

FTA 2Q 2022 EARNINGS CALL SCRIPT

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Operator introduction

Ladies and gentlemen, good day and welcome to Full Truck Alliance's Second 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.

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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 second quarter of 2022 earnings conference call.

Before I go into our second quarter performance, I would like to first provide an update on the cybersecurity review. As most of you are aware, the Cybersecurity Review Office (“CRO”) of the Cyberspace Administration of China initiated a data security investigation of our Yunmanman and Huochebang apps in July 2021 to detect any potential data security risks. Throughout the review process, we have fully cooperated with the CRO and taken comprehensive measures to address the issues identified. Although the results of the review have not been officially released, we are pleased to report that the review has made significant progress, as both our Yunmanman and Huochebang apps have resumed new user registration as of June 29, 2022. Going forward, we will continue to work closely with the CRO to comply with all the regulatory requirements relating to cybersecurity, data security and protection of personal information. Furthermore, we remain committed to facilitating the establishment of our platform’s data protection guidelines and optimization of our cybersecurity system by continuously implementing effective measures. We firmly believe that an optimized regulatory environment is both necessary and beneficial for the long-term healthy development of the industry.

Now moving onto our second quarter earnings results. The second quarter of 2022 was a challenging one for FTA and the entire logistics industry. The resurgence of COVID-19 in April led to widespread restrictions in major Chinese cities, further slowing the growth of overall freight volumes in the logistics industry in the second quarter. While most parts of China have gradually resumed work and production since the end of the second quarter, with sporadic pandemic recurrences continuing to emerge, it is clear that we will still face many external uncertainties in the road transportation industry during the second half of the year. Against this market backdrop, our Gross Transaction Value (“GTV”) and the number of fulfilled orders increased by 22.8% and 10.7% quarter-over-quarter to RMB65.8 billion and 27.8 million, respectively. Average shipper MAU remained at 1.53 million in the second quarter, up 7.7% quarter-over-quarter and flat year-over-year.

In terms of financial performance, our total net revenues continued to grow in the second quarter by 49.3% year-over-year and 25.3% quarter-over-quarter to RMB1.7 billion, once again beating the high end of our revenue guidance. More importantly, as we intensified our focus on

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monetization enhancement and operational efficiency improvement, our non-GAAP adjusted net income increased by 168.1% year-over-year to RMB266.9 million in the second quarter.

Market turbulence in the second half of the year notwithstanding, our long-term vision and strategic direction for development remain firm. As we progress through 2022, we remain committed to making FTA a smart and low-carbon logistics service provider, driving the transformation of the industry and realizing the social value of our platform by leveraging and amplifying our industry-leading strengths in user experience and protection, green operations and digital innovation, among others. We believe the resumption of new user registration for our core apps and our strong cash position will support us as we navigate the complex market dynamics.

Thank you, everyone. With that, I'll turn the call over to our CFO, Simon. 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. Let's talk about the overall performance of our Company in more detail.

As Mr. Zhang stated before, we delivered solid financial and operational results in the second quarter, amid the challenges stemming from COVID-19-related restrictions as well as the continued suspension of new user registration. Although GTV decreased significantly in Shanghai due to the pandemic, thanks to the unique characteristics of local shippers, factories in other regions were able to handle some of Shanghai's shipping demands. However, adversely impacted by disrupted network operations and lockdown-related truck shortages in certain areas of China, our average fulfillment rate declined to 20.5% in the quarter. Now that our core apps have resumed new user registration, we have started to see signs of fulfillment rate recovery in July, and we expect the overall fulfillment rate in the second half of the year to further improve.

In addition, the median freight matching time in June was approximately 11 minutes, consistently shorter than in the same period last year and the first quarter, again demonstrating the continued improvement in our platform's algorithm-driven matching efficiency while simultaneously resulting in increased order matching accuracy. For example, before our recommended order function was launched, truckers used to spend an average of 5 minutes searching for shipping orders by themselves. Now, relying on recommended orders, they need just 3 minutes to identify appropriate shipments and complete transactions. The iterative upgrading and accurate push of our algorithms in the second quarter have saved time for truckers and greatly improved matching efficiency.

