# FTA 4Q 2022 EARNINGS CALL SCRIPT

## Operator introduction

Ladies and gentlemen, good day and welcome to Full Truck Alliance's Fourth Quarter and Full Year 2022 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mao Mao, Head of Investor Relations. Please go ahead.

## Mao Mao

Thank you, operator. Please note that today's discussion will contain forward-looking statements relating to the Company's future performance, which are intended to qualify for the Safe Harbor from liability, as established by the US Private Securities Litigation Reform Act. Such statements are not guarantees of future performance and are subject to certain risks and uncertainties, assumptions and other factors. Some of these risks are beyond the Company's control and could cause actual results to differ materially from those mentioned in today's press release and discussion.

A general discussion of the risk factors that could affect FTA's business and financial results is included in certain filings of the Company with the Securities and Exchange Commission. The Company does not undertake any obligation to update this forward-looking information, except as required by law. During today's call, management will also discuss certain non-GAAP financial measures, for comparison purposes only. For a definition of non-GAAP financial measures, and a reconciliation of GAAP to non-GAAP financial results, please see the earnings release issued earlier today.

Joining us today on the call from FTA's senior management are Mr. Hui Zhang, our Founder, Chairman and Chief Executive Officer, and Mr. Simon Cai, our Chief Financial Officer. Management will begin with prepared remarks, and the call will conclude with a Q&A session.

As a reminder, this conference is being recorded. In addition, a webcast replay of this conference call will be available on FTA's investor relations website at ir.fulltruckalliance.com.

***I will now turn the call over to our Founder, Chairman, and CEO, Mr. Zhang. Please go ahead, sir.***

**Mao Mao (translating CEO script from Mr. Zhang)**

Hello everyone. Thank you for joining us today on our fourth quarter and full year 2022 earnings conference call.

In 2022, uncertainties persisting within the macro environment posed various challenges to our operations. Despite these headwinds, we are pleased with our performance in the fourth quarter, as we are ending 2022 on a strong note.

Over the past year, we achieved progress across all our business segments that are in different stages of development. We took steps to standardize our platform data management and upgrade the network security system by leveraging big data and advanced freight matching algorithms. This enhanced the users' experience by providing them with high-quality, efficient, and full-coverage capacity network services in a secure network environment. Additionally, we made considerable efforts in platform process simplification, improved apps usability and user misconduct rectification. These actions mainly included building a shipper rating system, creating the five-star shipper accreditation, launching a trucker growth pilot program, and cracking down on malicious price-cutting behavior.

By maximizing both shippers' and truckers' experiences, and elevating operational efficiency, we expanded our high-value services to more shippers and truckers in 2022 and safeguarded their rights and interests. As we ended the year, we were pleased to see a revival in user growth in terms of both shippers' and truckers' fueled by reinstating new user registration in June. With the number of high-quality users growing on the platform, we are improving our platform ecosystem to provide a more secure transaction environment for our users. Furthermore, as corporate social responsibility is one of our core values, we lowered the number of trucks with empty loads, saving energy and reducing carbon emissions through implementing new technological innovations, further contributing to the green development of the transportation industry.

For the full year, our Gross Transaction Value ("GTV") and the number of fulfilled orders reached RMB261.1 billion and 119 million, respectively. While our business was adversely affected by repeated resurgence of COVID-19 outbreaks at the beginning of the fourth quarter, road freight began to recover following the full removal of COVID restrictions in December. In the fourth quarter, the GTV reached RMB72 billion, while the number of fulfilled orders was 32.6 million. Our average shipper MAUs reached 1.88 million, representing a 19.7% increase year-over-year. With the strong aforementioned tailwinds, total net revenues in the fourth quarter surged by 34.5% year-over-year to RMB1.92 billion. As for our non-GAAP financial measures, our adjusted net income reached RMB445.8 million in the fourth quarter. On a full-year basis, the total net revenues from our platform soared by 44.6% year-over-year to RMB6.73 billion, and the Non-GAAP adjusted net income increased by 209.8% to RMB1,395.4 million.

