Wish (NASDAQ: WISH)
Fourth Quarter and Full Year 2022
Earnings Call Prepared Remarks
Thursday, February 23, 2023

Good afternoon, everyone, and welcome to Wish's Fourth Quarter and Full Year 2022 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, consumer experience and engagement, expectations regarding merchant relationships and strategic partnerships; the potential impact of our strategic, marketing and product initiatives, including ad spending and the rebrand; 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 Fourth Quarter and Full Year 2022 Earnings Call.

On this call, I will recap some of the major highlights of 2022, share our financial updates, and discuss the key strategic initiatives for 2023. Vivian will then provide a deeper dive into financial results, share the first quarter guidance, and comment on our operations. Finally, I will provide additional closing remarks before opening up the call to your questions.

2022 was a year full of challenges.

- At the macro level, we experienced a higher level of economic uncertainty that emerged in both our North American and our European markets in 2022, which impacted consumer buying behaviors. Our value-oriented consumers were impacted by the steep increase in energy and food prices, which translated to a slowing of discretionary spending across the regions.

- Governments around the world continued to tighten the money supply and raise interest rates to ease inflationary pressures. As a global ecommerce marketplace, we are not immune to the changes in consumer spending habits, particularly among the lower income households that shop on our marketplace.

- Additionally, we experienced supply disruptions attributable to COVID-related lockdowns in China. I would like to take this opportunity to thank our dedicated and hard-working team in China for their efforts to work through all the supply chain and logistics challenges during the lockdowns throughout 2022.

Despite the challenges we faced, we continued the transformation journey that we embarked on in 2021, working diligently to improve the front end for our users and the back end for our merchants. Our foundations for growth are built around three fundamental pillars: (i) improving the consumer experience; (ii) deepening our merchant relationships, and (iii) achieving operational excellence. I'm energized that the entire team has continued to make tremendous progress in each of the foundational pillars in the midst of a dynamic and challenging macroeconomic environment.

Let me now review some of our major accomplishments in 2022.

- We successfully launched a rebrand campaign. Our new brand incorporated a new logo, iconography, imagery and color palette, and was accompanied with a refreshed mission statement - "Bargains Made Fun, Discovery Made Easy", which more accurately reflects our renewed focus on helping value-oriented consumers discover listings for new products while having fun in a frictionless and convenient way.

- We ramped up our merchandising efforts for the 2022 holiday season. Importantly, we ran our "Every Day is Black Friday" campaign in November where we had merchant-funded promotions, as well as daily deals and weekly flash sales for our popular categories such as electronics, accessories, home, toys, gifts, and fashion. Additionally, we launched a new Deals Hub promotion platform that allowed our merchants to showcase their best discounts and increase their product exposure across the Wish platform, while our customers were able to benefit from getting a great deal. Feedback from both our merchants and customers was overwhelmingly positive. We have learned a lot and gained tremendous insights from this first major merchandising event at Wish and will continue to invest in our merchandising capabilities in 2023.

- We also streamlined our logistics operations, resulting in better on-time delivery (OTD) rates. As an example, our on-time delivery rate was approximately 89% in the fourth quarter of 2022, an improvement from approximately 82% during the same period of 2021. Our average Time to Door (TTD) has significantly improved in the top markets we serve, resulting in much improved refund rates, customer order cancellation rates and consumer experience, as reflected in our NPS. Our customer refund rates fell 36% year-over-year in the fourth quarter, and customer order cancellation rates dropped 58%

within the same time period as well. We continued to see improvement in customer NPS throughout 2022. To sum it all up, as the result of our ongoing effort to improve the consumer experience, we saw encouraging buyer conversion and customer retention trends in the fourth quarter of 2022 versus a year ago.

- From a user and merchant experience standpoint, we continued to innovate and roll out a suite of product features to further improve the user experience on the Wish platform, including the revamped fashion experience, Wish Fashion; the shoppable videos feature, Wish Clips; the merchant scoring system, Wish Standards; improved Deals Hub; new logged-out experience; increased focus on merchandising and collections; and the redesigned homepage on the Wish app which features collection modules, category tabs, wishlists, etc.

- We enhanced transparency by adopting a new pricing practice for buyers and implementing new commission structures for merchants. The new pricing practice has reduced the pricing complexity and helped us build deeper engagement with our buyers and merchants.

