Wish (NASDAQ: WISH)
Second Quarter 2023
Earnings Call Prepared Remarks
Thursday, August 3, 2023

Good afternoon, everyone, and welcome to Wish's Second 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, including the impact of our reduction in force; logistics and operational efficiencies, including flat rate shipping and related initiatives; 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; the renewed supply strategy; 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 Second Quarter 2023 Earnings Call.

On this call, I will share with you our Q2 financial updates, discuss the business highlights and key strategic focus for 2023. Vivian will then provide a deeper dive into financial results, share the third quarter guidance, and comment on our operations. Finally, I will provide additional closing remarks before opening up the call to your questions.

In the second quarter of 2023, total revenues of $78 million were down 42% year-over-year and below our guidance range of $91 to $102 million. On the bottom line, we reported Adjusted

EBITDA loss of $66 million in Q2, which was within the guidance range of a loss of $60 million to $75 million. We ended the second quarter with cash, cash equivalents and marketable securities of $531 million.

During the quarter, our top line performance (including revenue and DAU) was impacted by the challenging operating environment as we continued to navigate macro headwinds as well as competitive pressures in the ecommerce space. At the macro level, we continued to experience a high level of economic uncertainty, which impacted consumer spending habits. Macro conditions, which include inflation, elevated interest rates and cost of living, continued to pressure our value-oriented consumers. This had a direct impact on discretionary spending across the markets we serve.

The ecommerce market is large and growing and yet highly competitive and rapidly evolving, which is characterized by rapid changes in technology and consumer sentiment. We acknowledge that competition in our industry has intensified, and we expect this trend to continue. That being said, we are focused on the things we believe we can control, going forward.

Despite a dynamic and challenging environment, the team executed on our strategies and made progress in our various strategic initiatives. I'll begin by reviewing some of the progress we have made on our three foundational pillars that we continue to believe are the most important to the long-term financial health and growth of Wish.

Our first pillar is improving the customer experience. As part of our efforts to drive basket building and further improve the customer experience, we rolled out flat rate shipping on all eligible orders in each of our major geographies in the first half of 2023. In Q2, we took it up a notch and expanded the flat rate shipping initiative by offering free shipping on all eligible orders over $10 during the Wish Anniversary merchandising event that ran from June 24th to July 7th.

Flat rate shipping is part of a broader effort to improve the shipping experience on Wish and remains a key component in addressing one of the major pain points amongst our users. We expect to further expand it in the second half of 2023. Some ideas we plan on experimenting with include offering free shipping for orders above established thresholds and making all items on Wish eligible for flat rate shipping, instead of a limited number. Ultimately, our vision is to remove shipping as a major point of friction for our customers from here on in.

From a product discovery and exploration standpoint, in Q2 we also increased the scale of product collections in support of the Wish Anniversary merchandising event by ratcheting up the volumes of product groupings based on a specific category (such as home and garden, beauty and wellness, jewelry and accessories, etc.) and showing those products in featured modules that lead to unique collection pages. Going forward, we intend to leverage generative AI to create product collections at scale to drive engagement and meaningful basket-building opportunities for our customers, which I am excited about.

Another aspect of improving the customer experience is our quest to provide seamless guest experiences, regardless of the entry point. In Q2, our product team significantly reduced friction on the mobile web by launching a guest checkout experience across a number of major geographies. The new experience enables new users to discover products, add items to the cart and transact, without needing to set up an account - the result of which has driven improvements in customer engagement and conversion. As most of our new and churned user traffic comes in via other mobile-based apps, it's critical we get the m-web guest experience right in order to harness that traffic. Mobile web is becoming an important channel for our platform distribution in addition to our iOS and Android apps.

Speaking of user traffic, ads are the first experience new and returning buyers have with Wish, and we intend to focus on making that experience engaging, retentive, and frictionless in the second half of 2023, as part of our growth strategy. We plan to optimize ad landing pages to focus on enticing customers from m-web to download the app, highlighting new buyer incentives, and testing a variety of new recommendations to drive exploration.

At Wish, our transition to allow guest experiences is nearly complete. Looking ahead, the next phase in this program for the remainder of the year includes passwordless accounts and removing friction associated with account creation and recovery. The goal is to leverage one-time passwords (OTP) and links to increase the number of successful log-ins and prevent account takeovers with more secure authentication at the secondary wall.

