

FTA 3Q 2023 EARNINGS CALL SCRIPT

Operator introduction

Ladies and gentlemen, good day and welcome to Full Truck Alliance's Third Quarter 2023 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 of 2023 earnings conference call.

Entering the second half of 2023, the YMM app has ushered in the 10th anniversary of its launch. This decade has witnessed the digital transformation of China’s road transportation industry, and as a leader in the industry, we have continuously improved our products and services through offline to online migration, digitalization, and intelligentization, gaining trust among our shippers and truckers. We started from scratch and now cover over 300 cities across the country, with more than 100 thousand shipping routes, tens of millions of shipping/receiving locations and over 200 types of cargo from industries and consumer categories. This has gradually formed a robust national network effect and a highly competitive moat. Centered around our core user value proposition of “plentiful, fast, quality and value-for-money,” we will strive to empower enterprises with greater logistics competitiveness through the building of a one-stop logistics platform for 30 million small- and medium-sized enterprises in China.

Let me provide an update on our progress in the third quarter. During the quarter, we have steadily improved in five key areas: user scale, product operations, supply of truckers, platform ecosystem and user experience.

First, regarding user scale, we have reached 2.13 million monthly active shippers, a 15% year-over-year increase, which drove a 27% year-over-year increase in the number of fulfilled orders. Notably, the scale of direct shippers continued to increase, with order volume from 688 members and non-member shippers growing by 32% year-over-year and accounting for 45% of total order volume.

Turning to product operation, our entrusted shipment model, a niche product for direct shippers, has effectively attracted new users by addressing their needs through refined pricing algorithms and improved fulfillment services. We are also working on the launch of an enterprise edition targeting professional shippers.

Moving onto the truckers' supply, we have further enhanced our tiered trucker rating system, enabling truckers to improve their fulfillment capability and strengthen transportation support, eventually leading to an expanded truckers' supply and wallet share gain. Adequate transportation capacity supply and optimized matching strategies have significantly enhanced fulfillment efficiency. For instance, the pre-priced transactions allowed truckers to respond directly to order postings without price negotiation, and the order volume for pre-priced transactions including tap-and-go and entrusted shipments, continued to grow faster than the overall order volume in the third quarter.

Looking at our platform ecosystem, with the goal of establishing a one-stop logistics platform, we have witnessed an increased user penetration of our value-added services, such as insurance and credit solutions as well as freight brokerage services, which in turn contributed to a high user stickiness for both shipper and trucker users.

Lastly, in addition to product functionality upgrades, we highly value the user experience. This quarter, we upgraded our customer service center to provide 24/7 service, promptly addressing user queries. Through simplified user access, we have streamlined the process of collecting user feedback, providing efficient end-to-end service, genuinely helping shippers and truckers solve problems, and therefore improving user satisfaction.

Moving onto our financial highlights. We delivered another record-setting quarter in both our topline and bottom line, driven by our further expanded business footprint. Our third quarter revenues grew by 25.2% year over year to RMB2.26 billion, and non-GAAP adjusted net income reached RMB827 million, up 67.6% year over year, both surpassing market expectations. As we expand our revenue scale going forward, we will continue to optimize our revenue mix and elevate monetization efficiency, creating more value for our shareholders.

Looking ahead to the fourth quarter, the government has introduced a series of policies supporting the development of the private economy, where logistics, as a backbone of the real economy, has

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gained increasing importance and policy support within the process of strengthening, supplementing, and extending the industrial chain. With the ongoing macro tailwinds, we are confident in achieving sustained growth in order volume and revenue scale. We will continue to invest in technological innovation and user experience, dedicated to providing more efficient, intelligent, and convenient logistics solutions to create greater value for our users as we make logistics hassle-free. We are determined to drive progress across the wider industry in collaboration with our partners, fostering an open ecosystem that benefits all.

Thank you, everyone. Let me pass the call over to our CFO, Simon, who will provide an update on our third quarter's business progress and financial results.

Simon Cai, CFO of FTA

Thank you, Mr. Zhang, and thanks, everyone, for making time to join our earnings conference call today. I will start with our operational highlights for the third quarter of 2023 and then provide a brief overview of our financial results before the Q&A session.

We delivered another record-setting quarter with many operational and financial improvements. Our fulfilled orders increased by 27.0% year over year during the third quarter. On a monthly basis, the average daily fulfilled orders of July to September showed a sustained upward trend, hitting historical highs each month. Once again, the main drivers of this growth were the ongoing expansion of user scale and dual-end users' increased activities. Our ability to continuously deliver both topline growth and margins in the past three years in a highly volatile macro environment demonstrates an irreversible trend of online digitalization of the road transportation industry.

Our average fulfillment rate for the quarter reached 29%, an improvement of more than 4 percentage points year over year. Among them, the average quarterly fulfillment rate of both 688 member and non-member shippers rose to 50%, respectively. With the order contribution from these two types of low- and medium- frequency shippers continuing to grow, the overall fulfillment rate of our platform will further increase. Furthermore, we continue to manage and educate users on their order cancellation behavior. For example, as of the third quarter, the trucker's status can be identified based on data collected from trucker punch-ins and trajectories. When a shipper tries to cancel an order that was dispatched, a reminder window will pop up on the app, reducing the chance of the shipper canceling the order by mistake. At the same time, we emphasize the importance of online fulfillment for shippers to accumulate credit, provide reminders when they show the tendency to transact offline and gradually cultivate their fulfillment habits. Looking ahead, we will continue to mitigate malicious order cancellations and reinforce the consciousness and behavior of closed-loop transactions for dual-end users through a series of incentives and control policies.

