatives include:

- Delivering higher-quality messaging via push notifications, email, and SMS to drive users back to the Wish platform;
- Refining landing pages that encourage discovery for guest users coming in from ads and emails;
- Reducing friction on the website or mobile web for guest users to enable them to discover products, add to cart and transact;
- Providing upsells and incentives for web and mobile users to motivate them to adopt the app;
- Offering incentives to encourage users back to the app as well as launching a referral program to drive engagements with additional shoppers; and
- Optimizing our unpaid marketing efforts and modernizing our ads to generate channel growth.

At Wish, our team is continuously looking for ways to provide world-class supply quality, making sure that we are serving our users with products that deliver great value through elevated quality and competitive prices. We are partnering closely with our merchants to showcase their best-selling products within our highest performing categories, including home and garden, beauty and health, fashion and consumer electronics.

To that end, we are introducing our supply strategy, which we believe will be a critical component to our success, going forward. Broadly speaking, we will leverage cross-functional collaboration between our category management, supply sourcing, logistics, and merchandising teams to drive differentiated and quality supply. Vivian will provide additional details of our supply strategy later on in the call.

In summary, our vision is to unlock ecommerce for the underserved by giving users access to a wide selection of affordable goods and providing merchants with access to millions of users globally. And, Wish is all about creating a fun, easy, and personalized discovery shopping experience that provides the best value for our users looking for their delights in life!

On our last earnings call, I outlined the key strategic initiatives to improve our business, and I'm pleased that we are making strides towards each of our initiatives, specifically our conversion rates, buyer retention and customer satisfaction. Going forward, we will be doubling down on executing on our supply strategy to further enhance our users' basket-building experience and drive repeat purchases by encouraging users to build their next basket.

As one of the largest mobile ecommerce platforms in the world, I'd say a large part of Wish's success is really driven by innovation. Before I wrap up and turn the call over to Vivian, I would like to reiterate our commitment to innovation.

From a user and merchant experience standpoint, Wish will continue to innovate and invest in capabilities and product features to further improve the user experience on the Wish platform. Discovery is our North Star, which we believe will enable us to further strengthen our competitive position in the market, going forward. In particular, our team will be exploring initiatives to incorporate a holistic supply strategy into our real-time personalization engine, leveraging videos, social components, and new AI-driven shopping experiences to engage, delight, and drive meaningful basket-building opportunities for our users. I have been impressed with our engineering talent, and I am energized about the future and the growth opportunity ahead of us.

With that, let me now turn the call over to our CFO and COO, Vivian Liu, to discuss our financial results in more detail and give you an update on our operations.

Vivian Liu, Chief Financial Officer and Chief Operating Officer

Thank you, Joe.

Now I will add more color on Q1 financial performance, provide Q2 financial guidance, and expand on the operational priorities for 2023.

On the user metrics, we had 14 million MAUs[1] and 12 million LTM active buyers[2] in the first quarter of 2023, which represented a decline of 48% and 57% respectively, year-over-year. The decline was mainly driven by the cumulative reduction in ad spend over the past 18 months. On a quarter-over-quarter basis, MAUs were down 30% and LTM active buyers were down 8%, mainly driven by the fact that ad spend in Q1 was about 54% lower than that in Q4 as we continued to focus on unit economics during 2023. It is also worth noting that due to improved conversion rates, the decline in buyers is less significant than the decline in users on a quarter-over-quarter basis.

As discussed in our prior earnings call, performance marketing will remain an important driver for user retention and growth, but our goal is to increase the efficiency of paid ads and become less dependent on digital advertising. As Joe shared earlier, as part of our efforts to drive user growth, we are investing in more organic channels such as emails and push notifications, affiliates and merchandising events to engage and retain our users more effectively and cost efficiently.

Moving on to other financial metrics...

Total revenues in Q1 were $96 million, a decline of 49% year-over-year. This decline was across Core Marketplace, ProductBoost, and Logistics, mainly driven by reduced ad spend and the new pricing practices that were fully implemented by the end of Q2 2022. The new pricing practices made our listing prices more transparent and competitive. However, similar to what we experienced last quarter, it adversely impacted our Q1 revenue and EBITDA, resulting in an unfavorable comparison to the prior year.

Q1 gross profit was $20 million, a decline of 69% year-over-year. Gross margin was 21% vs 34% in Q1 2022. Gross margin performance was mainly driven by the decline in marketplace gross profits due to the price changes as outlined earlier.

That being said, Logistics gross margin saw significant improvement in Q1, driven by increased combine ratios as a result of the introduction of flat rate shipping in multiple geographies.

Total operating expenses were $113 million, a reduction of 10% year-over-year. Lower ad spend, reduction in outside services and reduced employee headcount accounted for a majority of the reduction in operating expenses. Excluding stock-based compensation expenses, total operating expenses were down 32% year-over-year.

Our Net Loss was $89 million, compared to a net loss of $60 million in the first quarter of 2022. The year-over-year increase in net loss was largely due to lower revenues and an increase in stock-based compensation.

Our Adjusted EBITDA[3] was a loss of ($62) million, compared to an EBITDA loss of ($40) million in Q1 2022. The year-over-year decline in adjusted EBITDA was largely driven by lower revenues and the impact of our new pricing practices. However, Q1 2023 EBITDA result exceeded the guided range of a loss of $70 to $80 million. This result was primarily attributed to our strong focus on unit economics in 2023. We have seen improvements in unit economics at transaction level since last year.

Operating cash flow and Free Cash Flow[4] for Q1 2023 was negative $92 million, compared to a negative operating cash flow of $146 million and negative free cash flow of $148 in Q1 2022. The year-over-year improvement in operating cash flow was primarily driven by favorable changes in working capital.

