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CRGO.OQ - Q3 2023 Freightos Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Zvi Schreiber** *Freightos Ltd - Chairman & CEO*

**Ran Shalev** *Freightos Ltd - CFO*

**Anat Earon-Heilborn** *Freightos Ltd - VP of IR*

## CONFERENCE CALL PARTICIPANTS

**Jason Helfstein** *Oppenheimer & Co. Inc. - Analyst*

**George Sutton** *Craig-Hallum Capital Group LLC - Analyst*

**Michael Stern**

## PRESENTATION

**Anat Earon-Heilborn** - *Freightos Ltd - VP of IR*

Hello, everyone, and welcome to Freightos Q3 2023 earnings conference call. A press release with detailed financial results for Q3 2023 was released earlier today and is available at [freightos.com/investors](https://freightos.com/investors). My name is Anat Earon-Heilborn, VP of Investor Relations, and I'm joined today by Zvi Schreiber, the CEO of Freightos; and Ran Shalev, Freightos's 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 the recording of this call will be available on the Investor Relations section of our website shortly after the call.

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 results 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](https://freightos.com/investors), and 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're using the Zoom client, questions can be submitted in writing during the call by using the Q&A feature in Zoom.

Please note that our management will participate in the A.G.P. EV and Transportation Virtual Conference on December 5 and the Virtual Investor Summit on December 7.

With that, let me hand over to Dr. Zvi Schreiber, the CEO of Freightos. Zvi, please go ahead.

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**Zvi Schreiber** - *Freightos Ltd - Chairman & CEO*

Thank you, Anat, and thanks to everyone who joined. We're pleased to report solid results for Q3 with continued strong growth in the number of transactions, growth in revenue year on year, and a reduction in expenses as a result of the efficiency measures we took at the beginning of the quarter.

We're pleased to show a modest increase in revenue even in a year where the industry is experiencing a strong cyclical downturn with most of our customers reporting revenue down by tens of percent. In our mission to digitalize the traditional international freight market, which is, as you know, a vast largely offline industry, our primary objective continues to be expanding the liquidity of our marketplace.

As new sellers attract new buyers into the system and new buyers attract new sellers, the network effect reinforces our position as the leading booking and payment platform for international freight, leading with air cargo. As such, we continue to view the number of transactions across our platform as the key performance indicator that tracks our path towards success.

We're very pleased to deliver the 15th consecutive quarter of record transactions. In Q3, transactions reached 269,000, up 40% year on year and more than 12% from Q2. This is the first time we exceeded a run rate of 1 million transactions per year, an exciting milestone.

Transaction growth was once again driven by both increased usage by existing users and also by the addition of new users. To illustrate the increased usage by existing freight forwarders, consider the cohort who first booked with us in Q3 2021. Two years later, in Q3 of this year, the same cohort is making nearly seven times more monthly bookings on average.

This exceptional cohort retention and expansion rate is something we take great pride in, and it's the dynamic we plan to continue until we become a big, profitable company. Of course, we're adding new users too. We added approximately 870 unique buyer users during the third quarter, reaching approximately 17,300 individual users who placed bookings in Q3, and that reflects 16% year-on-year growth.

These individual users work at thousands of freight forwarders and importers and exporters of different sizes. And as we just saw, we can expect those new users to place more and more bookings in coming quarters.

To draw in new buyers and increase their platform activity, we're actively expanding the supply side by adding more carriers and enhancing the offerings of the existing carriers. In Q3, we added two new air cargo sellers, Norse Atlantic Airways; and also a new type of seller, aircraft charter company, Chapman Freeborn.

Norse Atlantic Airways will open up real-time bookings on these flights to and from Europe to seven destinations in the US, and they already plan to expand their offering on the cargo by freighters later this year, opening up capacity to Barbados and Jamaica.

Chapman Freeborn is an aircraft charter company that routinely organizes part charters, backloads, and other commercially innovative solutions for ad hoc peak season and project cargo. In making its capacity available on our WebCargo platform, the company aims to gain deeper market penetration and enable its customers to benefit from faster, more flexible bookings. And for us, it moves us even further towards being a true one-stop shop for all air cargo capacity.

