Wish (NASDAQ: WISH)
First Quarter 2022
Earnings Call Prepared Remarks
Thursday, May 5, 2022
These remarks will be read on the live call.

Hi everyone, and welcome to Wish's First Quarter 2022 Earnings Conference Call. I am Randy Scherago, VP of Investor Relations, and joining me today are our CEO Vijay Talwar, and our CFO Vivian Liu.

Today's prepared remarks have been pre-recorded. There is also a slide deck that has been posted to our IR website which is available for your reference. Once we are finished with Vijay and Vivian's remarks, we will hold a live Q&A session.

The remarks made today include forward-looking statements that are related to, among other things, our financial expectations, business and turnaround plans, the turnaround timeline, expectations regarding merchant relationships; the potential impact of our strategic, marketing and product initiatives, including ad spending; and 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 include risks and uncertainties which are described in today's earnings release and our periodic reports that are 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 our non-GAAP to GAAP results is included in today's earnings release, which you can find on our investor relations website and which is also filed with the SEC. A replay of this call will be posted to our investor relations website.

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

Vijay Talwar, Chief Executive Officer

Thank you, Randy. I would like to thank everyone for joining our First Quarter 2022 Earnings call today.

On this investor call I will provide a quick update for everyone on our first quarter financial highlights and operational achievements. After my initial comments, Vivian Liu, our CFO, will discuss the first quarter numbers in more detail. Then I will provide some closing comments before opening up the call to your questions.

In the first quarter of 2022, total revenues were $189 million, this was a y/y decrease of 76%, which was largely driven by our lower advertising spend in Q1. We generated an adjusted EBITDA[1] loss of ($40) million, which was favorable to the ($60 million to $70 million) EBITDA loss that we had previously forecasted.

In Q1, we finished the first quarter with cash, cash equivalents, and marketable securities of approximately $1.0 billion.

At this time, I would like to remind our investors of the three foundational pillars that I talked about on the last quarter's call. First, we are committed to constantly improving our consumer experience. Second, we will continue to strive to deepen our merchant relationships. And third, we will work as a cohesive team to achieve operational efficiencies. We believe that if we execute on all three pillars, we should experience better metrics, higher margins, and substantial revenue growth.

The first pillar is improving the consumer experience. Over the past three months, we have made many positive strides to improve our consumer experiences and consumer satisfaction rates. On our last earnings call we spoke about our plans for a Wish app redesign. During the first quarter, the new redesigned app was successfully deployed to Android globally along with the addition of a deals hub feature. The app will be deployed to iOS globally by the end of Q2. The app redesign has already begun to show some higher levels of engagement, and traction with our consumers.

In February, we launched Wish Clips, which is our shoppable video feature. Wish Clips is available globally to all Android and iOS consumers. Our Marketplace merchants have been rapidly adopting this feature and have already uploaded more than 170,000 high quality shoppable videos. We're excited to share that with the deployment of Wish Clips, we are already seeing positive trends in buyer engagement.

We are making great strides to become a more consumer focused company. We have seen improvements in customer service response times and post shipment refund rates.

I'm proud to report that our investments across our shopping experience, customer service, pricing, shipping and delivery, have driven significant improvements in our Net Promoter Score (or NPS). NPS is considered a critical metric in determining a company's current success with consumers.

We experienced positive improvements in NPS from December to January, and further improvement from January to February and from February to March. In total, we've seen a doubling in our NPS score in a matter of a few months.

Based on the improving metrics in our business operations, we plan to ramp up our advertising spend earlier than originally forecasted. Given our early green shoots, we envision ramping up our advertising spend across our existing and new marketing channels in June 2022 rather than later in Q3.

Our second pillar is deepening our merchant relationships.

In Q1, we began testing our new pricing strategies to improve Marketplace orders and sales. Based on our positive pricing tests during Q1, these new pricing strategies resulted in about a 20% increase in orders versus our control group. Given this success with the new pricing tests, we plan to roll this out to all of our merchants in Europe in Q2.

Over the past few months, we have been stepping up our efforts to enhance our flagship program, called Wish Standards, and to ensure compliance with these standards. This includes a new Invite Only policy, for onboarding new merchants onto our Marketplace. We've also continued removing non-compliant merchants faster and more efficiently.

We continue to provide logistics services as part of our end-to-end solution for our merchants. The percentage of merchants using our logistics services continued to increase year on year during the first quarter of 2022. Time To Door (TTD) and On-Time Delivery rates will continue to remain a high priority in the near future.