We ended Q1 in a financially healthy position with $627 million in cash, cash equivalents and marketable securities and no long-term debt.

As of March 31, 2023, we had approximately 23 million shares outstanding. The shares outstanding at quarter-end had been retroactively adjusted for the 1-for-30 reverse stock split enacted on April 12, 2023 to bring Wish into compliance with the minimum bid price requirement for continued listing on NASDAQ. As of April 26, 2023, we were back in compliance with the minimum bid requirement.

I would now like to provide guidance for the second quarter of 2023.

- Based on the feedback from the investment community, we will provide quarterly revenue guidance in addition to the EBITDA guidance starting this quarter.

- For Q2, we expect total revenue to be in the range of $91 million to $102 million and adjusted EBITDA[5] to be a loss in the range of ($60) million to ($75) million. This EBITDA performance is partially driven by expected higher ad spend in Q2 to drive buyer growth.

- In Q2, we expect the sequential decline in revenue to moderate, potentially seeing the curve flatten out in Q2 or Q3. On a year-over-year basis, Q2 revenue is expected to decrease due to lower ad spend and the change in pricing practices as outlined before.

- As we look beyond the second quarter of 2023, we expect a stronger second half relative to the first half of 2023, driven by continued operational improvements and seasonality. Please also note that, starting in Q3, our pricing practices will be consistent with those in the second half of 2022. As such, the year-over-year comparison for our financial performance will no longer be unfavorably impacted by the pricing changes which were fully effective by the end of Q2 2022.

As Joe discussed, I will now provide more color on our supply strategy which aims to further enhance the quality of supply and customer experiences on Wish.

First, within Wish Identity, our home and life narrative will focus on delights and essentials for less, with differentiated user experience for each.

Second, we will prioritize resources for high-touch categories, starting with fashion, home, consumer electronics, beauty and health, to hyper-manage the product quality and customer experiences in those categories.

Third, we will continue to enhance supply diversity, freshness and quality through strategic sourcing. This includes identifying differentiated local merchandise in our key buyer markets as well as cross-border supply opportunities with flagship merchants from Asia.

We will continue to diversify our merchant network through geographic expansion outside of China. We are committed to expanding and strengthening our merchant bases in Europe, Southeast Asian countries and Americas. Our goal is to enhance product variety and reduce our reliance on any particular country for supply.

Fourth, building on enriched app features and the success of Wishmas, we intend to connect quality supplies with customers through personalized discovery and merchandising. We believe that combining value for price and fun shopping experiences is key to driving buyer conversion and retention.

Fifth, our logistics capability gives us a competitive advantage in the market, and has been a significant driver of the improvements in the customer and merchant NPS. We expect logistics to play an instrumental role in the continued success with our supply strategy.

In the first quarter of 2023, the average Time-To-Door in six of our major markets improved by 8 days when compared to the same period of 2022. Furthermore, our on-time delivery rate was around 92% in the first quarter, an improvement from approximately 86% in the same period of last year. Our goal for the year is to roll out the 15-day Time-To-Door initiative in all major geographies for Wish. Additionally, we plan on implementing forward deployment capabilities in China, which is expected to help reduce our delivery time to approximately 10 days for high velocity products listed on Wish.

Since we embarked on the turnaround journey, supply quality has been a high priority for Wish. As Joe mentioned earlier, we have achieved significant improvements in this area, resulting in lower refund rates, lower order cancellation rates and higher customer NPS. While it is very clear that our customers enjoy the new Wish shopping experience and that we are on the right path, there is more to be done. With the end-to-end supply strategy, Wish is committed to creating more value for customers while enabling merchant success by promoting merchandise that brings freshness, good quality and competitive prices to the platform.

Before turning the call back to Joe, I'd also like to address two more topics for investors.

While being very focused on turning around the business, Wish has also taken steps to bring more positive impacts to the communities we serve. For example, as part of our efforts to reduce carbon footprint, we are consolidating more parcels in a single shipment without compromising our time to door or on-time delivery rates. Additionally, we continue to make the last mile more efficient and more eco-friendly via local pick-up options vs home delivery. Millions of buyers are leveraging the local pick-up services to save on shipping costs, while helping to protect the environment. We are committed to making continuous progress in ESG and expand ESG related disclosures through our filings and investor relations website.

In April, the Board authorized a $50 million company stock buyback program, representing over 25% of our market cap as of April 30, 2023. The share repurchase program demonstrates the Board's and management's confidence in the future of our business and our commitment to creating long-term, sustainable value for our shareholders.

With that, I will now turn over the call to Joe for his closing remarks.

Joe Yan, Chief Executive Officer

Thank you, Vivian.

It's been 18 months since we embarked on our transformation journey, and as a reminder, our foundations for growth are built around three fundamental pillars: (i) improving the customer experience; (ii) deepening our merchant relationships, and (iii) achieving operational excellence. I'm very proud of what our employees have accomplished in each of those areas, but also recognize we still have a lot more to accomplish for the final success of our turnaround.

Looking ahead, we plan to provide our users with a robust basket-building experience, from beginning to end, offer a variety of exploration capabilities, and drive repeat purchases by encouraging users to build their next basket, which we believe is key to optimizing our unit economics. We are relentlessly focused on executing on our growth and supply strategies to put our business back on the path to attaining growth.

At this time, operator, could you please open the call for Q&A?

[1] 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.

[2] As of the last date of each reported period, the number of LTM 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.

[3] 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

[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.

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 and LTM active buyers, 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.