Talking about being a one-stop shop, in addition to adding more buyers and more sellers, we're expanding our platform by adding new cargo products. For example, in Q3, we saw a nice increase in airlines who offer digital bookings for air cargo shipments of pharmaceutical products. Pharma products are more complex to book than general cargo.

Now let me move on to discuss the market conditions. As you probably know, the freight industry is cyclical, and this year is definitely a down year for the industry. Let's take a look at ocean and air volumes first. The chart on the left shows that US ocean import volumes increased through Q3 during the typical ocean peak season as we approach the holiday months, and they were 5% higher than last year. However, volumes on major trade lanes like the Transpacific was still 9% lower than Q3 of last year.

On the right side, IATA data for global air cargo volumes show that global demand increased gradually in Q3 growing 2% compared to Q2, but volumes are about flat compared to the same time in 2022 and still remain below 2019 levels.

Moving on to air and ocean price levels, we can consult the indices that we ourselves publish on our own Freightos Terminal. Starting with ocean, container shipping rates are tracked by our FBX indices. Rates did manage to climb about 20% in mid Q3 due to the peak season demand ahead of the shopping holidays, but this is actually a feeble peak season rally and rates remain well below rates a year ago.

Rates fell sharply in September and into October, which has already passed the peak season for initiating ocean shipments. And the market continues to be affected by growing overcapacity fueled by the delivery of new vessels, especially on the Transpacific and Asia-Europe lanes.

The overcapacity problem is actually more acute on Asia-Europe lanes since the largest vessels are often deployed there because the ports in Europe can typically handle bigger ships. The pressure on rates due to overcapacity from the delivery of new ships look set to continue to next year.

The next chart shows the air cargo rates as tracked by our Freightos Air Index or FAX, and they're also soft. And there, the increased capacity is not actually driven by the cargo business at the moment, but rather primarily by increased passenger travel. Q3 air cargo rates were mostly stable during the quarter and are still about 30% lower than last year.

We did see the start of a rate rebound in late September, which reflects an uptick in volumes out of China, and that has continued through early November. And presumably, again, this is a short time increase in preparation for the holiday shopping season since air cargo is quicker and it peaks closer to the actual holidays.

Regardless of the cyclical downturn, digitalization continues apace. In October, we were proud to host our third FreighTech Conference for industry executives from around the world. The conference explores the latest trends and innovations in the industry, and it was held in Barcelona, near our office. Among the participants with senior executives from a wide array of airlines, ocean liners, freight forwarders, tech platforms, trade journalists, and stock analysts.

The topics that we all discussed include the pace of technology and innovation in the freight industry, macroeconomic trends, and supply chain efficiency. Many speakers discussed the need for digitalization and for platformification, leaving us more committed than ever to our mission to digitalize one of the largest offline industries in the world.

Before I hand over to our CFO, Ran, I would like to take a moment to address the situation in the Middle East. Our hearts are with those who have suffered losses and are enduring hardship. While our employees in the region are fortunately all safe, the effects of the current events have inevitably led to some interruptions to people's daily lives. Despite these challenges, the resilience of our team is evident, and we have not seen a tangible impact on business results. We certainly appreciate messages of support that our team has received from investors, customers, and our entire ecosystem, and we're all hoping for more peaceful times.

With that, let me now hand over to our CFO, Ran, to discuss our Q3 results and Q4 guidance. Thanks.

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**Ran Shalev - Freightos Ltd - CFO**

Thanks, Zvi. Revenue for Q3 '23 was \$5.1 million, up 9% compared to Q3 of '22 or 7% on a constant currency basis. Total platform revenues in the third quarter were \$1.8 million, flat compared to last year, while solutions revenue was \$3.3 million, up 14% from Q3 of last year.

Profitability measures improved significantly with IFRS gross margin at 54.9%, the same as in Q3 of last year, but non-IFRS gross margins increased to 69.5% compared to 63.5% in Q3 of last year, up 600 basis points. Compared to Q2 of '23, non-IFRS gross margin was up 450 basis points.

The factors that drove the increased margin in Q3 were the organization we implemented at the beginning of the quarter and other efficiencies. We believe these efficiencies are sustainable going forward and expect our non-IFRS gross margins to remain at around 68% to 70% in the coming quarters.