In an effort to further improve the customer experience and drive basket-building, our team intends to make the shopping cart a living part of the users' Wish experience by launching the "live cart" in the second half of the year. The live cart allows users to prominently see the status of their cart throughout their entire shopping journey. In other words, the live cart will help users to understand what's in their cart at any given time without having to go to a different place within the app. Moreover, the live cart will surface timely coupons, encouraging customers to add more relevant items to their carts or baskets before checking out, providing a more personalized shopping experience to customers.

This brings me to our second pillar, which is deepening our merchant relationships. Within the U.S., we have successfully onboarded a number of new merchants in recent months. Of particular note is a reseller of refurbished consumer electronics products and brand owners within the beauty, fashion, and licensed sports collectibles space. Importantly, these authorized resellers have domestic warehouses in the U.S., enabling faster shipping times for North American Wish customers. Additionally, we announced 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. We look forward to joining forces with Rincos to deliver a better shipping experience for our merchants and our customers and to grow our merchant base in the region.

As a marketplace platform, we recognize that our merchants play an integral part of providing a great customer experience. We are committed to further strengthening our relationships with those merchants who provide outstanding experiences to our consumers. Europe should continue to be a strategically important region for Wish as our European customer base accounted for nearly half of the core marketplace revenue in Q2. Consequently, we plan to host our first European Merchants Summit in September this year.

The two-week-long Wish Anniversary merchandising event was another successful event for Wish and was well received by our merchants and buyers. It allowed our merchants to position their products strategically within targeted categories and create doorbuster deals to help attract customers. To put things in perspective, approximately 6,000 merchants participated in the Wish Anniversary event, enrolling over 360,000 product listings and 15,000 doorbuster deals. Importantly, we saw a double-digit increase in GMV during the event.

On our last earnings call, we introduced our renewed supply strategy which aims to further deepen our merchant network to provide customers with fresh, fun, quality products at competitive prices. As a 3P marketplace, the breadth and depth of our product range is a key differentiator, as is our ability to enable both domestic and cross border trade. For the second half of the year, we plan to implement a renewed supply strategy by rightsizing our supply pool to focus on a certain number of core listings and high-touch categories. This will involve creating distinct experiences for each of our highest-touch categories (such as Health and Beauty, Women's Fashion, Refurbished Electronics, and Home Essentials). We'll have separate landing pages, theme-based collections, marketing messages, etc. – all designed to be better aligned with our users' "Home and Life" needs.

I will now discuss our third pillar of achieving operational excellence. In Q2, the average Time-To-Door in six of our major markets improved by 6 days when compared to the same period of 2022. Our on-time delivery rate was 91%, largely flat when compared to last quarter. We also saw our average Time to Door improve in the major markets we serve, favorably impacting customer order cancellation rates, refund rates and customer experience. Our customer order cancellation rates declined ~47% year-over-year in Q2, and customer refund rates dropped by ~30% within the same time period. Additionally, we saw a ~28% year-over-year improvement in customer NPS alongside encouraging buyer conversion and customer retention trends in Q2. In particular, buyer conversion and customer retention improved by ~13% and ~3%, respectively in the second quarter of 2023, when compared to the same period last year.

Having said that, we have a lot of work ahead to further improve our 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.

Earlier this week, we notified Wish employees that we will undertake a new round of reduction in our global workforce as part of a broader realignment of our resources. We anticipate that this reduction will decrease our global workforce by approximately 255 positions, representing about 34% of our headcount. This is an incredibly difficult decision to make and process to go through, but it is critical that we rightsize our spend to match the current size and scope of our business.

We estimate that we will incur one-time charges of approximately $8.7 million for severance and personnel reduction costs. We expect the majority of these charges will be incurred in Q3 and that the implementation of the workforce reduction will be largely complete by the end of fiscal year 2023. We expect to realize run-rate savings of approximately $43 million to $46 million on an annualized basis, starting in the fourth quarter of 2023.

We intend on making Wish a much leaner and more efficient business with the goal of becoming a profitable company longer-term.

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 Q2 financial performance and provide Q3 financial guidance.

On the user metrics, we had 12 million MAUs[1] and 10 million LTM active buyers[2] in the second quarter of 2023, which represented a decline of 48% and 50% respectively, year-over-year. The decline was partially driven by the cumulative reduction in ad spend over the past several quarters as we continued to focus on achieving target returns on our ad spend. The total LTM ad spend decreased by 30% versus the same period of the prior year. In addition, as Joe shared earlier, we started to see increased competition in the ecommerce industry as some of the market participants focused on driving new user acquisition and retention by offering deep discounts and incentives. We believe that such competition further contributed to the decline in our MAUs and buyer count in Q2 2023.

