

Freightos Q2 2023 Earnings Call Transcript

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Company Participants:

Eytan Buchman - Chief Marketing Officer

Zvi Schreiber - Chief Executive Officer

Ran Shalev - Chief Financial Officer

Other Participants:

- Greg Pendency - Senior Research Analyst, Disruptive Technologies, Chardan
- Jason Helfstein - Managing Director - Head of Internet Research, Oppenheimer & Co.
- Brian Dobson - Managing Director, Disruptive Technologies, Equity Research, Chardan
- George Sutton - Senior Research Analyst, Craig Hallum

Eytan Buchman

Hello all. Welcome to Freightos' Q2 2023 earnings conference call.

My name is Eytan Buchman and I'm the Chief Marketing Officer at Freightos.

A press release with detailed financial results for Q2 2023 was released earlier today and is available at [Freightos.com/investors](https://freightos.com/investors).

Today I'm joined by Zvi Schreiber, the CEO of Freightos, and Ran Shalev, Freightos' CFO. Following the prepared remarks, we will open the call for questions. We are sharing slides during the call, so we recommend using Zoom instead of dialing in by phone. The slides as well as a recording of this earnings call will be available on the Investor Relations section of our website shortly after the call.

Please note we have recently launched a new investor website that also includes the opportunity for a period of complimentary access to Freightos' data product, Freightos Terminal, which you will see later in this call. We encourage everyone to have a look at freightos.com/investors.

Moreover, please note that on September 7, our CEO, Zvi, will participate in the TD Cowen Global Transportation Conference in Boston, and on September 12th in the H.C. Wainwright Global Investment Conference in New York City.

Please be aware that today's discussion contains forward-looking statements which are subject to a number of risks and uncertainties. Actual results may differ materially due to various risk factors. Please refer to today's press release and our SEC filings for more information on risk factors and other factors which could impact forward-looking statements. Copies of these reports are available online. In discussing the result of our operations, we'll be providing and referring to certain non-IFRS financial measures. You can find reconciliations to the most

directly comparable IFRS financial measures, along with additional information regarding those non-IFRS financial measures, in the press release on our website at freightos.com/investors.

The company undertakes no obligation to update any information discussed in this call at any time. As I mentioned, we recommend using Zoom's desktop or mobile application to submit questions during the course of the call. If you are using the Zoom client, questions can be submitted in writing during the call by using the Q&A feature in Zoom.

With that, let me please introduce Dr. Zvi Schreiber, the CEO of Freightos. Zvi?

Zvi Schreiber

Thank you, Eytan, and thanks to everyone who's joined.

We're pleased to report continued growth in Q2 and significant progress in our mission to digitalize mobile freight and to make buying and selling of freight services smoother and more efficient for importers, exporters, carriers, and freight forwarders.

Total Transactions booked across our platform grew 59% year-on-year, in Q2, reaching 239,000 Transactions, a run rate of almost a million Transactions per year.

This growth is driven by a number of factors.

The first is persistent use by existing users who place the majority of our bookings. These cohorts of users continue to demonstrate strong retention and growth. In fact, the cohort of users who first placed bookings on Freightos' platforms in early 2021 are now doing well over 10 times more bookings per month. Liquidity growth also comes from the supply side. For example, during Q2, both China Eastern Air and Wideroe went live, while LATAM, Qatar, Avianca, and Emirates expanded the range of air cargo services offered via WebCargo by Freightos. These ongoing expansions continue to grow platform Transactions significantly. For example, one major airline partner who has worked with us for over a year still saw Transactions grow by over 25% quarter on quarter.

The second factor in the growth is unique buyer users. Over 16,400 unique business users booked shipments via the Freightos platforms in the quarter.

The growth in demand continues to attract more sellers, who in turn attract new buyers, creating a sustainable flywheel growth dynamic. This network marketplace effect is core to our growth strategy and our ability to capture the vast market opportunity which is still ahead of us.

We believe that our ongoing investment in product development is also supporting the expanded usage by existing customers and the attraction of new customers. One example is our newly launched Airline Dashboard which provides valuable analytics to carriers, leveraging our vast market data to help them optimize pricing, improve conversion rates and to help them be more agile in updating their airline cargo services.

