

FTA 3Q 2022 EARNINGS CALL SCRIPT

Operator introduction

Ladies and gentlemen, good day and welcome to Full Truck Alliance’s Third Quarter 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 third quarter 2022 earnings conference call.

In the third quarter, under the gradual implementation of China’s “Ensure Smoothness of Freight Logistics” policy and effective pandemic controls, China’s road transportation industry saw a series of positive changes. We’re pleased with our steady growth and the strong financial and operational performance we delivered in the third quarter as we continued to enhance our capabilities from product development to technology innovation while also optimizing user experience and operational efficiency. All of these improvements have empowered us to navigate the challenging external environment and the highly dynamic market with greater agility.

Amid weak seasonal demand and strong macro headwinds, our solid third quarter results underscore the sustainability of our business model and our commitment to building and strengthening our industry-leading competitive edge. Looking at our operational performance, with the full resumption of new user registration on our Yunmanman and Huochebang apps, we witnessed the rapid growth of our user base in the third quarter, with an increasing number of high-quality users through a series of effective user acquisition strategies. Furthermore, we consistently strengthened and upgraded our products and functionalities for direct shippers, further enhancing both their fulfillment and retention rate. As a result, our Gross Transaction Value (“GTV”) and the number of fulfilled orders grew by 5.7 % and 20.2% quarter-over-quarter to RMB69.6 billion and 33.5 million, respectively. Our average shipper MAUs reached 1.85 million, representing a 15.2% increase year-over-year.

Now turning to our financial results. Our total net revenues came in above the upper boundary of our previous topline guidance, climbing by 45.7% year-over-year to RMB1.8 billion. Alongside our efforts to expand our monetization channels and improve monetization efficiency, we continued to streamline our operational workflow during the third quarter to enhance our profitability. Our approach has yielded positive results, with non-GAAP adjusted net income reaching RMB493 million, compared with a non-GAAP adjusted net loss of RMB4.7 million a year ago.

FTA – 3Q22 Earnings Call Script

Building on this momentum, we will continue to explore and capitalize on our strengths, improving user experience and refining our operational capabilities while fulfilling the demands of our growing user base. Additionally, we will strive to boost our existing users' engagement and retention rate while also stimulating new users' use frequency and accelerating their conversion into frequent users, synchronizing an increase across the existing and incremental business to drive the sustainable growth of our overall business scale.

We have also continuously improved our operations to ensure full compliance with the regulatory requirements. We are not aware of any ongoing government investigation or subject to any administrative penalties to date that would materially affect our business, financial position or results of operations.

Looking ahead, China's road transportation industry will continue to transform and upgrade digitally. As the world's largest digital freight platform, we will focus on leveraging our platform's scale, enhancing our big data capabilities and integrating with a scattered transportation capacity and supply of goods nationwide. By taking this approach, we will facilitate the connectivity of the entire freight logistics network and benefit individual truckers while driving the industry's high-quality development and creating greater value for all of our stakeholders.

Thank you, everyone. With that, I'll now turn the call over to our CFO, Simon Cai. He will 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. I'll start by sharing some of this quarter's major initiatives and developments, and then walk you through our key financials.

In the context of a challenging macro environment and a new wave of Omicron clusters, we're glad to have delivered another quarter of solid financial and operational results. Our third quarter average fulfillment rate reached approximately 25%, an increase of four percentage points on a sequential basis, despite the weak demand in the third quarter and a particularly hot summer which diminished truckers' willingness to take freight orders. These factors were partly offset by the gradual easing of the pandemic and the resumption of new users' registration.

As expected, we experienced a surge in both new shipper and trucker numbers upon the full resumption of user registration on our Yunmanman and Huochebang apps at the end of June. In the third quarter, our average monthly active shippers and monthly active truckers responding to orders grew by more than 300 thousand and 200 thousand from the previous quarter, respectively. Almost all of our newly added monthly active shippers are low and medium frequency shippers, which include a large number of direct shippers, resulting in further changes to our overall shippers' composition. Furthermore, the contribution to GTV and fulfilled orders by low and medium frequency shippers, including "688" members and non-members, continued to increase over the past eight quarters. Notably, the proportion of orders fulfilled by this shippers cohort has gradually increased from less than 30% two years ago to more than 40% now, and we expect this number to continue to expand in the future.