- Finally, we collaborated with a number of affiliate partners to drive incremental traffic throughout 2022, including Affinity, Honey, Klarna, Rakuten and RetailMeNot. In addition, we formed partnerships with multiple providers of ecommerce software, fulfillment automation, platform integration and customer support solutions (including eDesk, Productsup, and Eurora) to further enhance the merchant experience. We also joined forces with EverC to fight product counterfeits as part of our effort to create a shopping experience that is engaging, yet safe and secure for our customers.

Putting it all together, we accomplished quite a lot in 2022. Before we move onto other topics, I would like to thank our employees for their hard work and dedication. I also want to thank our customers, merchants, partners and shareholders for their continued support.

I will now share some high-level financial highlights for the fourth quarter and full year 2022.

We reported fourth quarter revenues of $123 million. While it was down 57% from the fourth quarter of 2021, the rate of quarterly declines slowed, with revenues in Q4 only sequentially down 2% from the third quarter of 2022. The revenue decline was primarily driven by reduced ad spend in the quarter. Our Adjusted EBITDA in Q4 was a loss of $95 million, which was at the lower half of the guidance range of a loss of $90 million to $110 million.

Full year 2022 revenue totaled $571 million, down 73% from a year ago. Adjusted EBITDA in 2022 was a loss of $288 million, compared to a loss of $199 million in 2021. We also ended the year with cash, cash equivalents and marketable securities of $719 million.

These numbers indicate there's still much more work ahead to do in order to put us back on the path to profitability and growth. Looking to 2023, while we are committed to our three foundational business pillars, we intend to instill a strong focus on unit economics to help ensure a continued solid financial foundation for Wish and prioritize disciplined cash flow optimization so that our marketplace can effectively maximize its current opportunities.

With that, I would like to spend a couple of minutes outlining the key strategic initiatives to improve our unit economics, going forward. We expect to achieve this through increasing Average Transaction Value (ATV) and repeated purchases.

Our first strategic initiative is to drive basket building, which we believe will increase cart size and conversion rates by improving listing quality and trust, reducing fulfillment time, and bringing down shipping costs.

Our key efforts in the first quarter include the introduction of flat rate shipping in the U.S., followed by other major markets. Importantly, we expect flat rate shipping to be a critical component in addressing one of the major pain points amongst our users on the Wish platform. We envision that flat rate shipping will enable Wish to be positioned as a transparent and competitively priced marketplace where users are incentivized to build larger baskets. Not only will this improve the shopping experience for our customers, we are confident it will also result in high order values, higher conversion rates and customer retention.

Just a quick update on the launch of flat rate shipping in the U.S. which started in late January. Flat rate shipping is now available across both the Android and iOS platforms. Data so far indicates that both GMV and the number of items per buyer have increased by double-digits. I'm extremely encouraged by the promising early results, and I look forward to keeping you posted on the progress.

Second, we strive to grow buyer retention through repeat purchases. In the first half of 2023, we intend to leverage incentives and merchandising campaigns to drive repeat purchases, bring buyers back via "unpaid channels" (including personalized emails/notifications) and bring in the right inventory for our focus categories, including home & life, hobbies, electronics, beauty & health, and fashion.

In the first half of 2023, we intend to offer customers incentives and coupons for free shipping to encourage basket building and repeat purchases across our key categories. Additionally, we plan to provide more incentives for first-time purchases, repeat purchases, and inactive users as well.

Our third initiative is to inspire "browse & discovery" experiences and, with this, our goal is to increase users' engagement, which is measured by product display page views and click-through rates. For those familiar with the Wish platform, the shopping experience is primarily built around the idea of discovery rather than search. In fact, most of the sales on our platform do not involve a search query and instead derive from personalized browsing.

In the first half of 2023, we plan to further enhance the category browsing experience to help users not only explore the Wish catalog in a fun and engaging way, but also browse through the breadth and depth of Wish's product catalog and discover more products through shopping inspiration.

Personalization also plays a pivotal role in attracting and retaining users. We intend to bring elements of personalization into every step of the customer journey - from inspirational recommendations through to irresistible deals.

