Wish (NASDAQ: WISH)
Third Quarter 2023
Earnings Call Prepared Remarks
Tuesday, November 7, 2023

Good afternoon, everyone, and welcome to Wish's Third 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 restructuring plans; logistics and operational efficiencies, application and site enhancements, including tools and 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; 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 Third Quarter 2023 Earnings Call.

First and foremost, I would like to express our sadness at both the devastating attacks on Israel on October 7, 2023, as well as the resulting war. We extend our deepest sympathy to the families of all victims, as well as all who have been impacted by this tragedy. Wish has merchants, contractors and business partners throughout the region, and our employees have family and friends there, too. Our entire team is committed to supporting these friends, families and colleagues during this most difficult time.

On this call, I will share with you our Q3 financial updates and discuss the business highlights. Vivian will then provide a deeper dive into financial results, share the fourth quarter guidance, and comment on our operations. Finally, I will provide additional closing remarks before opening up the call to your questions.

Before I discuss our results, I would like to take a moment to speak about the other important news that we announced earlier today. The Board's decision to initiate a process to explore a range of strategic alternatives for Wish underscores our commitment to exploring all avenues to maximize shareholder value. We have engaged JPMorgan as our financial advisor to support this process. While the Board conducts this work, we will continue to execute on our strategic plan for growth and value creation. We have not set a definitive timetable for completion of this process. We will not have any further comment on this process today. I want to emphasize that there can be no assurance regarding the results or outcome of this process. We also do not intend to comment further on this process and will make further announcements as we deem appropriate and in accordance with law.

With that said, let's discuss our third quarter results.

In the third quarter of 2023, total revenues were $60 million, down 52% year-over-year, primarily driven by lower ad spend. Note that Q3 revenues were in-line with guidance range of $55 to $65 million. On the bottom line, we reported adjusted EBITDA loss of $54 million, compared to adjusted EBITDA loss of $95 million in the same period last year and a loss of $66 million in Q2 2023. Also, note that the Q3 2023 adjusted EBITDA result exceeded the higher end of the guidance range of a loss of $65 million to $55 million. We ended the third quarter with cash, cash equivalents and marketable securities of $445 million.

While we are not able to change the macro and industry trends, we continue to focus on what we can control. Across the entire organization, our team demonstrated resilience and agility throughout the quarter in their approach to navigating increasingly challenging market dynamics, characterized by macro and competitive pressures. Our ability to reduce our adjusted EBITDA loss on both a year-over-year and sequential basis has been the result of proactive and decisive actions to manage our cost structure and improve our operational efficiencies.

Throughout the third quarter and in the last several weeks, we continued to make progress on our three foundational pillars. Let me now share the recent business highlights.

Our first pillar is improving the customer experience. As part of our efforts to further improve the customer experience and drive basket-building, our product team experimented with the "Keep Shopping" feature on the homepage of the Wish app. The feature highlights specific landing pages and feeds to better showcase categories and products that are of recent interest, and makes more product-adjacent recommendations. Our goal is to further drive user engagement, convert interest into transactions, better act on "hot leads" and recommend complementary items. Additionally, to further assist in our customers' product exploration journey, our team is working tirelessly on exploring ways to leverage generative AI to create product collections at scale to further drive engagement and basket-building opportunities for our customers.

In Q3, we formed a partnership with North American parcel pick-up and drop-off counter Network, PUDO. The partnership enables Wish customers to click and collect parcels from more than 1,200 PUDOpoint counters across the U.S. and Canada. The collaboration with PUDO supports our broader goal to improve the shopping experience by providing enhanced levels of convenience for our shoppers through enabling hassle-free package retrieval from numerous locations. At the same time, it opens up new avenues for independent retailers to drive increased foot traffic and revenue streams generated by package collections. By the end of the year, the Wish Local network of pick-up points are expected to reach 24,000 globally.

Turning to our second pillar, which is deepening our merchant relationships.