Now, I would like to talk about our third pillar, which is working as a cohesive team to achieve operational efficiencies and take care of our employees.

Following the reduction in workforce that took place in Q1, the current team continues to demonstrate a great deal of determination in working quickly and systematically to achieve operational efficiencies and move forward on our turnaround strategy.

For example, in March, the company's shipping operations in Shenzhen and Shanghai were both impacted by Covid shutdowns. Our employees on the ground in China responded quickly and moved more than 90% of our shipments out of the Shenzhen and Shanghai shipping hubs, into other hubs, with minimal impact on our deliveries. We are actively monitoring the situation in China and we will continue to adapt our logistics operations to best serve our consumers.

Wish has approximately 200 employees in Shanghai. During the lockdown, certain parts of the city experienced shortages of everyday essentials. The local Wish management team found a local partner to deliver supplies to our employees. Many Wish employees in Shanghai received the packages within days and continued to receive supplies throughout the lockdown. Our management team remains committed to doing everything that we can to assist our employees during these challenging times across the globe. Our people are our greatest resource, and we are committed to their success and their well-being.

At this time, I will turn over the call to our Chief Financial Officer, Vivian Liu.

Vivian Liu, Chief Financial Officer

Thank you, Vijay.

Today I will discuss the financial results for the first quarter of 2022. I will also provide adjusted EBITDA guidance for the second quarter and additional information on the revenue trend through the month of April.

Our Q1 adjusted EBITDA[1] was a loss of ($40) million, an improvement over a loss of ($79) million from Q1 2021. The EBITDA performance also compares favorably to our Q1 EBITDA guidance which was a loss of ($60) million to ($70) million.

Our ad spend remained at a reduced level throughout Q1, which continued to impact our user metrics and financial performance. We had 27 million nearly MAUs[3] and 28 million LTM Active Buyers in Q1, a 73% and 54% decline respectively year over year.

Total revenues were $189 million, a decline of 76% year-over-year. This revenue decline was across Core Marketplace, ProductBoost, and Logistics.

Q1 gross profit was $64 million, a decline of 85% year over year. Gross margin was 34% vs 57% in Q1 2021. The decline in gross margin was primarily driven by a decline in Marketplace profitability and the fact that relative to last year, the Logistics business contributed a higher percentage to the total revenues.

Total operating expenses were $126 million, a reduction of 78% year over year. Operating expenses were 67% of revenues compared with 74% of revenues in Q1 2021. The drop in our ad spend accounted for a majority of the reduction of operating expenses. While the decline in revenues and other topline metrics are significant from year-over-year comp standpoint, it is important to highlight that our ad spend in Q1 was less than 10% of that in Q1 last year. We are committed to building a flywheel that is more efficient with ad spend, and a platform that is propelled by affordable quality, reliable services and fun shopping experiences.

Our Q1 free cash flow[2] was negative ($148) million, a significant improvement from a negative free cash flow of ($354) million in Q1 2021. Quarter over quarter, the operation consumed additional $98 million in cash. The higher cash consumption was mainly driven by lower EBITDA performance, further paydown of liabilities and one-time expenses such as severance payments associated with the workforce reduction announced early this year. Cash flows and EBITDA will continue to be our priorities throughout the turnaround phase.

We ended Q1 with a solid position of $1.0 billion in cash, cash equivalents and marketable securities.

Now turning to our outlook for Q2 2022. We expect adjusted EBITDA[5] to be a loss in the range of ($90) million to ($100) million. Q2 EBITDA loss is expected to be higher than that in Q1 mainly due to two reasons. First, as Vijay shared earlier, we plan to increase ad spend in Q2, encouraged by positive leading indicators such as improved NPS and refund rates. Secondly, the pricing experiments conducted in Q1 have proven to be effective in increasing user retention and conversion rates. Therefore we have decided to expand the pricing changes to more markets in Q2. Increased ad spend and pricing adjustments are expected to be unfavorable to revenues and EBITDA in the near term.

As a reference point, our revenues in April 2022, the first month of Q2, were down approximately 30% relative to our revenues in January, the first month of Q1. However we believe that both measures are the right steps to building a more robust and profitable business for the long run. The strengthened operations and upcoming new growth initiatives will put us in a strong position to restart the flywheel in the second half of 2022. We are excited by the progress made to date and the new opportunities ahead.

With that, I will hand it over back to Vijay to discuss our new growth initiatives.

Vijay Talwar, Chief Executive Officer

Thank you, Vivian. Let me expand on what Vivian was just talking about.

