Q3 2024 Coupang Earnings Call Script
New York: Tue. 11/5/2024, 5:30 PM

Mike Parker:

Thanks, operator. Welcome, everyone, to Coupang's third quarter 2024 earnings conference call. I'm pleased to be joined on the call today by our Founder and CEO, Bom Kim, and our CFO, Gaurav Anand.

The following discussion, including responses to your questions, reflects management's views as of today's date only. We do not undertake any obligation to update or revise this information, except as required by law.

Certain statements made on today's call include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and in our filings with the SEC, including our most recent annual report on Form 10-K and subsequent filings.

During today's call, we may present both GAAP and non-GAAP financial measures. Additional disclosures regarding these non-GAAP measures, including reconciliations of these measures to the most comparable GAAP measures, are included in our earnings release, our slides accompanying this webcast and our SEC filings, which are posted on the company's Investor Relations website.

And now, I'll turn the call over to Bom.

Bom Kim:

Thanks, everyone, for joining us today. Before we review our results for the third quarter in detail, I'd like to start with three key takeaways:

1. First, our strong and consistent growth and expanding margins are the result of years of investment and a relentless drive to break tradeoffs, to do the hard things that deliver an ever-improving experience for our customers and operational excellence, not one at the expense of the other.
2. Second, our growth in Product Commerce is fueled primarily by deeper engagement from our existing customer cohorts, driven in large part by selection expansion in both established categories and newer offerings like Fresh and Fulfillment and Logistics by Coupang, or FLC. Over the long term, growth from existing cohorts will be supplemented by the converging spend of new active customer cohorts.
3. Third, our nascent offerings like Eats, Taiwan, Play, and Farfetch, along with Ads and FLC, continue to march forward on the positive trajectory that we've seen throughout the year. It's important to note that with each of these offerings we're still in the very early stages of the journey. And with each step we become even more encouraged by their potential to create meaningful moments of WOW for customers and deliver attractive returns.

Now, a few highlights from our results for the quarter.

This quarter constant currency revenues grew 32% over last year, or 25% excluding Farfetch, which we acquired earlier this year. This marks yet another quarter of at least 20% constant-currency growth, which we've been able to do in 14 out of the 15 quarters we've reported since our IPO.

And still, we continue to represent just a small percentage of the massive commerce opportunity in the markets we serve. We believe the growth opportunity in the years to come is still largely untapped with much of it yet to be realized.

Active Customers in Product Commerce grew again, up 11% year over year. It's important to note that our growth continues to be driven primarily by the increasing spend of our existing customers. We continue to see higher engagement as we add more selection on Rocket and provide more services. Again this quarter, all of our customer cohorts increased their spend at strong levels, even our oldest and highest spending cohorts. And currently only a quarter of our customers purchase in 9 or more categories, out of the more than 20 categories we offer. We're still in the process of discovering what the potential spend is for all of our cohorts, including our oldest.

One driver of the expanding cohort spend is the compounding value of our WOW membership savings program. Our WOW members increasingly see the value of WOW and the many benefits they receive on Coupang, including access to free shipping, free dawn and same-day delivery, free returns, free content on Play, free

Eats delivery, and free Rocket Fresh deliveries. We see the higher levels of engagement reflected in the order frequency of our WOW members, which is 9 times that of our non-WOW customers. And our most mature WOW members spend on average over two-and-a-half times that of our newest WOW members.

Our mission is to provide the best overall customer experience, by offering the best in Selection, Savings, and Service. And we believe there's a significant opportunity to break the tradeoff between selection and service, as there's still a lot of selection that has yet to become available on Rocket Delivery.

Just one small example: this quarter we launched R.Lux, our new luxury offering, which gives customers access to some of the most in-demand luxury beauty brands. We've partnered directly with luxury brands to provide a new kind of white-glove service: customers interact with the most exclusive brands in R.Lux's rich and sophisticated shopping environment and receive products via Rocket's next or same-day delivery in elevated packaging custom designed exclusively for R.Lux. It's just another example of the latest selection and service we've added to our customers' delight, and there's much more to come.