As a marketplace platform, we continue to recognize that our merchants play a pivotal role in providing excellent customer experiences. We have always had an unwavering focus on strengthening relationships with our global merchants who have delivered best-in-class experiences to our consumers.

As an example, every month we conduct a survey of our merchants to better understand their needs and gauge their overall sentiment towards Wish. Consistent with the last several quarters, the findings of our recent Merchant NPS survey in Q3 indicated that merchants valued highly the ease of onboarding and selling, our global customer traffic, and logistics support. Going forward, we expect to continue to survey our merchants to learn more about how to make Wish an even better and more user-friendly marketplace for their businesses.

Throughout the third quarter, we continued to refine the Wish Standards program, which is designed to help improve the quality of merchants and product listings on Wish. We continued to see the program have a positive impact on the business, resulting in a reduction in customer refund rates. At Wish, we are poised to drive the overall customer experience at the platform level through measuring and rewarding merchants who perform well in areas that matter most to our customers, such as refund rates and policy compliance.

To this same end, we recently published our inaugural ‘Anti-Counterfeiting Report’. In essence, the report provides insights into the progress we have made over the past six months in our efforts to reduce the sale of counterfeit goods and enforce policies preventing the listing of counterfeit products on our platform. Counterfeiting is a serious problem in our industry, and as a large marketplace, we recognize we have a responsibility to our customers to promote a greater degree of transparency on this important issue, and do what we can to identify and remove listings of counterfeit goods.

Last week we announced an agreement with French ecommerce SaaS solution provider, Octopia, which is expected to open up a gateway for hundreds of Europe-based merchants to start selling on the Wish platform. As part of the agreement, which is set to go live in the current quarter, Wish will only allow merchants with merchant ratings of 4, 5 or above as we continue on our journey to improve the range of listings on our platform. We are excited to develop our partnership with Octopia. The breadth and depth of merchants that Octopia is bringing to our platform is differentiated as their merchants offer a broad range of goods spanning consumer electronics, beauty, fashion, home & garden and hobbies.

I will now discuss our third pillar of achieving operational excellence. As a result of our ongoing efforts to reduce friction on our platform, we continued to make good progress in the key operational metrics in Q3. For example, the average Time-To-Door in six of our major markets further improved by approximately 5 days when compared to the same period of 2022. Our on-time delivery rate was about 91%, mostly flat when compared to last quarter.

The continued progress in our average Time-to-Door in the major markets we serve also favorably impacted refund rates and customer experience. Specifically, our customer refund rates decreased by ~9% year-over-year in the quarter.

We also saw a ~19% year-over-year improvement in customer NPS alongside encouraging average transaction value (ATV) and buyer conversion rates in Q3. In particular, average transaction value and buyer conversion increased by ~31% and approximately 5%, respectively, in the third quarter of 2023, when compared to the same period last year.

As previously announced, the implementation of the workforce reduction was largely completed by the end of Q3. Going forward, we expect to realize run-rate savings of approximately $43 million to $46 million on an annualized basis, starting in the current quarter. In addition, we have taken a number of actions to rationalize our cost base and reduce overall operating expenses.

Bringing it all together, I'm pleased with the progress we are making on each of our foundational pillars.

Now, I would like to discuss our strategic focus. 13 years ago, Wish revolutionized the e-commerce space by creating a mobile-first, discovery-based, personalized and fun shopping experience. 13 years into our journey, our vision hasn't changed, which 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.

What has changed over the years is that we are now on an accelerated path to re-invent Wish with an ever greater sense of urgency. We remain committed to providing a differentiated shopping experience and competitive prices for our customers. Our key focus is to keep improving the customer experience, which we believe plays a critical role in driving user engagement and growth.

Looking ahead, as part of our sustainable growth strategy, first of all, we intend to differentiate through verticals by expanding our product range within the beauty and health and consumer electronics categories.

For the beauty and health category, we recognize that there is an increasing consumer demand for health and wellness products that are designed to support and enhance well-being, physical, mental and emotional health. Importantly, affordability is critical to improving the accessibility of those products for consumers. We are encouraged by the growth trajectory in this vertical, and we believe we are positioned to capitalize on the business opportunities there. We expect to further expand the range of products within the beauty and health category on the platform.