Another important innovation is interlining booking, where one airline purchases cargo services from another. Interlining is similar to code sharing in passenger travel. It's quite common in cargo, but shockingly inefficient. We recently announced the world's first digital cargo interlining booking on a third-party platform, with a test shipment on WebCargo by Freightos by Qatar Airways Cargo on an ITA Airways flight. These are early days, but we're excited that using our interlining technology to combine cargo airlines in thousands of new permutations will unlock new unique supply for our thousands of freight forwarders globally, improve aircraft capacity utilization, broaden the global coverage available on wWebCargo and create new business opportunities for us and our customers.

As you all know, the freight market is going through a significant cyclical downturn this year. Let's take a quick look at the industry conditions that form the backdrop to our results and projections, and we'll do that using data from our own Freightos Terminal product.

First, on a broader industry level, ocean freight rates from China to the North American West Coast, tracked by our bellwether FBX01 index, finally saw a small increase in the first half of August, but are still down more than 90% from their peak.

At the same time, [rates] have begun to rebound since mid-July, up \$500 per 40ft container, as we get closer to the holidays and enter the typical shipping peak season months. Volumes to the US are projected by the NRF to increase by 6% between July and August and be slightly above 2019 levels through the peak season months.

Asia to North Europe trade demand increased 3% for the year from June 22 to this June, though it was down year-on-year for the entire quarter. Despite sluggish demand, carriers were able to keep rates at about 2019 levels, which are \$1,300 to \$1,400 per 40-foot container.

Moving from ocean freight to air cargo, rates are being pushed down by the combination of lukewarm demand and increasing capacity, and the increased capacity is largely due to passenger travel recovery - many passenger planes do have cargo capacity as well. A significant rebound is not expected at least until air cargo's typical peak season, which is in Q4. The latest IATA data from June does show volume improved slightly relative to May, but still 3% lower than last year.

Air cargo rates have fallen. Our global Freightos Air Index, FAX, is down 55% from its peak. FAX for Asia to Europe is down 48% from a year ago while Asia to North America rates are 43% lower, and transatlantic prices 44% lower than last August. However, unlike ocean, air cargo rates are still above pre-pandemic levels.

These market conditions were an important factor in our decision to initiate the Organizational Efficiency Plan we announced in July to ensure we're on track to reach profitability on our existing cash reserves. This plan saw us significantly reduce spend while barely compromising our investment in both high growth and profitable offerings. Just to recap, we regrettably reduced headcount by 50 employees, approximately 13% of the team, and focused our growth efforts on the platform business for carriers, freight forwarders, and enterprise importers and exporters, together with ongoing investment in our Solutions business, which comprises software and data subscriptions.

As I mentioned, global freight rates in Q3 appear to be recovering slightly. Higher freight rates could positively impact our business in two ways. First, in the portion of our business where we are paid a percentage of the transaction, rather than a flat fee, higher rates do increase our revenue. Second, higher rates mean more revenue for freight forwarders, which should make it easier for our customers to spend money on new solutions. Having said that, despite the strong booking volumes, we're still in the early days of digitalizing the freight industry, and therefore measure our success by Transaction growth more than by platform monetization.

To summarize, we believe that we're on track to digitalize one of the largest offline industries in the world. If we look at one of our core lanes, for example, European air cargo exports, while industry volumes in June dropped slightly year over year, our booking volumes on those lanes grew by over 40%. Similarly, June data shows a 6.5% dip in North American export air cargo compared to last year, while our eBookings grew a strong 70% year on year. This shows that

demand for our innovative solutions is strong, with the efficiency and transparency we offer winning over cyclical industry conditions.

As a pioneer in digital freight platforms, we come under strong market leadership and are well positioned to continue to benefit from this demand. And still, only a fraction of the global freight industry is online. So we're only scratching the surface of this market's potential.

The team and I are excited to continue to scale freighters as a sustainable and capital efficient business. We have a positive trajectory, outstanding growth signals and the people and resources we need to deliver.

Let me now hand it over to our CFO Ran to discuss our Q2 results and Q3 guidance.

Ran Shalev, CFO Freightos

Thanks, Zvi, and good to see everyone. I'm pleased to review our Q2 '23 quarterly results.

Revenues for Q2 '23 was \$5.1 million, down 1.3% compared to Q2 of '22, or 2.6% on a constant currency basis.