We continue to see impressive momentum in our FLC offering, which also expands the selection that customers can enjoy with free Rocket delivery. Our growth in units, sellers, and overall volumes in FLC continued this quarter at the strong pace we've seen throughout the year, each of them growing over 130% year-over-year. FLC is also in the early stages of its growth trajectory, and we believe it will be a significant part of our growth story for years to come.

Now, a few words on Developing Offerings. As I previously noted, we continue to see our initiatives advancing on the positive trajectory that we've seen throughout the year. With Farfetch, our team is making significant progress in driving operational efficiencies through disciplined execution. As we stated earlier this year, our goal was to achieve near break-even profitability by the end of the year. We hit that milestone this quarter.

We're also excited about the strong response we're seeing from Eats customers, who have embraced the exceptional service and value that we're providing through our food delivery offering. In Taiwan, we're partnering directly with more and more brands to expand selection and inventory for our customers, and where we've added meaningful supply we've seen dramatic growth. We're excited to redefine what customers in Taiwan can expect from online retail and to alter the growth trajectory of the brands with whom we partner, as we've demonstrated many times in the past.

In the context of the massive and untapped potential that lies ahead, we're just getting started. Our ability to capture that opportunity will depend on our ability to stay focused on the relentless pursuit of customer wow and operational excellence.

Now, I'll turn the call over to Gaurav to review the results of the quarter in greater detail.

Gaurav Anand:

Thanks, Bom. In Q3 we continued the trend of strong results that we have delivered throughout this year. Our customers continue to engage with Coupang with expanding momentum, which is demonstrated by the results we are reporting this quarter: sustained growth in revenues, product commerce active customers, gross profit, and adjusted EBITDA.

Before I go through the numbers for the quarter in detail, I need to highlight a few items to provide more context to the comparative numbers we are reporting. First, I remind you of our Farfetch acquisition completed earlier in Q1 of this year. Where possible, I will provide results with and without Farfetch. And second, the FLC accounting change that began in Q2 of last year no longer impacts our quarterly year-over-year comparative results. As a result, FLC adjustments to quarterly year-over-year revenue growth rates are no longer needed.

This quarter, our total net revenues grew 27% year-over-year, or 20% excluding the impact of Farfetch. Our constant currency growth, adjusting for the effects of changes in foreign currencies, was 32%, or 25% excluding Farfetch.

During Q3, the total retail spend in Korea was relatively flat year-over year. This compares to our Product Commerce segment, which grew revenues at 16% year-over-year, or 20% in constant currency. This Product Commerce constant currency revenue growth of 20% is consistent with the growth in our overall product commerce volumes. As we continue to be a very small portion of the total commerce spend in Korea, we see a massive runway for growth ahead of us.

We continue to see strong growth in the average spend levels of our customers this quarter. Net revenues per Product Commerce active customer grew 4% year-over-year in Q3, or 8% in constant currency. This was impacted by the short-term dilution from newer active customers that historically have lower spend levels in their early quarters. And as Bom noted earlier, we continue to see the spend levels of all our cohorts increase, even our oldest and highest spending cohorts.

Our Developing Offerings segment continued the similar momentum that we have seen throughout this year. Q3 Developing Offerings segment revenues grew nearly 350% year-over-year, or over 350% in constant currency. Excluding Farfetch, Developing Offerings segment revenues grew over 145%, or 155% in constant currency. We remain confident about the potential for each of the initiatives within Developing Offerings, as demonstrated by the consistent momentum and strong customer response we have seen throughout the year.

We reported another record quarter with $2.3 billion in gross profit, representing 45% year-over-year growth and a gross profit margin of 28.8%. Excluding Farfetch, we delivered $2.1 billion in gross profit, growing at 33% year-over-year with a margin of 28.1%. This represents a margin improvement of over 270 basis points versus last year. I would also like to emphasize the importance of the growth in gross profit as a primary indicator of our overall underlying growth, given the evolving mix of the various offerings, services and channels within our business.