Fourth, we plan to diversify our marketing channels to drive buyer growth. While paid ads will remain a key driver for user retention and growth, our goal is to increase the efficiency of our paid ads and decrease the overall advertising spend with ROAS targets based on customer segments and user lifecycles. In parallel, we plan to invest more heavily in our unpaid channels, as we believe that emails and push notifications will be highly effective in bringing users back to Wish and driving customer loyalty over time. Put simply, our marketing activities this year will be much more targeted - both in the selection of channels and content type.

In summary, each of our strategic initiatives for 2023 are clear, and we are deliberate and focused on our efforts to improve our unit economics. 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 Q4 and full-year 2022 financial performance, provide Q1 2023 EBITDA guidance, and expand on certain operational priorities in 2023.

In the fourth quarter of 2022, we had 20 million MAUs[1] and 13 million LTM active buyers[2], which was a decline of 55% and 66% respectively, year-over-year. The decline was mainly driven by the cumulative reduction in ad spend over the past 12 months. Our total ad spend in 2022 was approximately 20% of that of 2021.

In particular, our digital advertising expenses in Q4 were $46 million, down from $66 million in Q4 of 2021 and $55 million from Q3 2022. The quarter-over-quarter decline was due to increased ROAS targets as we remained focused on marketing efficiency and unit economics.

Total revenues in Q4 were $123 million, a decline of 57% year-over-year. This decline was across Core Marketplace, ProductBoost, and Logistics, mainly driven by reduced ad spend and the new pricing structure which became fully effective in Q3 2022

The change in the pricing structure made our listing prices more transparent and competitive. However, it adversely impacted our Q4 marketplace revenue and EBITDA, resulting in an unfavorable comparison to the prior year.

Q4 gross profit was $26 million, a decline of 78% year-over-year. Gross margin was 21% vs 42% in Q4 2021. Gross margin performance was mainly driven by the decline in marketplace gross profits due to the price changes I shared earlier.

Total operating expenses were $143 million, a reduction of 22% year-over-year. Lower ad spend, reduction in outside services and reduced employee headcount accounted for a majority of the reduction of operating expenses.

Our net loss was $110 million, compared to a net loss of $58 million in the fourth quarter of 2021.

Our Adjusted EBITDA[3] was a loss of ($95) million, compared to an EBITDA loss of ($23) million in Q4 2021. The Q4 2022 EBITDA result was at the lower end of the guided range of a loss of $90 million to $110 million.

Operating cash flow for Q4 2022 was negative $109 million, compared to a negative operating cash flow of $49 million in Q4 2021. The Q4 2022 operating cash flow was primarily driven by our net loss of $110 million and $23 million of unfavorable changes in our operating assets and liabilities, which was partially offset by non-cash expenses of $24 million.

Free Cash Flow[4] was negative $109 million, compared to a negative free cash flow of $50 million in Q4 2021.

We ended Q4 in a financially healthy position with $719 million in cash, cash equivalents and marketable securities and no long-term debt.

Turning to full-year 2022 results…

Total revenues were $571 million, a decline of 73% year-over-year.

Gross profit was $166 million, a decline of 85% year-over-year. Gross margin was 29%, down from 53% in 2021.

Total operating expenses were $564 million, down 62% year-over-year.

Our total ad spend was $198 million, down approximately 80% from 2021.

Our net loss was $384 million for the year, compared to a net loss of $361 million in 2021.

Our Adjusted EBITDA[3] was a loss of $288 million, compared to an EBITDA loss of $199 million in 2021.

Operating cash flow was negative $422 million. Our Free Cash Flow[4] was negative $424 million in 2022, a significant improvement from a negative free cash flow of $953 million in 2021.

Our 2022 financials reflected the near-term impacts of some of the strategic decisions that we made in 2021 and 2022. Firstly, we reduced reliance on performance marketing and started rebuilding the flywheel. Lower ad spend was the major driver of the declines in MAUs and revenues during 2022. However, we have seen unpaid traffic stabilize and conversion and retention rates improve, thanks to more compelling value for price, better listing quality and app features as well as faster delivery time. The decline in MAUs and LTM buyers has also significantly slowed down and started to stabilize in 2022. Secondly, during the first half of 2022 we implemented a new pricing strategy to make prices on Wish more transparent and competitive. This change reduces Wish's marketplace revenues and profits in the near term, but is critical in enhancing user retention and merchant engagement for the long run. Thirdly, we focused on optimizing cash flows throughout 2022. We made the difficult decisions to reduce our global workforce back in February and prioritized unit economics over top line growth. As a result, our cash burn in 2022 was reduced to 50% of that in 2021.