Moving onto our users. The retention rate of our shippers and truckers remained stable quarter-over-quarter. In the absence of new user registrations, second quarter growth in our shipper MAU mainly came from the increased contribution of our direct shippers. Furthermore, in the second quarter, largely due to non-member to member conversion, the number of our entry-level or "688" member MAUs, which includes a large group of direct shippers, increased by over 40% year-over-year and exceeded that of our second-tier, or "1688" member MAUs, for the first time. Such outstanding growth in the absence of new member registration again highlights the core shippers' recognition of the value of our platform. Now that new user registration has resumed, we expect continued growth in the size of both our 688 membership and non-member cohorts.

Speaking of which, we are excited to see rapid growth in the number of newly registered users since the end of the second quarter. Up to now, we have successfully converted about 300 thousand new monthly active shippers and nearly 300 thousand new monthly active truckers responding to orders. Following the resumption of new user recruitment, we launched a series of online and offline user acquisition initiatives and comprehensively refined our user operation process, including increasing platform exposure through multiple cooperation channels, promoting the conversion of new users into registered users through precise targeting and recommendation, and helping new users successfully complete their first transaction. We have also developed customized marketing strategies for direct shippers and potential paying members.

Looking forward to the second half of the year, we remain focused on providing more valuable products and services, optimizing the dual-end user experience, and improving the engagement level and stickiness of new and existing users, so as to achieve continuous growth of user scale and transaction volume on our platform.

Turning now to our business details. Our online transaction service continued to perform strongly, with revenues increasing by 116.2% year-over-year to RMB347.8 million in the second quarter. The increase was primarily driven by higher commission penetration year-over-year. Given the pandemic's recurrence in the second quarter, we chose not to expand our commission model to additional cities, but instead implemented a dynamic commission adjustment strategy based on fulfillment time and freight price. Thanks to this inventive approach, our commissioned GTV penetration reached 50% despite the pandemic's impact. Furthermore, both user activity and volume levels in commissioned regions remained stable. Among them, the next-month retention of commissioned truckers in 195 cities is above 85%, and the next-month retention of our first batch of commissioned truckers in our recently-added areas of Jiangsu and Zhejiang provinces and Shanghai is over 90%. Commission revenues accounted for more than 20% of our overall revenue in the second quarter, and our commission model's contribution to the monetization of our platform continues to improve.

For us, the nature and success of the commission model hinge on how much value is created for users on both ends of a transaction. In the future, while continuously improving the take rate and commission penetration, we will also continue to upgrade product functions and refine our platform's matching efficiency to help shippers deliver goods faster and more conveniently and support a wider range of truckers obtain more orders and profits.

To that end, user centricity remains our top priority. In the second quarter, each business unit of our platform established a user experience department, focusing on the comprehensive optimization of our product usage process to bring an even better experience to our users. Given our growing investment in user experience improvement, we expect our user complaint rate to continue to decline.

Furthermore, the shipper rating system we launched at the beginning of this year to improve truckers' experience now covers seven provinces and cities. Our truckers have broadly commended this system, and it has spurred positive changes to the shippers' side as well. For example, shippers with better ratings tend to enjoy comparably higher frequency of page visits and fulfillment rate. We are confident that the shipper rating system will help our most capable and secure shippers find truckers more efficiently. Benefiting from these improvements to our platform ecology, both 12-month retention of shippers and next-month retention of truckers who responded to shipping orders on our platform remained high at approximately 85% in the second quarter.

Finally, in response to truckers' complaints about low freight rates, in the second quarter, our operation team instituted various reminders and feedback functions for shippers and truckers at each stage of the shipment bidding process to encourage shippers to make more reasonable bids and improve the overall health and fairness in the pricing. For example, shipments with unreasonable, ultra-low bids are blocked early on in the process. We also inform shippers about appropriate pricing and issue markup guidance before allowing them to place low-priced bids to help cultivate fairer bidding habits and increase shipment pricing. At the same time, we rolled out a dedicated communication channel for truckers to give direct feedback on low-priced goods or to request price increases on unreasonably priced shipments. Together, these measures have effectively improved our platform's overall freight rate, fulfillment rate and trucker satisfaction.

Before moving on to discuss our financial performance, I would like to highlight our commitment to fulfilling our responsibilities to our industry, environment and society, which is at the core of our ongoing success. Since our inception, we have worked to advance a wide range of ESG initiatives within the stakeholder communities we serve. In early July, we unveiled our 2019 to 2021 corporate social responsibility report, the first such report issued across China's entire digital transportation industry. In it, we showcase our explorations and achievements in fulfilling our social responsibilities in recent years, focusing on our platform strategy, scientific and technological innovation, credit system construction, public welfare development and green operation. We strive to positively impact our users, employees and the

communities in which we live, and we believe that creating and meeting long-term ESG goals will ultimately fuel our sustainable development.