Within our Product Commerce segment, we saw gross profit growth of 28% year-over-year to $2.1 billion, and a gross profit margin of 30%. This represents an improvement of more than 280 basis points over last year, driven primarily by similar factors that we have seen driving margin expansion throughout the year. We continue to see benefits from increased efficiencies across operations, including benefits from greater utilization of automation and technology, further supply chain optimization, and the scaling of margin accretive offerings. On a quarter-over-quarter basis, Product Commerce gross profit margin decreased 30 basis points versus Q2. This is largely due to quarterly fluctuations in our business, including some seasonal impacts. As we have pointed out in the past, margins may continue to be uneven quarter-to-quarter, but we expect our profit margins to continue expanding over time.

This quarter, we saw a 355 basis points increase in OG&A expense as a percentage of revenue versus last year. This increase was primarily due to the inclusion of Farfetch and its related acquisition and restructuring costs. We are also investing in technology and infrastructure to build a stronger foundation for future scalability. The higher investment into tech and infrastructure, as a percentage of revenues, is driven by timing and does not reflect a structural change in our operating costs. As we have demonstrated many times before, we expect to generate leverage on these investments as we scale and OG&A will decline over time as a percentage of revenue.

We generated $132 million of income before income taxes in Q3, and $70 million of net income attributable to Coupang stockholders. This resulted in diluted earnings per share of 4 cents. Excluding Farfetch, net income attributable to Coupang shareholders was approximately $108 million for the quarter and diluted earnings per share was 6 cents.

On a consolidated basis, we reported $343 million of adjusted EBITDA this quarter. Among other things, this excludes the non-recurring acquisition and restructuring costs related to Farfetch. Our adjusted EBITDA margin for the quarter was 4.4%. On a trailing twelve-month basis, we generated adjusted EBITDA of $1.2 billion with a margin of 4.3%.

Excluding Farfetch, we reported $345 million of adjusted EBITDA in Q3 and $1.3 billion over the trailing twelve months, with a trailing twelve month adjusted EBITDA margin of 4.7%. We continue to be confident in our ability to consistently deliver expanding consolidated margins on an annual basis going forward.

Our Product Commerce segment delivered $470 million of adjusted EBITDA this quarter, with a margin of 6.8%. This represents a year-over-year margin expansion of 12 basis points, and a decrease of 142 basis points versus last quarter. This quarter-over-quarter decrease is due, in part, to the fluctuations in fulfillment-related operational costs, as well as increases in technology-related costs this quarter. This increase in technology spend represents an adjustment to our historical spend levels, and we expect to generate operating leverage against these costs over time as we scale.

For Developing Offerings, our segment adjusted EBITDA in Q3 was a $127 million loss for the quarter, improving $34 million year-over-year and $73 million quarter-over-quarter. While we expect to continue to see some unevenness in the level of losses from quarter-to-quarter, the improvements we saw this quarter are most notably driven from improvements in both Eats and Farfetch. With regards to Farfetch, we are excited to report that we hit our goal of achieving near break-even profitability.

We generated $1.8 billion in operating cash flow and $935 million of free cash flow over the trailing twelve months. This represents a decrease of $578 million in trailing twelve months free cash flow versus the prior quarter. There is no structural change in our free cash flow generation and this variance is driven primarily by certain non-recuring working capital benefits that we previously communicated were in the prior trailing twelve-month period, as well as the timing of significant capital expenditure payments. The majority of the increase in the capex relates to infrastructure investments that we are making in Korea, which creates some unevenness in the timing and levels of spend. We are exploring strategies to reduce the capital intensity of our real estate operations while also maintaining operational control over these strategic assets.

This quarter we reported an effective income tax rate of 52%, driven by consolidation of pre-tax losses in Farfetch and non-deductible expenses. As a reminder, this is just an accounting tax rate, as we expect our cash tax obligation this year to be closer to 20% to 25%, excluding Farfetch losses.

Our teams delivered another strong quarter in Q3, one that demonstrates our commitment to driving durable growth and investing to deliver long-term value to both customers and shareholders.

Operator, we are now ready to begin the Q&A.