By user type, the order contribution from 688 member and non-member shippers has increased alongside the number of direct shippers, reaching 45% during the quarter. More importantly, the

contribution of pre-priced orders, such as tap-and-go and entrusted shipment models, mainly used by direct shippers, has also improved, while the proportion of negotiated orders fell further this quarter.

In addition, we have further streamlined the transaction process and improved the user experience. For example, for users of our entrusted shipment model, we have greatly improved their shipping and fulfillment experience by creating real-time order trajectory visuals, which in turn is driving the rapid order growth for that service segment. We believe that the order contribution from direct shippers will further rise as we continue to optimize the accessibility of our apps.

Moving on to our users. Our average shipper MAUs reached another record high of 2.13 million, up 15.0% from the same period last year and 6.7% from the previous quarter. The increase mainly came from the continued growth of 688 member and non-member shippers, the vast majority of which are direct shippers. During the quarter, we continued to provide more user-friendly products and services based on our core value proposition of “plentiful, fast, quality and value for money,” comprehensively tackling users’ pain points and meeting various shippers’ diverse freight needs to bolster our shipper penetration rate in the long-haul transportation market.

In parallel, we are pleased to see that trucker activity has also remained high since the third quarter, with the number of active truckers fulfilling orders through FTA over the past 12 months climbing to 3.79 million and the trucker user base growing steadily quarter over quarter. On top of that, our 12-month rolling retention rate of shipper members and next-month retention of truckers who responded to orders remained stable quarter over quarter, demonstrating that we continue to boost user engagement and stickiness as our platform’s value proposition expands.

Lastly, our online transaction service sustained strong growth momentum in the third quarter, with revenues amounting to RMB602.1 million, up 54.3% year over year, mainly due to the solid growth in the number of fulfilled orders and the increase in commissions per transaction. Our commission model covered approximately 58% of fulfilled orders and generated an average commission per

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transaction of RMB24.3 during the quarter. Going forward, we will continue to optimize the commission rate and extend our commission model coverage while providing more value-added services to our users.

Before going over the quarter's financial results, I will quickly review the progress of our share repurchase program. From August 23rd to November 17th, we repurchased approximately 3.3 million ADS shares, totaling approximately USD23 million. Since we announced the program, we have repurchased a total of around 22.8 million ADS shares from the open market, with a total value of approximately USD147 million. Looking ahead, we will continue to reward our shareholders through robust buybacks.

Now, I would like to provide a brief overview of our 2023 third quarter financial results.

Our total net revenues in the third quarter of 2023 were RMB2,263.9 million, representing an increase of 25.2% year-over-year. The increase in revenue was 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 RMB1,904.4 million in the third quarter, representing an increase of 25.8% year-over-year, primarily due to an increase in revenues from freight brokerage service as well as continued growth in transaction commissions.

Revenues from freight brokerage service in the third quarter were RMB1,070.2 million, up 18.4% year-over-year, primarily attributable to the continued growth in transaction volume as a result of strong user demand.

Revenues from freight listing service in the third quarter were RMB232.1 million, up 5.6% year-over-year, primarily due to an increased number of total paying members.

Revenues from transaction commissions amounted to RMB602.1 million in the third quarter, up 54.3% year-over-year, primarily driven by an increased order volume as well as a higher transaction commission per order.

Revenues from value-added services in the third quarter were RMB359.5 million, up 22.1% year-over-year, mainly attributable to an increase in revenues from credit solutions and other value-added services.

Cost of revenues in the third quarter was RMB1,142.1 million, compared with RMB953.0 million in the same period of 2022. The increase was primarily due to an increase in VAT, related tax surcharges and other tax costs, net of tax refunds from government authorities. These tax-related costs net of refunds totaled RMB1,032.5 million, representing an increase of 19.1% year-over-year, primarily due to a continued increase in transaction activities involving our freight brokerage service.

Sales and marketing expenses in the third quarter were RMB290.8 million, compared with RMB232.9 million in the same period of 2022. The increase was primarily due to an increase in advertising and marketing expenses for user acquisitions.

General and administrative expenses in the third quarter were RMB290.4 million, compared with RMB206.6 million in the same period of 2022. The increase was primarily due to higher share-based compensation expenses and the settlement of the U.S. securities class action, which was disclosed in the Form 6-K filed on September 18, 2023.

Research and development expenses in the third quarter were RMB237.7 million, compared with RMB226.6 million in the same period of 2022. The increase was primarily due to higher share-based compensation expenses.

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Income from operations in the third quarter was RMB247.1 million, an increase of 74.4% from RMB141.7 million in the same period of 2022. Net income in the third quarter was RMB618.4 million, an increase of 56.4% from RMB395.5 million in the same period of 2022.

Under non-GAAP measures, our adjusted operating income in the third quarter was RMB458.5 million, an increase of 88.8% from RMB242.8 million in the same period of 2022. Our adjusted net income in the third quarter was RMB826.6 million, an increase of 67.6% from RMB493.0 million in the same period of 2022.

Basic and diluted net income per ADS were RMB0.58 in the third quarter, compared with basic and diluted net income per ADS of RMB0.37 in the same period of 2022. Non-GAAP adjusted basic and diluted net income per ADS were RMB0.78 in the third quarter, compared with RMB0.46 in the same period of 2022.

As of September 30, 2023, the Company had cash and cash equivalents, restricted cash, short-term investments, long-term time deposits and wealth management products of RMB27.4 billion in total, compared with RMB26.3 billion as of December 31, 2022. In the third quarter of 2023, net cash provided by operating activities was RMB717.1 million.

For our business outlook for the fourth quarter of 2023, we expect our total net revenues to be between RMB2.27 billion and RMB2.32 billion, representing a year-over-year growth rate of approximately 18.2% to 20.6%. This forecast reflects 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.

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