Meanwhile, driven by increasing dependence on our platform, users' transaction frequency and activity level also improved, as evidenced by average quarterly fulfillment per monthly active shipper and monthly active trucker fulfilling orders strengthening quarter over quarter. Thanks to our relentless efforts to improve the quality of our services, our continued user growth has not had a dilutive impact on user retention. On the contrary, the 12-month retention rate of paying shippers and the next-month retention rate of truckers who responded to shipping orders on our platform both remained high at around 85% in the third quarter, following the trend of previous quarters.

We have also established more effective communication channels during this quarter to re-engage users whose registrations have failed within the last year, mainly through a combination of manual outbound calls, text messages and precise information targeting. By the end of October, we had reactivated nearly 2 million new shippers and truckers from failed registrations, representing a significant rise in the reactivation rate. In the future, we will remain focused on optimizing the user experience, thereby converting and retaining more long-term users.

We believe that offering a broader array of effective products and solutions to our expanding and increasingly diverse user base will be the key to our sustainable, high-quality growth. To this end, we continued to optimize our platform’s ecosystem during the quarter with upgraded functionalities designed to tackle shippers’ and truckers’ pain points. For example, we enhanced our algorithm model with more frequent updates, going from daily to real-time to improve search efficiency and matching accuracy.

Committed to continuous improvement in operating efficiency, we focused on our freight matching capabilities, reducing the rate of order cancellations by imposing tighter traffic restrictions on shippers who frequently cancel orders. While refining the matching of truckers with trustworthy shippers and prime orders, we extended our data analytical tools to cover more shippers, particularly those using virtual privacy numbers to place orders. We were delighted to see a lower order cancellation rate and an improved fulfillment rate on our platform in the third quarter as a result. Consequently, these ongoing efforts to improve operating efficiency, targeting better freight matching, are driving an overall enhanced user experience. Along with our continued process refinements and product optimizations, we expect to support further improvements in cancellation and fulfillment rates and, importantly, reinforce the user’s positive experience on our platform going forward.

During the quarter, we also made several advancements in user retention and engagement. For instance, in the third quarter, we introduced our “Trucker Growth Program” in several pilot areas,

through which truckers accumulate reward points as they complete transactions. The more points they accumulate, the higher their priority status with respect to having full access to orders posted on the platform. The program incentivizes all truckers to increase transaction frequency and improve service quality, creating better user experiences for shippers and raising overall matching efficiency.

Furthermore, we successfully implemented our shipper rating system on a national scale and iterated the system in the third quarter. Our upgrade enables truckers to more precisely evaluate shippers' behaviors with operating indicators including number of fulfilled orders, fulfillment and cancellation rate, etc., empowering them to make more comprehensive evaluations of the quality of order postings. After six months of pilot operations, our enhanced shipper rating system has been widely recognized by both truckers and shippers, leading to a 5.8% drop in the complaint rate against shippers and an 8.5% drop in the overall order cancellation rate.

Finally, our online transaction service continued to deliver sustainable growth, with a 114.1% year-over-year increase to RMB390.2 million in revenue, largely attributable to the continued ramp-up of commissioned transaction volume. This quarter, we continued to expand our commission model to additional cities, which raised the commission penetration rate to above 50%. As a result of the increasing scale of this commission model, our online transaction service has gradually become the foundation of our overall increase in revenue.

In summary, thanks to our optimized products and user composition, our third quarter 2022 results reflected solid progress. We continued to expand, capitalizing on our core competencies to strengthen our industry-leading position over the long term. Looking ahead, we will remain committed to elevating the quality of our products and services, refining our highly-efficient operations, and protecting users' rights and interests, sparing no effort to create more value for all of our users, investors, and stakeholders.