There are two major initiatives that we plan to launch in the second half of 2022 that I would like to share with you today:

The first is the launch of a comprehensive Women’s Fashion category

The second is the Rebranding of Wish.

Let’s start with fashion. Over the past few months, we have been experimenting with various fashion buying experiences for our Marketplace consumers. We have seen very encouraging results from those tests over the past few months.

I’m excited to announce that we plan on re-launching our fashion category on the Wish Marketplace in the second half of this year. This will be a discovery first, inspirational and an engaging shopping experience. Early Beta tests will begin this quarter. The timing of the fashion launch will enable us to capture the important holiday selling season for Women's Fashion.

Second, is our plan for a complete rebrand of Wish. I’ve mostly talked about how we are changing operations at Wish, but we are fundamentally changing the entire Wish experience. To amplify that to our consumers, we aim to launch in August a rebrand of Wish with a new logo, new design, image, and communications. The campaign, which will run in each of our key markets from August through the holiday season, and will shine a light on some of the recent changes at Wish.

To close, I’ll leave you with these final thoughts.

First, we have, and we will continue to make excellent progress with key metrics such as NPS and On-Time Delivery rates.

Second, early green shoots enable us to increase our advertising spend earlier than we had originally planned, as we continue our 18 to 24 month turnaround strategy.

And finally, I would like to thank our dedicated employees who have worked tirelessly to execute our turnaround strategy. We are already seeing good progress from those efforts and we are excited for Wish’s future. Thank you for joining us today.

I will now open up the call to questions from analysts and investors.

[1] Adjusted EBITDA is a non-GAAP financial measure that represents net income (loss) adjusted to exclude: interest and other income (expense), net (which includes foreign exchange gain or loss, foreign exchange forward contracts gain or loss; and gain or loss on one-time non-operating transactions); provision or benefit for income taxes; depreciation and amortization; stock-based compensation expense and related payroll taxes; lease impairment related expense; remeasurement of redeemable convertible preferred stock warrant liability; and other items

[2] Free Cash Flow is a non-GAAP financial measure that represents net cash provided by (used in) operating activities less purchases of property and equipment

[3] We define MAUs as the number of unique users that visited the Wish platform, either on the mobile app, mobile web, or on a desktop, during the month

[4] As of the last date of each reported period, the number of unique active buyers is determined by counting the total number of individual users who have placed at least one order on the Wish platform, either on the mobile app, mobile web, or on a desktop, during the preceding 12 months

[5] Wish has not provided a quantitative reconciliation of forecasted Adjusted EBITDA to forecasted GAAP net income (loss) for total Adjusted EBITDA or to forecasted GAAP income (loss) before income taxes for segment Adjusted EBITDA within this earnings release because the company is unable, without making unreasonable efforts, to calculate certain reconciling items with confidence. These items include, but are not limited to: income taxes which are directly impacted by unpredictable fluctuations in the market price of the company's stock.

Use of Non-GAAP Financial Measures

We provide Adjusted EBITDA, a non-GAAP financial measure that represents our net income (loss) adjusted to exclude: interest and other income (expense), net (which includes foreign exchange gain or loss, foreign exchange forward contracts gain or loss and gain or loss on one-time non-operating transactions); provision or benefit for income taxes; depreciation and amortization; stock-based compensation expense and related payroll taxes; lease impairment related expenses; remeasurement of redeemable convertible preferred stock warrant liability; and other items. Additionally, in this news release, we present Adjusted EBITDA Margin, a non-GAAP financial measure that represents Adjusted EBITDA divided by revenue. The reconciliation between historical GAAP and non-GAAP results of operations is provided below. Our management uses Adjusted EBITDA in conjunction with GAAP and other operating performance measures as part of its overall assessment of the company’s performance for planning purposes, including the preparation of its annual operating budget, to evaluate the effectiveness of its business strategies and to communicate with its board of directors concerning its financial performance. Adjusted EBITDA should not be considered as an alternative financial measure to net loss, which is the most directly comparable financial measure calculated in accordance with GAAP, or any other measure of financial performance calculated in accordance with GAAP.

A Note About Metrics

The numbers for some of our metrics, including MAUs, are calculated and tracked with internal tools, which are not independently verified by any third party. We use these metrics to assess the growth and health of our overall business. While these numbers are based on what we believe to be reasonable estimates of our user or merchant base for the applicable period of measurement, there are inherent challenges in measurement as the methodologies used require significant judgment and may be susceptible to algorithm or other technical errors. In addition, we regularly review and adjust our processes for calculating metrics to improve their accuracy, and our estimates may change due to improvements or changes in technology or our methodology.