Looking ahead into 2023, in the wake of the post-pandemic era, activity within the entire freight industry is well on its way to a full recovery. China’s unswerving support for private enterprises and the platform economy positions the country for a revival in social and economic activities. This renewed energy reaffirms our commitment to our long-term vision and strategic direction of our platform’s development. We will keep advancing our technological innovations by leveraging big data, matching algorithms and artificial intelligence to create more value for users across different industries. While promoting the green transformation of China’s transport industry, we will push forward in solidifying our industry leadership position and further expand our market share, creating greater value for users, shareholders, and other stakeholders.

To further demonstrate our confidence in the Company’s long-term prospects, today we announced that the Board of Directors authorized a share repurchase program under which the Company may repurchase up to US$500 million of American Depositary Shares over the next 12 months. The Company plans to fund repurchases from its existing cash balance.

Thank you, everyone. With that, I’ll turn the call over to our CFO, Simon. He will elaborate further on our fourth quarter progress and go over our operational and financial results in more detail. Simon, please go ahead.

**Simon Cai, CFO of FTA**

Thank you, Mr. Zhang, and hello, everyone. Today, I will first go over some of the highlights for the quarter followed by a brief overview of our key financials.

The quarter began with the lingering pandemic challenges weighing on the economy. While the fourth quarter is the traditional peak season for freight transport, various regions continued to experience certain fluctuations in freight volume in October and November due to rolling COVID policies which negatively impacted businesses' operations. Following the removal of COVID restrictions in December, the cargo volume from the platform gradually ramped up, reaching the full year peak in early December. However, in mid-December, the cargo volume declined due to a large number of truckers getting infected with COVID-19, which affected overall transport capacity. As infected truckers returned to work and transport capacity recovered after the Spring Festival, we see activity within the freight industry resurging from the lows of last year.

Despite the many disruptions, our average fulfilment rate reached approximately 24% in the fourth quarter, increasing on a monthly basis, with our average fulfilment rate reaching 26.4% in December. The increase in fulfilment rate was due to easing COVID-19 policies which strengthened truckers' willingness to take freight orders while we also progressively restored the supply and demand balance between trucks and shippers. Moreover, with the resumption of new user registration, the overall number of users on the platform grew, of which, most of them are direct shippers with a relatively higher fulfilment rate as compared to middleman and therefore contributed to our improved fulfilment rate.

Now looking specifically at our users. We were able to maintain the previous quarter's momentum that was ignited by the revival of new users' registration. The continued uptake in the overall users during the fourth quarter pushed our average shipper MAUs to 1.88 million, for a year-over-year increase of 19.7%. Our average trucker MAUs, including those fulfilling and responding to orders, remained stable month-over-month, with 3.5 million active truckers fulfilling shipments in the past 12 months. Over the last four quarters, the 12-month rolling retention rate of both shipper members and the next-month retention rate of truckers who responded to orders, remained steady at around 85%, Our ability to maintain a high retention rate demonstrates once again the high degree of stickiness of our overall user base.

Along with our high user gains, we are optimizing our overall user composition, as the number of both 688 members and non-paying users, which typically are direct shippers, continued to increase in the fourth quarter. More importantly, the contribution from these two types of users further increased to about 45% in terms of number of fulfilled orders, which we expect will increase further as the user scale continues to expand.

This year the acquisition of new users will remain a high priority. In addition to our traditional online marketing and promotional activities, we will explore new initiatives and marketing channels to attract high-value users and build brand awareness such as precise marketing towards consumer user scenarios and marketing through users' social networks. At the same time, we will strengthen our offline user acquisition strategy through our ground promotions teams combined with our local operations to reach target user groups both online and offline.

As we move into 2023, we remain focused on improving our services, acquiring and retaining users and allocating more resources on branding and marketing in order to gradually replace the inefficient acquaintance truckers model. We plan to attract more low and medium frequency direct shippers through online channels and improving the user experience for first time fulfillment in order to boost the conversion rate of non-paying users into paying members.