Total revenues in Q2 were $78 million, a decline of 42% year-over-year. This decline was across Core Marketplace, ProductBoost, and Logistics, primarily driven by reduced ad spend and the pricing changes that were fully implemented by the end of Q2 2022. Similar to what we experienced last quarter, the pricing changes impacted our Q2 revenue and EBITDA, resulting in an unfavorable comparison to the prior year. Please note that the impacts from the pricing changes will be lapped fully starting Q3 2023.

Q2 gross profit was $16 million, a decline of 62% year-over-year. Gross margin was 21% vs 31% in Q2 2022. Gross margin performance was mainly driven by the decline in marketplace gross profits due to the pricing changes as discussed earlier, as well as the lower margin logistics business contributing a higher percentage of the total revenues.

Total operating expenses were $99 million, a reduction of 26% year-over-year. Lower ad spend, lower customer support service costs, and reduced employee headcount accounted for a majority of the reduction in operating expenses. Excluding stock-based compensation expenses, total operating expenses were down 19% year-over-year.

Our Net Loss was $80 million, compared to a net loss of $90 million in the second 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 Q2 2023.

Our Adjusted EBITDA[3] was a loss of ($66) million, compared to an EBITDA loss of ($58) million in Q2 2022. The year-over-year decline in adjusted EBITDA was primarily driven by lower revenues and the impact of our pricing changes which made Q2 2023 unfavorable from a year-over-year comparison standpoint.

Q2 2023 EBITDA result was within the guided range of a loss of $60 million to $75 million.

Operating cash flow was negative $88 million and Free Cash Flow[4] was negative $91 million for Q2 2023, compared to operating cash flow and free cash flow of negative $67 million in Q2

2022. The year-over-year increase in net cash used in operating activities was primarily driven by unfavorable changes in working capital as the balance of total payables declined corresponding to lower transaction volume and amounts.

We ended Q2 with $531 million in cash, cash equivalents and marketable securities and no long-term debt.

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

- For Q3, we expect total revenue to be in the range of $55 million to $65 million and adjusted EBITDA[5] loss to be in the range of ($55) million to ($65) million.
- Revenues are expected to remain under pressure primarily driven by reduced MAUs and buyer count on a quarter-over-quarter and year-over-year basis.
- EBITDA is expected to improve quarter-over-quarter largely due to better cost efficiency associated with lower employee expenses. From a year-over-year standpoint, EBITDA is expected to improve significantly as the projected decline in revenues is more than offset by cost savings across COGS and operating expenses.

To sum up, the competitive landscape is changing rapidly in the cross-border ecommerce space, and we are experiencing unprecedented headwinds from intensified competition in the industry. As a result, we expect user acquisition and retention to remain pressured in the near term, negatively impacting our MAUs, active buyer count and revenues.

As Joe shared earlier, we have made the difficult decision to further rightsize our cost structure. In addition to the annualized savings of approximately $43 million to $46 million as a result of this round of workforce reduction, we are working to achieve additional annualized savings of approximately $20 million in non-employee related cost items.

The enhanced cost efficiency should enable us to improve cash flow and invest in our critical initiatives for the future. We will continue to double down on the three pillars - customer experiences, merchant engagement and operational excellence - to deliver differentiated shopping experiences and great value at competitive prices for our buyers and merchants alike. We are now on an accelerated path to re-invent Wish with an ever-greater sense of urgency. Financially, we will sharply focus on return on investments, EBITDA and cash optimization to improve shareholder values.

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.

We are cautiously optimistic within Wish about all the initiatives we have in place from a user and merchant experience standpoint, but we still have a lot more work ahead. As I discussed in the beginning of the call, we face intense competition amidst a challenging macroeconomic climate. As a result, for the remainder of 2023, the entire team at Wish will collectively sharpen our focus on our key initiatives that we expect will drive improvements in customer experiences and sustainable growth.

Our plan is to improve the shopping experience for our users through the app features, improved product quality and delivery time, more responsive customer support and competitive pricing. Going forward, we intend to leverage generative AI as well as other technologies to provide differentiated shopping experiences to engage, delight, and drive basket-building opportunities for our users. Meanwhile, we are dedicated to the three foundational pillars, and we are focused on the goal of returning shareholder value over the long term.

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.