Now, I would like to provide a brief overview of our 2022 second quarter financial results.

Our total net revenues in the second quarter were RMB1.7 billion, representing an increase of 49.3% 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 RMB1.4 billion in the second quarter, representing an increase of 50.3% 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 second quarter were RMB850.2 million, representing an increase of 41.4% year-over-year, primarily driven by significant growth in transaction volume as a result of improved user penetration.

Revenues from freight listing service in the second quarter were RMB211.7 million, up 20.7% year-over-year, primarily attributable to an increase in total paying members.

Revenues from transaction commissions amounted to RMB347.8 million in the second quarter, an increase of 116.2% year-over-year, primarily driven by the continued ramp-up of commissioned GTV penetration, and partially offset by a decrease in GTV due to COVID-19 outbreaks.

Revenues from value-added services in the second quarter were RMB260.4 million, an increase of 43.7% year-over-year, mainly attributable to increased revenues from credit solutions.

Cost of revenues in the second quarter was RMB925.9 million, compared with RMB627.0 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 RMB845.4 million, representing an increase of 47.7% from RMB572.4 million in the same period of 2021, primarily due to an increase in transaction activities involving our freight brokerage service.

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Sales and marketing expenses in the second quarter were RMB196.2 million, compared with RMB236.8 million in the same period of 2021. The decrease was primarily due to a decrease in advertising and marketing expenses during the user registration suspension period, partially offset by an increase in salary and benefits expenses driven by higher sales and marketing headcount.

General and administrative expenses in the second quarter were RMB344.8 million, compared with RMB2,123.0 million in the same period of 2021. The decrease was primarily due to lower share-based compensation expenses.

Research and development expenses in the second quarter were RMB216.4 million, compared with RMB155.1 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.

Loss from operations in the second quarter was RMB46.4 million, compared with RMB2.0 billion in the same period of 2021. Net income in the second quarter was RMB12.7 million, compared with net loss of RMB2.0 billion in the same period of 2021.

Under non-GAAP measures, our adjusted operating income in the second quarter was RMB211.3 million, an increase of 949.9% from RMB20.1 million in the same period of 2021. Our adjusted net income in the second quarter was RMB266.9 million, an increase of 168.1% from RMB99.5 million in the same period of 2021.

Basic and diluted net income per ADS were RMB0.01 in the second quarter, compared with basic and diluted net loss per ADS of RMB7.34 in the same period of 2021. Non-GAAP adjusted basic and diluted net income per ADS were RMB0.25 in the second quarter, compared with non-GAAP adjusted basic and diluted net loss per ADS of RMB0.49 in the same period of 2021.

As of June 30, 2022, the Company had cash and cash equivalents, restricted cash, and short-term investments of RMB26.1 billion in total, compared with RMB26.0 billion as of December 31, 2021. For the second quarter of 2022, net cash used in operating activities was RMB286.4 million.

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Looking at our business outlook for the third quarter of 2022, we expect our total net revenues to be between RMB1.65 billion and RMB1.73 billion, representing a year-over-year growth rate of approximately 32.9% to 39.2%.

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.

By further unleashing the synergies of our platform's efficiency and the strength of our nationwide road logistics network, we continue to spur growth momentum across our businesses. Going forward, we remain focused on offering better products and services for our growing user base to help retain existing users and engage new users while ensuring quality growth. As the road transportation industry develops apace, we look forward to capitalizing on even more promising growth prospects to reinforce FTA's leading position and amplify the value we bring to all of our stakeholders.

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

Operator

[Operator provides instructions and hosts Q&A]

[In addition to your standard operator script, please add this sentence] For the benefit of all participants on today's call, if you wish to ask your question to management in Chinese, please immediately repeat your question in English.

After the Q&A ...

Operator

And that concludes the question-and-answer session. I would like to turn the conference back over to management, for any additional or closing comments.

Mao Mao

Thank you once again for joining us today. If you have any further questions, please feel free to contact us at Full Truck Alliance directly, or TPG Investor Relations. Our contact information for IR in both China and the U.S. can be found in today's press release. Have a great day.