Now briefly turning to our platform. In the fourth quarter, we continued to invest resources in creating a trusted transaction environment and improving the healthiness of the platform's ecosystem. We simplified user's complaint process and made its more accessible and user friendly. For instance, our hotline upgrades make it easier for users to access customer service with one dial, and the "Complaint" button on the APP order details page allows users a one-click access to the complaint section. We also fundamentally improved our product functionalitie to reduce the possibility of disputes. As an example, in response to shippers' order cancellations, we added the "Trucker Comment" feature to allow truckers' voices to be heard, hence encouraging rational shipments and reducing frictions between shippers and truckers.

Another notable accomplishment for us in the fourth quarter was widening the penetration of our shipper rating system's coverage which enhances the role of users' credit in our ecosystem and protects the interests of both truckers and shippers. As the number of five-star shippers continues to increase and we gain more recognition from truckers and shippers, we have seen a significant decline in the order cancellation rate by these five-star shippers. Subsequently, the average fulfillment rate of five-star shippers is 21.8 percentage points higher than that of the platform as a whole. As we proceed, we will continue to refine and improve our rating system on both ends in order to regulate and discipline the behavior of shippers and truckers.

Turning to our online transaction service, the segment maintained sustainable growth in the fourth quarter amid the volatile macro environment, showing a 67.4% increase year-over-year to RMB447.8 million. This increase was primarily driven by improved commission rate. In the fourth quarter, our online transaction service covered roughly 50% of the transaction volume, or 60% of the fulfilled orders. For the full year, commission penetration by number of orders has increased by nearly 8 percentage points to approximately 56%.

Looking ahead, we will beef up our investments to strengthen our platform's fulfilment and transaction assurance services. Furthermore, as we expand our users, we will refine our tiered commission strategy based on freight matching time and freight amount, and dynamically adjust our commission policies. Additionally, given the fact that transaction disputes are a normal occurrence in this industry, we will continue to improve our label data algorithm in order to improve fulfillment efficiency and help with dispute resolution, and ensure that truckers are provided with high-quality, high-priced goods from direct shippers, which should gradually improve our user composition and ultimately contribute to higher commission rate.

In summary, during 2022, we continued to improve the platform ecosystem's governance and elevate the users' experience. While ensuring network system security and optimizing platform data regulations, we implemented an active user acquisition strategy once new user registration resumed, which expanded our platform's user base and created value for our users. We are proud of our team for their dedication and hard work under the conditions created by the COVID-19 restrictions. Going forward, we will direct that same spirit to sharpen our performance by leveraging digitalization technologies to improve algorithm matching accuracy and efficiency, broaden our products and services for direct shippers and acquire more high-quality users. As the freight industry gradually recovers, we will continue to harness our core advantages to provide users with service quality assurances and boost our commercialization capabilities, further fortifying our leading industry position.

Now, I'd like to provide a brief overview of our 2022 fourth quarter and year-end financial results. Given the limited time for today's call, I will be presenting some abbreviated financial highlights. We encourage you to read through our press release issued earlier today for further details.

Our total net revenues for the year were RMB6.7 billion, representing a 44.6% increase year-over-year. Net revenues for the fourth quarter were RMB1.9 billion, representing a 34.5% increase year-over-year.

For 2022, our net revenues from freight matching services including service fees from freight brokerage models, membership fees from listing models, and commissions from online transaction services were RMB5.7 billion, up 43.3% from 2021, and RMB1.6 billion for the fourth quarter, up 31.4% year-over-year, primarily due to the rapid growth in transaction commissions as well as an increase in revenues from our freight brokerage service.

Revenues from freight brokerage service reached RMB3.4 billion for 2022, up 34.5% year-over-year. On a quarterly basis, net revenue increased by 24.0% to RMB943.6 million in the fourth quarter, primarily driven by continued growth in transaction volume as a result of improved user penetration.

Revenues from freight listing service were RMB852.4 million for the full year, up 13.2% year-over-year, and rose 11.2% year-over-year in the fourth quarter to reach RMB223.1 million, primarily due to an increase in total paying members.