Adjusted EBITDA in Q3 '23 was negative \$4.1 million compared to a negative \$3.4 million in Q3 of '22, primarily due to the cost of being a public company. On the other hand, the EBITDA of negative \$4.1 million in Q3 compared to negative \$5.3 million in Q2 of this year, the improvement of \$1.2 million primarily reflects cost savings due to the reorganization done.

We remain committed to navigating a balance between the need to grow while controlling costs. We reiterate our expectations to be able to reach breakeven with the existing cash at hand. Our cash balance at the end of September, including bank deposits and short-term investments, was a healthy \$55.2 million compared to \$61 million at the end of June.

We're very pleased with our modest cash burn, which is very close to our adjusted EBITDA. As mentioned before, we are currently fully funded and believe we have the resources and business momentum required to become the international freight digital ecosystem leader we envision.

Let's move to our Q4 '23 guidance. We believe we will grow transactions across our platform in between 273,000 and 284,000, reflecting a year-on-year growth rate of between 30% to 35%. Gross booking volume is expected to continue to grow less than the number of transactions due to industry freight rates. We expect Q4 '23 GBV range between \$163.5 million and \$175 million. We anticipate generating between \$5.1 million and \$5.3 million in revenues in Q4, representing a growth of between 4% and 10%. Adjusted EBITDA losses are expected to be between \$4.7 million to \$4.4 million.

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## QUESTIONS AND ANSWERS

**Anat Earon-Heilborn** - *Freightos Ltd - VP of IR*

Thank you, Ran. Zvi and Ran will now take your questions.

Jason Helfstein, Oppenheimer.

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**Jason Helfstein** - *Oppenheimer & Co. Inc. - Analyst*

Thanks. Good afternoon, everybody. Thoughts and best wishes with all your employees in Israel and all those affected.

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**Zvi Schreiber** - *Freightos Ltd - Chairman & CEO*

Thanks, Jason.

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**Jason Helfstein** - *Oppenheimer & Co. Inc. - Analyst*

Just a few questions, one, it obviously makes sense. Platform revenue highly ties to, I mean, particularly like pricing trends you're seeing. Maybe just for the audience, help us understand how solutions revenue tracks, how it ties back to macro factors, and how you're thinking about that, broader next year? That's question one.

And then question two, sales and marketing, I think it's the highest levels of percent of gross bookings and revenue this year. How much of that is a function of the revenue? What are you doing to kind of lean into sales and marketing? How are you thinking about your ability to drive growth next year through your initiatives as opposed to just whatever the macro factors are? Thanks.

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**Zvi Schreiber** - *Freightos Ltd - Chairman & CEO*

Thanks, Jason, and it was great seeing you last week. Yes, in terms of solutions revenue, it's not directly tied to transactions as you correctly guessed. It's subscriptions. It's tied to the number of users. But take into account that most of our revenue is selling to freight forwarders. And freight forwarders, I don't need to tell you, are reporting revenue down tens of percent, profit down tens of percent, losses in some cases, so it just makes it much harder to sell software to them.

I think we did well to preserve and slightly increase our revenue when our customers are hurting quite badly. There's not a direct connection, but there's certainly a strong indirect connection with the macro. In terms of sales and marketing to the -- Ran, do you want to comment about sales and marketing costs?

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**Ran Shalev** - *Freightos Ltd - CFO*

Yes, sure. I think -- hi, Jason. I think it's in line with our expectations in terms of how we've budgeted it originally. We are balancing between the need to grow the revenues and the need to grow transactions, and we are hiring based on needs only. And only when we see incremental growth in both of the KPIs, that's when we are hiring; same will apply for 2024.

We're not anticipating, obviously, increases in S&M versus revenues. On the contrary. So my guess is that you will see noted continuations of growth in all parameters.

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**Jason Helfstein** - *Oppenheimer & Co. Inc. - Analyst*

So if can follow-up, can you comment on how you think solutions revenue would lay out next year relative to macro?

And then just the housekeeping, G&A was up a lot sequentially. Were there any one-time items in G&A this quarter? Thanks.

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**Zvi Schreiber** - *Freightos Ltd - Chairman & CEO*

Ran, you should take this, please.