Our IFRS gross margins remain excellent at 57.3% compared to 59.6% last year, with the non-IFRS gross margins stable at 65%. Gross margins reflect the mix of our very high Solutions segment margins mixed with a somewhat lower margin in our Platform business segment. Over the long run, we expect gross margins to increase as our transactional Platform business matures.

Adjusted EBITDA in Q2 '23 was negative \$5.3 million compared to a negative \$3.6 million in Q2 of '22, primarily due to the cost of being a public company. Perhaps a more meaningful comparison is to Q1 '23, our first quarter as a public company when adjusted EBITDA was negative \$5.8 million. As I mentioned in our last quarter, the quarter over quarter improvement reflects both the efficiency plan announcement in July, as well as our constant emphasis on efficiency [and cost control. We plan to continue to manage our cost structure responsibly and expect to see losses further narrow in the second half of the year.

Let's move to our Q3 2023 guidance.]* We believe we will grow transactions across our platforms to between [243,000 and 259,000, reflecting a year on year growth rate of between 27% and 35%, potentially surpassing a run rate of]* 1 million transactions [a year. We also anticipate reaching between \$5 and \$5.3 million revenue, representing a growth of between]* 5 and 13%. We are pleased to be able to achieve such growth rates on a lean cost structure, particularly in light of the broader market conditions.

Combined with our operation efficiency plan, as well as our high and stable growth margins, we are anticipating Adjusted EBITDA losses of \$5.1 to \$4.5 million.

As industry rates remain low, we anticipate Gross Booking Value [will lag Transactions growth, reaching]* between \$146.5 billion and \$156.5 billion.

** Due to a technical difficulty this section was not heard by participants in the conference call. The company adds the text, which is a verbal reiteration of the guidance provided in the press release and the earnings call presentation, for convenience.*

Marketplaces thrive on liquidity, so Transactions are the north star of our Platform segment. We continue to expand our market share by growing both our supply and demand while enhancing our underlying Platform. The majority of our Transactions are still monetized on a fixed fee basis, which we are increasing gradually as we increase the value delivered to our partners. The fixed fee structure may reduce our short-term revenue growth, but it also ensures that our revenue is less exposed to Gross Booking Value fluctuations.

In our Solutions business segment, revenue is typically recurring and high gross margins. Beyond revenue, we've also found that our software and data businesses strongly support acquisition and retention of users responsible for Transactions. This powerful strategy is known as SaaS-enabled marketplace.

As for our full year guidance, we are reiterating our previous expectations. The figures are presented in the press release and on this slide.

Let me pass it back to Zvi for some remarks before we take some questions.

Zvi Schreiber

Thanks Ran.

We're pleased to see indications that the global freight industry may be heading towards a gradual recovery. That said, we're building a digital platform business that can thrive in all market conditions. We continue to invest in research and development and expect to see in the coming months a number of exciting AI-driven features, new carrier launches, more integrations with leading supply chain software providers, and other innovations which will roll out with our carrier, freight forwarder, and importer and exporter partners.

[silence]

Okay, I think Eytan may have dropped off, so I'm going to take some questions. Eytan, are you there? Okay, good. So a question from Greg here, Greg Pandy. Hi, Greg.

Zvi Schreiber

[reading Greg Pandy- Chardan's, question outloud]

Can you help us understand how to think about the new carriers you're adding in 3Q versus guidance or transactions? How much, if any, will new carriers add, or is that mostly growth of existing carriers?

So, yeah, I think the answer is that we do see, we didn't have any major new carrier announcements during the summer, but obviously those are lumpy, you know, they happen from time to time. And so it's natural that, you know, you're not going to every quarter have a major carrier joining. We are in touch with, there are still several major carriers who are not yet on our network, especially in Asia, but also a couple of others in the West, as well. And you can be sure that we're in touch with all the carriers. And I certainly hope that in Q3, we'll get a couple of them over the line and that can make a, help us with a significant jump. So we can still grow, we can grow a little bit without new carriers, but the big jumps do come as new carriers come. I believe we have a good pipeline of carriers who will be joining.

Good, any other questions? Okay, hold on a sec.

Eytan Buchman

Okay, here we go. There's a question from Jason. Jason, I'm gonna unmute you right now. Your line should be open.

Jason Helfstein, Oppenheimer

Thanks. Good afternoon, guys. Good morning, everybody else. So, two questions. One, the full year guidance implies an acceleration in transactions. Just maybe talk about the risks of this outlook or the puts and takes. So how conservative could this be versus what are the risks?