Within the consumer electronics vertical, refurbished electronics is a fast-growing market. Third-party market research indicates that the global refurbished electronics market is estimated to be valued at ~US$48 billion in 2023 and is expected to grow at a CAGR of 10% from 2023 to 2030. Much of the growth in this market is attributable to increased consumer focus on environmental sustainability, coupled with the rising demand for high-quality electronic products at budget-friendly price points in the current environment. In terms of competitiveness, the critical success factors for the refurb market include strategic partnerships and local inventory, which some of the peer companies in our industry may not have access to. At Wish, we already have a strong merchant network in the U.S. and Europe for refurb electronics supply. Moving forward, we intend to capitalize on our merchant base to deliver value-driven, refurbished tier-1 consumer electronics (such as cell phones, tablets, laptops, etc.) as well as small home appliances and home improvement products.

Second, building upon vertical differentiation, we are setting out on the next phase of our sustainable growth strategy, which is to re-invent the customer journey via a "content and interest" product vision. The success of Wish is really driven by innovation. For example, the discovery-based shopping experience, for which we are known, is designed to inspire our customers, but we want to do much more with it! For starters, we are planning on leveraging AI to create personalized shopping content and experiences that are brought to life through targeted micro-collections and innovative social content. Simply put, our platform is expected to evolve over time as we look to infuse the customer shopping experience with curated, interest-led content. We are in the very early stages of implementing our content strategy at this juncture, and we look forward to sharing our progress with you in the coming months.

On top of that, our team is focused on increasing our DAU and will be looking to execute on several key initiatives, going forward, including (i) investing in our "search" experience on the platform, (ii) enhancing video and "continue exploring" experiences to make it easier for buyers to continue exploring products and adding to shopping carts, (iii) optimizing the incentives, deals, and coupons available to our users to boost conversion, and (iv) introducing new growth channels as well as improving existing unpaid channels like notifications and emails.

To sum it all up, I am energized by the opportunities ahead of us and our ability to draw on our strengths to develop new shopping experiences for our customers.

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 Q3 financial performance, provide Q4 financial guidance and discuss operational updates.

On the user metrics, we had 11 million MAUs[1] and 9 million LTM active buyers[2] in the third quarter of 2023, which represented a decline of 54% and 44% respectively, year-over-year. The decline was largely driven by our decision to reduce ad spend over the past several quarters as we remained focused on achieving target returns on our ad spend.

To put things in perspective, our ad spend was lower by 60% during Q3 on a year-over-year basis. The total last-twelve-month (LTM) ad spend decreased by more than 30% versus the same period of the prior year. Additionally, we continued to see increased competition in the ecommerce industry as some of our peers focused on driving new user acquisition and retention by offering deep discounts and incentives. We believe that such competition further impacted our MAUs and buyer count in Q3 2023.

Total revenues in Q3 were $60 million, a decline of 52% year-over-year. This decline was across Core Marketplace, ProductBoost, and Logistics, primarily driven by lower order volumes associated with lower MAUs and LTM active buyers as a result of lower ad spend as previously mentioned.

Q3 gross profit was $14 million, a decline of 59% year-over-year. Gross margin was 23% vs 27% in Q3 2022. Gross margin performance was mainly driven by the decline in marketplace gross profits due to lower revenue. Quarter-over-quarter, however, gross margin improved by ~4% thanks to higher commission rates, additional cost savings and higher logistics margin.

Total operating expenses were $94 million, a reduction of 42% year-over-year. Reduced ad spend, lower customer support service costs, and lower employee headcount accounted for a majority of the reduction in operating expenses. Excluding stock-based compensation, total operating expenses were down 40% year-over-year.

Our Net Loss was $80 million, compared to a net loss of $124 million in the third quarter of 2022. On a year-over-year basis, the decrease in gross profit was offset by the decline in operating expenses, resulting in a decrease in net loss in Q3 2023.