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**Ran Shalev** - *Freightos Ltd - CFO*

Yes, sure. So when we're looking at solutions, which comprises of tools that we're giving to freight forwarders as well as data subscriptions that we sell to forwarders and to shippers as well, we are seeing nice growth coming from both. We're not anticipating any slowdown there. We're thinking that the growth and the momentum would continue.

We just launched several months ago the terminal and the indexes. Therefore, we think that now, there's a lot of traction there, and you should see our momentum of sales continue together with our SaaS tools that the team are managing to increase both the upsell of existing forwarder solutions we give, as well as new customers that are coming along all the time.

As for the second question, as for G&A, for the three months that just passed, there was no one-time special expense as far as nothing else. We were looking at the adjusted EBITDA from our perspective, which eliminates some one-time expenses such as share-based compensation or depreciation, amortization, or reorganization cost that we have had.

When you're taking all those and stripping them down, I think the data -- the EBITDA shows improvement versus the previous quarter and continue to improve also next year.

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**Jason Helfstein** - *Oppenheimer & Co. Inc. - Analyst*

So probably what we're seeing in our reported results is the impact from higher stock comp on G&A probably?

**Ran Shalev** - *Freightos Ltd - CFO*

In G&A, correct.

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**Jason Helfstein** - *Oppenheimer & Co. Inc. - Analyst*

Yes. Okay, thank you.

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**Anat Earon-Heilborn** - *Freightos Ltd - VP of IR*

Okay. Thanks, Jason.

George Sutton, Craig-Hallum.

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**George Sutton** - *Craig-Hallum Capital Group LLC - Analyst*

Zvi, real quick on passenger volumes, in air, you mentioned that there would be a fairly significant increase there. Help us understand the impact on price and the impact on transactions as you see it. Obviously, one other function that we heard pretty loud and clear at FreighTech was smaller shipper shipping sizes. Help us understand through the model how that works for you.

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**Zvi Schreiber** - *Freightos Ltd - Chairman & CEO*

Hi, George. It was great seeing you as well. Thanks for the event. Yes, I mean, the increased passenger travel in air creates increased capacity but doesn't affect transactions one way or another. But it obviously puts downward pressure on the price because there's more supply for the same demand.

Fortunately, quite a lot of our booking -- quite a lot of our transactional revenue is flat per transaction. Also, a big part of it is percentage, but at least part of it is flat, which doesn't get affected when the rates are down. It's only affected by transaction volumes. But when we're tied to the price, then of course, we are affected by excess supply, which reduces the prices.

For next year, of course, tricky to predict the future. We've had quite a lot of turmoil this year in the industry. We see some signs that things are sort of bottoming out. We think next year will be -- the prices will be low, but hopefully sort of stable as far as we can tell. So we're planning based on the assumption that things stay the same, not assuming a recovery, but also not assuming any further reduction in rates.

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**George Sutton** - *Craig-Hallum Capital Group LLC - Analyst*

A couple of things that I think were key points at FreighTech, one was all of the discussion around AI and different use cases. Can you just give us a sense of how you expect AI to play out within your solution? And then also, just give us a sense on the One Stack project and what the timeframe looks like for that to come out.

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**Zvi Schreiber** - *Freightos Ltd - Chairman & CEO*

Yes, George. I mean, for sure, AI is a very important transformative technology in all industries, including us. I'm not ready to give details of the features that we're releasing with AI. I hope we will be announcing some of those soon, but just to say that we are well on top of that. And our engineers are following closely the new technologies that are available, generative AI and other AI, and starting to put that to good use.

I'm not expecting any big dramatic changes for us or for others. I think AI in our industry is more of an incremental tool. We think it will help us to innovate in our products, but we're not expecting some huge change to our business anytime soon as result of AI.

In terms of One Stack, that's our project -- we've still got development, still has a history of -- we've made some acquisitions. Years ago, we acquired WebCargo and more recently, 7LFreight. We do have different software stacks, a piece of that history of successful acquisitions, and we're now getting quite serious about the project to bring this altogether.

We already have integrations, so those products can really talk to each other. We have started a process, which internally, as you said correctly, internally is called One Stack to literally merge those technologies over the next year or so and really end up with one coherent platform.

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**George Sutton** - *Craig-Hallum Capital Group LLC - Analyst*

One last thing, if I could. You had your first interline booking flight in the past quarter. Can you just give us a sense of the significance of that opportunity?