FTA – 3Q22 Earnings Call Script

Now, I'd like to provide a brief overview of our 2022 third quarter 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 in the third quarter were RMB1.8 billion, representing an increase of 45.7% year-over-year, primarily attributable to an increase in revenues from freight matching services.

Revenues from freight matching services, including service fees from freight brokerage models, membership fees from listing models, and commissions from online transaction services, were RMB1.5 billion in the third quarter, representing an increase of 39.5% year-over-year, primarily attributable to an increase in revenues from our freight brokerage service as well as rapid growth in transaction commissions.

Revenues from freight brokerage service in the third quarter were RMB904.1 million, representing an increase of 31.2% year-over-year, primarily driven by continued growth in transaction volume as a result of improved user penetration.

Revenues from freight listing service in the third quarter were RMB219.7 million, up 2.8% year-over-year, primarily attributable to an increase in total paying members.

Revenues from transaction commissions reached RMB390.2 million in the third quarter, an increase of 114.1% year-over-year, primarily driven by the continued ramp-up of commission penetration.

Revenues from value-added services in the third quarter were RMB294.5 million, an increase of 88.2% year-over-year, mainly attributable to increased revenues from credit solutions.

Cost of revenues in the third quarter was RMB953.0 million, compared with RMB842.1 million in the same period of 2021. The increase was primarily attributable 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 RMB866.7 million, representing an increase of 12.7% from RMB768.9 million in the same period of 2021, primarily due to an increase in transaction activities involving our freight brokerage service.

Sales and marketing expenses in the third quarter were RMB232.9 million, compared with RMB190.6 million in the same period of 2021. The increase was primarily due to an increase in salary and benefits expenses driven by higher sales and marketing headcount.

FTA – 3Q22 Earnings Call Script

General and administrative expenses in the third quarter were RMB206.6 million, compared with RMB190.0 million in the same period of 2021. The increase was primarily due to an increase in professional service fees, as well as an increase in salary and benefits expenses driven by higher general and administrative headcount.

Research and development expenses in the third quarter were RMB226.6 million, compared with RMB202.9 million in the same period of 2021. The increase was primarily due to an increase in salary and benefits expenses driven by higher research and development headcount.

Income from operations in the third quarter was RMB141.7 million, compared with a loss from operations of RMB201.7 million in the same period of 2021. Net income in the third quarter was RMB395.5 million, compared with a net loss of RMB178.3 million in the same period of 2021.

Under non-GAAP measures, our adjusted operating income in the third quarter was RMB242.8 million, compared with an adjusted operating loss of RMB81.1 million in the same period last year. Our adjusted net income in the third quarter was RMB493.0 million, compared with an adjusted net loss of RMB4.7 million in the same period of 2021.

Basic and diluted net income per ADS were RMB0.37 in the third quarter, compared with basic and diluted net loss per ADS of RMB0.17 in the same period of 2021. Non-GAAP adjusted basic and diluted net income per ADS were RMB0.46 in the third quarter, compared with non-GAAP adjusted basic and diluted net loss per ADS of RMB0.00 in the same period of 2021.

As of September 30, 2022, the Company had cash and cash equivalents, restricted cash, and short-term investments of RMB26.8 billion in total, compared with RMB26.0 billion as of December 31, 2021. For the third quarter of 2022, net cash generated by operating activities was RMB398.3 million.

Looking at our business outlook for the fourth quarter of 2022, we expect our total net revenues to be between RMB1.79 billion and RMB1.88 billion, representing a year-over-year growth rate of approximately 25.2% to 31.5%.

These forecasts reflect the Company's current and preliminary views on the market and operational conditions. The COVID-19 outbreaks are associated with substantial uncertainties, including the geographic scope and duration of the outbreaks, the additional restrictive measures that the governmental authorities may take, and the further impact on the business of shippers, truckers and other ecosystem participants, all of which are subject to change and cannot be predicted with reasonable accuracy as of the date hereof.

FTA – 3Q22 Earnings Call Script

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