Revenues from transaction commissions amounted to RMB1.4 billion in 2022, representing a 107.4% increase year-over-year. On a quarterly basis, net revenue amounted to RMB447.8 million in the fourth quarter, representing a 67.4% increase year-over-year, primarily driven by an expanded take rate as well as improved commission penetration.

Revenues from value-added services were RMB1.1 billion in 2022, representing a 51.7% increase year-over-year. For the fourth quarter, net revenues increased to RMB308.1 million， representing a 53.7% increase year-over-year, mainly attributable to an increase in revenues from credit solutions and other value-added services.

Cost of revenues in the fourth quarter was RMB951.8 million, compared with RMB658.2 million in the prior year period. The increase was primarily due to an increase in VAT, related tax surcharges and other tax costs, and net of tax refunds from government authorities. These tax-related costs net of refunds totaled RMB857.4 million, representing an increase of 54.3% from RMB555.5 million in the same period of 2021, primarily due to continued increase in transaction activities involving our freight brokerage service.

Our sales and marketing expenses in the fourth quarter were RMB281.1 million, compared with RMB239.4 million in the prior year period. The increase was primarily due to an increase in salary and benefits expenses driven by higher sales and marketing headcount, as well as an increase in online advertising and marketing expenses.

General and administrative expenses in the fourth quarter were RMB408.2 million, compared with RMB1.6 billion in the prior year period. The decrease was primarily due to lower share-based compensation expenses, partially offset by an increase in professional service fees.

Research and development expenses in the fourth quarter were RMB250.2 million, compared with RMB233.6 million in the prior year period. The increase was primarily due to an increase in salary and benefits expenses driven by higher research and development headcount.

Loss from operations in the fourth quarter was RMB5.3 million, compared with RMB1.4 billion in the same period of 2021. Net income in the fourth quarter was RMB195.7 million, compared with a net loss of RMB1.3 billion in the same period of 2021.

Under non-GAAP measures, our adjusted operating income in the fourth quarter was RMB248.4 million, compared with RMB159.1 million in the same period of 2021. Our adjusted net income in the fourth quarter was RMB445.8 million, compared with RMB242.8 million in the same period of 2021.

Basic and diluted net income per ADS were RMB0.18 in the fourth quarter, compared with basic and diluted net loss per ADS of RMB1.23 in the same period of 2021. Non-GAAP adjusted basic and diluted net income per ADS were RMB0.42 in the fourth quarter, compared with non-GAAP adjusted basic and diluted net income per ADS of RMB0.23 in the same period of 2021.

As of December 31, 2022, our cash and cash equivalents, restricted cash, and short-term investments totaled RMB26.3 billion in total, compared with RMB26.0 billion as of December 31, 2021.

As of December 31, 2022, the total outstanding balance of the on-balance sheet loans, consisting of the total principal amounts and all accrued and unpaid interests (net of provisions) of the loans funded through our small loan company and the trusts established by us, was RMB2,648.4 million, compared with RMB1,777.7 million as of December 31, 2021. And the total non-performing loan ratio for these loans was 2.0% as of December 31, 2022, flat compared with that of December 31, 2021.

Looking at our business outlook for the first quarter of 2023, we expect our total net revenues to be between RMB1.56 billion and RMB1.64 billion, representing a year-over-year growth rate of approximately 16.9% to 23.0%. These forecasts reflect the Company's current and preliminary views on the market and operational conditions, which are subject to change and cannot be predicted with reasonable accuracy as of the date hereof.

In late January, we were forced to defend ourselves against groundless allegations levied in a published short-seller report. Upon receipt of the report, the audit committee quickly launched an independent investigation, with the assistance of third-party professional advisors, including an international law firm and outside forensic accounting experts from a Big-Four accounting firm. Today, we announced the substantial completion of internal review which were conclusive in its findings that the key allegations were not substantiated. We sincerely appreciate the trust and support we have received from our investors during this period and want to take this opportunity to publicly reiterate our commitment to maintaining high standards, transparency, and timely disclosure in compliance with the rules of the New York Stock Exchange.

That concludes our prepared remarks. We would now like to open the call to Q&A. Operator, please go ahead.