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**Zvi Schreiber** - *Freightos Ltd - Chairman & CEO*

Interlining is very significant in the medium term. Now we're just at the beginning, just doing our signing up of the first airlines as buyers and the first airlines as sellers. Interlining is a bit like codeshare for those who are familiar. We're getting our first transactions dealing with this, so very, very early-stage.

In the -- and even next year, the numbers will be small --but when you look two or three years ahead, I think there's two important significances to interlining. One is that it's incremental transactions and potential transactions with a higher take rate.

And the second significance is that interlining allows us to create unique supply on our platform because by combining airlines, we create some routes or routes which other platforms simply don't have. And that's always very important in terms of creating a moat to competition.

You really want not just to have -- we talked -- and I talked in my comments earlier about being a one-stop shop, but we want not just a one-stop shop for all different airlines, but even beyond that, to create some unique combinations and create some routes that nobody else has.

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**George Sutton** - *Craig-Hallum Capital Group LLC - Analyst*

Perfect. Thank you.

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**Anat Earon-Heilborn** - *Freightos Ltd - VP of IR*

Okay, so we have a question from Greg Pandy from Chardan on the chat. He is asking, as usage from existing carriers has grown, can you provide color on where you believe the penetration rates are now with some of your largest airlines?

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**Zvi Schreiber** - *Freightos Ltd - Chairman & CEO*

Thanks, Greg. Yes, we have to make a distinction between penetration from -- of overall bookings and penetration of digital bookings because we're still dealing with an industry which is probably 97%, 98% offline in terms of air cargo.

But our best customers, our best airline partners, we're probably more than -- we are in more than 50% of their digital bookings and perhaps order of magnitude, 15% -- 10% to 15% of all of their bookings at this time. That's for our best partners, still many other airlines where we have none,



where we have less. But some of our best partners, we're already a very significant channel for them, and we're the dominant digital channel for them.

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**Anat Earon-Heilborn** - *Freightos Ltd - VP of IR*

Okay, great. And let's open the line for Michael Stern. Michael, you need to unmute.

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**Unidentified Analyst**

Hi, yes. While there's growth in transaction volumes, as far as I can say, Freightos seems to earn the same approximate amount of about \$20 per transaction, which doesn't seem a large amount. Do you see revenue per transaction growing? And if so, how and when? That's the first question.

Second question is, can I have, I guess, a breakdown between profitability from air cargo versus profitability from shipping? And what is the expected growth in each current category? I know these are guesses, but your guess is a lot better than mine.

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**Zvi Schreiber** - *Freightos Ltd - Chairman & CEO*

Yes. Thanks, Michael. Regarding the first question, we definitely see the take rate, the dollars or the percentage per transaction growing in the long term. There are some factors which means you won't see that for a while, and that's mainly a mix. It kind of relates a little bit to your second question.

I'm not going to be able to fully answer your second question because we don't provide that breakdown. But I can say that the airline bookings are relatively newer, and our transactional -- without giving you -- I can't disclose the number, but our transactions off the airline bookings is a lot less, and that segment is growing faster.

So the revenue per transaction is growing in all our segments, but the mix is such that actually, the segment where we have the lowest revenue per transaction is growing faster. So that hides the fact. You may see that the dollars per transaction are not increasing, but in fact, in each segment, they are increasing. And the mix is such that you don't see that in the average, and you won't for a while. Eventually, you will.

The second segment, we do not disclose air versus ocean in detail. I can tell you that a good majority of the transactions are air cargo. I can also tell you that we make still more money, as I mentioned before, on some of the ocean and indeed multi-modal door-to-door transactions on freightos.com. So those are -- that's been around for longer, that's better monetized. But unfortunately, we've chosen not to disclose the exact breakdown because it's very competitively sensitive, so please understand that.

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**Michael Stern**

Thank you.

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**Ran Shalev** - *Freightos Ltd - CFO*

Thanks, Michael.

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**Anat Earon-Heilborn** - *Freightos Ltd - VP of IR*

Okay. We have no more questions, so thanks, everyone, for joining. Feel free to reach out to us at [ir@freightos.com](mailto:ir@freightos.com). Have a good day.

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