Our Adjusted EBITDA[3] was a loss of ($54) million, compared to an EBITDA loss of ($95) million in Q3 2022. Q3 2023 EBITDA result was above the high end of the guidance range of a loss of $65 million to $55 million.

We reported operating cash flow and Free Cash Flow[4] of negative $86 million for Q3 2023, compared to operating cash flow and free cash flow of negative $100 million in Q3 2022. The year-over-year improvement in operating cash flow was primarily driven by a decline in net loss, coupled with favorable changes in working capital.

We ended Q3 with $445 million in cash, cash equivalents and marketable securities and no long-term debt.

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

- For Q4, we expect total revenue to be in the range of $50 million to $60 million and adjusted EBITDA[5] loss to be in the range of ($65) million to ($55) million.

- Revenues are expected to remain under pressure primarily driven by intensified customer acquisition from both incumbent and newer competitors in ecommerce.

- EBITDA is expected to improve significantly on a year-over-year basis as the projected decline in revenues is more than offset by cost savings across COGS and operating expenses.

Let me now offer a few updates on our operations, particularly on the merchant-focused events, as well as merchandising and logistics.

In Q3, we hosted two Merchant Summits: our first European Merchant Summit in London and our Global Annual Merchant Summit in Shenzhen, China. Between these two summits, we held a total of 14 sessions with approximately 325 merchants in-person and 30,000 visitors joining online. From navigating international markets to optimizing individual user experiences, both merchant summits served as a knowledge hub of exchanging innovative ideas for merchants looking to expand their global reach. The feedback on the events we received was exceedingly positive.

Building upon the success of the Wishmas and Wish Anniversary merchandising events in the first half of 2023, we are now turning our attention to capitalizing on the holiday season. During the month of November, we will be running our “Every Day is Black Friday” campaign for the second consecutive year where we will have merchant-funded promotions as well as daily deals and weekly flash sales for our high-touch categories (such as Health and Beauty, Women’s Fashion, Electronics, and Home Essentials) across the 60-plus markets we serve. Approximately 1.4 million great products have been enrolled in this campaign to bring amazing value to our customers!

To get a head start on holiday preparations, last month we launched a new brand campaign to raise awareness of Wish as the ultimate destination for holiday shopping. In essence, the multi-channel, multi-market “Gift Guide” campaign showcased a fantastic suite of merchandise - from quirky gadgets and entertaining games to stylish fashion items and delightful home decor products - all available on the Wish platform. The ads appeared across digital platforms, streaming services and radio in the key markets we serve and were also carried across the Wish app, emails and social media platforms.

From the logistics operation standpoint, in Q3, we expanded our logistics networks in the APAC region. Specifically, we signed a partnership agreement with Singapore Post Limited, through which we expect to significantly improve the shipping experience for our Australian customers**.** Buyers can now expect their orders to arrive in less than 2 weeks (vs 3 weeks previously).

In addition, we expanded our merchant network in South Korea through a strategic partnership with one of South Korea’s leading logistics providers, Rincos. The partnership is designed to streamline the process for Korean merchants seeking to ship goods overseas through the Wish platform.

Logistics have been a critical driver of our merchant and buyer engagement. Thanks to the hard work of the logistics team, our logistics operations have seen steady and material improvements in the past two years. Nowadays the majority of buyers in our top markets can expect to receive their orders within two weeks for holiday shopping.

Despite the challenging macro environment, we are cautiously optimistic about the upcoming holiday season, and we look forward to bringing a fun, easy and personalized shopping experience to our customers!

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

Joe Yan, Chief Executive Officer

Thank you, Vivian.

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

Following the reduction in force announced in early August, Wish is now a much leaner company and our goal is to become a more efficient and profitable company. I would like to thank our employees for their hard work and dedication, and I also want to thank our customers, merchants and partners for their support!

While I'm encouraged by the progress we have made in our strategic priorities, I acknowledge that we still have a lot of work ahead of us. As we look towards the future, we remain focused on executing on the three foundational pillars and delivering value to our shareholders.

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.