And then the second question on the solution segment. Talk about how you think about contract terms, your ability to raise prices or upsell more services. Why did revenue growth start to basically slow in the first quarter? And what could be the catalyst to accelerate growth in solutions revenue? And by the way, Jason Helfstein from Oppenheimer, thank you.

Zvi Schreiber

Thanks, Jason.

Yeah, so look, our ability to predict transaction growth has been pretty good. Of course, like any prediction, it's not perfect, but I think we've got a good record of predicting transactions. We do expect, so you know, if I tie it back to Greg's question, we do expect some acceleration both with new carriers. We had a couple of small carriers joining in Q2. We hope to have a couple of big carriers during the second half of the year.

But also, we're still adding new freight forwarders every day. The reason why you didn't see more growth in transactions is, a) no major new carriers. But also because the market is down. Air volumes are down. If you look at the financial results of the cargo airlines in Q2, you can see the market's down. But we do see, we hope that the market will stabilize. And in Q4, we hope to see an increase. Q4 is peak season for air, because by that point, it's too late for retailers to send stuff by ocean. So Q4 tends to be a strong quarter in air.

So given peak season ahead of us, given that we're still adding the forwarders, given that we do hope to have a couple more carriers, even bigger carriers during the second half of the year, I think we feel good about our projections for increased transactions in the second half.

So does that answer your first question?

Jason Helfstein, Oppenheimer

Yeah, I mean, it's really more about the fourth quarter, just the guidance implies that actually acceleration in the fourth quarter with the third quarter being the bottom, I think. If you look at the number of transactions.

Zvi Schreiber

Yeah, so as I said, we do take into account the seasonality and Q4, you know, the majority of our bookings are air. Q4 is normally strong, plus by then I do hope that we'll have a couple more carriers online. So I think we feel we can't guarantee anything 100% like any prediction. I think we feel good about our prediction for a strong Q4 in terms of number of transactions. We've got some good confidence in that.

Regarding your second question with solutions. Yeah, I mean, look, I think we're, as you know, we're selling software to a distressed industry. If you look at the financial results of freight forwarders, ocean carriers, they're down tens of percent year on year. And so we have been able to, we were able to increase prices by a few percents this year and our retention rate has been quite good. But yes, our ability to sell big new tickets in this market right now with all our customers hurting, it's been harder than we'd like.

Again, it's a cyclical industry, hopefully next year will be easier. But I feel overall, we've done well in a tough, tough market to maintain our revenue, to increase prices a little bit, to retain well

over high 90's% retention of customers. So overall, I think that's going well, and I think we'll be able to grow solutions much more as the market goes into its next upturn.

Eytan Buchman

Okay, our next question is from Brian Dobson of Chardan. Brian, your line is open.

Zvi Schreiber

Hey Brian, I think you're muted.

Brian Dobson, Chardan

Thanks very much. So you had some positive commentary in your release regarding signs of life in global freight indices in third quarter as you're heading to the peak period. Do you have any additional color on where strength or relative strength is stemming from in terms of industry or geography?

Zvi Schreiber

That's a great question. We do not have the breakdown by industry because we tend not to, you know. We see the volume, we see how many containers are shipped, how many tons are shipped by air. We don't always know exactly which industry it relates to, necessarily. It depends a little bit on the circumstances, but in air, typically a freight forwarder books whatever it is, five tons. They don't necessarily tell us what's in it, unless it's special handling. But in many cases, we don't actually know.

So I cannot give you a breakdown by industry, but I think we're seeing across the board an uptick. I don't want to call it a recovery yet, but an uptick in ocean rates, both sort of Asia-Europe, Asia-North America, which are the two sort of biggest trade lanes. And I believe it's related to the fact that we're approaching the, we're starting the ocean peak season. You know, this is the time when retailers are starting to ship stuff out of Asia to have on the shelf for Thanksgiving or Christmas. So I think this is the normal sort of seasonal uptick, but it's good to see that even in the soft market, we are seeing that uptick this year.

Some people worried that wouldn't be that. I think also retail spending is, you may know this better than me, Brian, but retail spending is holding up okay. I'm not saying it's great, but consumers, despite inflation and other worries, consumer spending has not slowed down too much or not as much as some people feared.