From a year-over-year comparison standpoint, Q1 2023 is expected to remain unfavorable relative to Q1 2022, as Q1 2022 benefited from the original pricing practice, resulting in higher revenue and EBITDA. We expect this particular discrepancy to normalize in the second half of 2023. Ad spend is expected to remain an important driver of our topline performance, as we continue to focus on unit economics and utilize more diverse marketing channels to deliver higher returns.

I would now like to provide our outlook for the first quarter of 2023.

- We expect adjusted EBITDA[5] to be a loss in the range of ($70) million to ($80) million.

- As a reference point, our estimated revenues in January 2023, the first month of Q1, are expected to be down approximately 15% when compared to our revenues in October 2022, the first month of Q4. This decline is mostly driven by seasonality and lower ad spend.

Let me now offer a few updates on operations, particularly on cost efficiency, logistics and merchandising.

On January 31st, we notified Wish employees that we will undergo a reduction in our global workforce to realign our resources with 2023 operational priorities. We anticipate that this reduction will decrease our global workforce by up to 150 positions, representing approximately 17% of our headcount.

These are very difficult decisions and ones that we do not take lightly. However, we believe they are necessary to support our ongoing business prioritization efforts and improve operational efficiencies.

We estimate that we will incur one-time charges of approximately $3 million to $4 million for severance. We expect the majority of these charges will be incurred in Q1 and that the implementation of the workforce reduction will be largely complete by the end of Q2 of 2023. We expect to realize run-rate savings of approximately $14 million to $23 million on an annualized basis starting in Q3 of 2023.

As Joe shared earlier, a competitive logistics offering remains a critical element to our long-term success. We have continued to invest in our logistics business. In the fourth quarter of 2022, the average Time-To-Door in five of our major markets improved by 6 days when compared to the same period of 2021. Our on-time delivery rate was around 89% in the fourth quarter, an improvement from approximately 82% in the same period of last year. Our goal is to roll out the 15-day Time-To-Door initiative in all major markets for Wish this year. In addition, we have started to implement forward deployment capabilities in China, which are expected to further reduce our delivery time to approximately 10 days for high velocity products listed on Wish.

Building upon the success of the 'Every day is Black Friday" campaign last November, we will be running multiple merchandising events across the 60-plus markets we serve in 2023. Through these merchandising events, we expect to strengthen Wish's "Home and Life" brand narrative across our user base, offering a broad variety of quality, unique lifestyle products at affordable prices. Wish aims to be the first in mind when a customer thinks about what they need, from their home essentials to event-based needs such as holidays and celebrations.

Please note that the merchandising events will be launched not only on mobile app platforms but also mobile web, which is becoming an important channel for our platform distribution. I'm energized about our merchandising strategy, and expect merchandising to play an increasingly important role in driving GMV growth, user acquisition and retention.

Now, I will turn over the call back 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.

Over the last twelve months, the Wish team has devised and implemented some substantial changes that have improved our team's focus, sharpened execution, and led to the setting of key strategic goals that will place Wish in a position of greater strength and future growth.

I would also like to reiterate our value proposition: discovery and affordability. Discovery is a completely different approach to solving search and relevance in ecommerce. We take people who have a general intent to purchase something and inspire them to build a basket of interesting items that delight them at a reasonable price.

We expect to drive user experience improvement through operational and product efforts, leverage our strengths in data and predictive capabilities to deliver personalized and curated products to our users. Additionally, we intend to strengthen our cross-border capabilities by establishing strong partnerships with cross-border merchants and empowering them with the tools and resources to succeed. In the long run, we believe that our cross-border trade expertise will remain crucial for our long-term success.

Given the macro environment and financial challenges increasingly faced by consumers worldwide, we are focused on providing value and deals to our value-oriented users through extensive and sophisticated merchandising campaigns. We believe this will allow us to not only grow our loyal user base, but also attract and retain new customers.

The entire team at Wish is committed to successfully executing on our turnaround plans, and I am proud of what the team has accomplished and excited to see what we can do together in 2023.

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 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.

[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.