So, I think overall there's a feeling in the industry, certainly on the ocean side, that we've seen the worst. Having said that, there are still threats. There's still a backlog of orders for ships. And, there's still planes coming on board. So, you know, there still can be more downward pressure on price, even if the volumes are holding up okay.

Brian Dobson, Chardan

Yeah, thanks. That's very helpful, thank you. And last month, you rolled out a digital interlining on WebCargo. How's the early feedback been? Has that been positive?

Zvi Schreiber

The early feedback has been excellent. Now, I don't want to mislead you. I mean, we're still just doing test shipments. You know, there's no volume yet to speak of. And that will take many months to get to real volume. But the feedback has been excellent. We have a number of airlines who've already signed agreements or are negotiating agreements to join that.

I mean, you would not believe, if you're not from the industry, you would not believe how painful it is for airlines right now to do interlining of cargo. I mean, they're literally, you know, it's hard to

believe, they literally spend a day or two going back and forth by email and phone calls. And actually there's a lot less interlining happening than should, 'cause interlining makes perfect sense. There's no airline who flies everywhere. So interlining should be a very important way of getting cargo, you know, across the globe. And yet it's so painful with the manual process that there is today. So the feedback has been universally excellent. Having said that, things take time with airlines. So I think it will take, I think we're on our way now. We've got good momentum, great feedback, but it will take a good while till it really affects our bottom line.

- Excellent, thanks very much for that call.
- Thanks, Brian.

Eytan Buchman

Okay, thank you, Brian. Our next caller is George Sutton from Craig Hill. George, your line is open.

Zvi Schreiber

George, you're still muted.

George Sutton, Craig Hallum

So Zvi, you very quickly went through the new carriers added in the quarter, and certain carriers that had expanded. Could you just go through those again real quick?

Zvi Schreiber

Yeah, sure. I'll just pull up my notes so I don't get it wrong. Yeah, so we mentioned two new ones—one is China Eastern, which is a substantial Asian carrier. Even so, we don't yet have the whole network. It's rolling out in stages, but that was actually, I said, maybe I sort of misspoke before 'cause there was one major new airline. Still, the exposure will be gradual. Another one is Widerøe, which is a smaller, regional Scandinavian airline. But we like that as well; I think it's really important to have the niche airlines as well, or the niche airlines, because that really helps us to provide comprehensive coverage, which is very attractive to the freight forwarder. So those are the two new ones. Like I say, we're working hard to bring on some more, some more of the big familiar names that we're missing. We have many of them.

We saw expansion in airlines like Qatar, LATAM, Avianca, and Emirates. So that Qatar and Emirates, reminder, those are the two biggest cargo airlines in the world. So both of them expanded the range. I don't have permission to say exact details, but they gave us new countries or new products or bigger weight breaks. So it's very exciting to see that it's going in the right direction—both with new airlines, but also existing airlines.

They like us as a channel and then they come back and say, okay, now we want to put more of our network on WebCargo by Freightos, which is always good to see.

George Sutton, Craig Hallum

So, I thought the most meaningful comment you made was that you saw 40% growth in your air cargo exports from Europe at a time that the market fell. And I wondered if you could just talk about the digitization of the market, what you're seeing relative to what the market overall is seeing. And I'm looking at sort of a competitive landscape comment from that.

Zvi Schreiber

Okay, well if you're asking in terms of competition, from what we know, of course, you know, our competitors are both our competitors for airline e-bookings are private companies, so we don't see direct—they don't publish numbers. However, we do often get feedback from the airlines if they choose to share with us, you know, sort of how big we are versus other platforms,

sometimes they choose to share that with us and then we get some good indications and the indications are really positive.

I think we've got a substantial market lead, at least from all the data points I have, at least 5x sort of the nearest competitor. Which is a very substantial lead, you know, when you're a marketplace it means we have more liquidity and that seems to have held up. You know, that seems to be at least the lead seems to be at least as big as it was a year ago.

So I'm very, very encouraged that we maintain a very strong leadership position and, as you know, when you're a marketplace, that's what it's all about. If you've got the liquidity, then that can be very self-sustaining because the buyers and the sellers come to you because that's where all the liquidity is. So yeah, feeling good about that.

Eytan Buchman

Perfect. Thank you. Thanks, George. Okay. Well, seeing there are no more questions here, I'd like to thank everybody for joining. A reminder that a recording of this webcast will be available on our website at freightos.com/investors. Thank you everybody for attending. That concludes this call.