

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

CRGO.OQ - Q1 2024 Freightos Ltd Earnings Call

EVENT DATE/TIME: MAY 20, 2024 / 12:30PM GMT

CORPORATE PARTICIPANTS

Anat Earon-Heilborn *Freightos Ltd - Vice President - Investor Relations*

Zvi Schreiber *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

Ran Shalev *Freightos Ltd - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

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

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

PRESENTATION

Anat Earon-Heilborn - *Freightos Ltd - Vice President - Investor Relations*

Hello and welcome to Freightos Q1 2024 Earnings Conference Call. A press release with detailed financial results was released earlier today and is available on the Investor Relations section of our website freightos.com.

My name is Anat Earon-Heilborn, and I'm joined today by Zvi Schreiber, the CEO of Freightos; and Ran Shalev, CFO. Following the prepared remarks, we will open the call for questions. We are sharing slides during the call, so we recommend using Zoom on a computer instead of dialing in by phone. The slides, as well as a recording of this earning call, will also be available on 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 will 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.

Today's earnings call will begin with an overview of Q1 performance by Zvi, who will also provide insights into the current freight market trends. Next, Ran will present the financial results and the guidance for Q2. We will conclude with Q&A. Questions can be submitted in writing during the call by using the Q&A feature in Zoom.

Zvi, please go ahead.

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

Good morning and thank you for joining us. I'm pleased to report a strong start to the year, with Q1 results exceeding our expectations in every metric, namely transactions, gross booking value, revenue, and adjusted EBITDA. This performance highlights the robustness and growing acceptance of our platform and the strides we're making in digitalizing international freight in order to bring efficiency and transparency to this crucial sector.

In the first quarter alone, Freightos facilitated nearly 296,000 transactions, marking a significant 29% increase year-over-year above our expectations for the quarter and at the high end of our long-term expectations of 20% to 30% annual growth. This is the 17th consecutive quarter of record transactions. We continue to consider transaction growth to be the most important KPI for our business, and its consistent growth as the prime proof point of the benefits users gain from the marketplace we've built for them.

Furthermore, the gross booking value of the transactions was over \$192 million, growing 14% compared to Q1 last year and exceeding our expectations of only a modest growth, if at all. Our modest GBV expectations were based on the hope that the Red Sea crisis might pass. However, most shipping is still avoiding the Suez Canal, and as a result, rates remained somewhat elevated in Q1 as I will discuss in more detail later.

In Q1, our platform experienced continued growth with unique buyer users increasing 11% year-over-year. This reflects our platform's appeal and its capacity to continuously attract new buyers, expanding our market presence. Despite most large freight forwarders already being clients, we continue to expand by adding more users within existing customers and engaging new, often smaller customers. We did also onboard a few larger freight forwarders from Asia, Europe, and America this quarter, demonstrating our ability to attract key players across regions.

The value our platform brings to buyers is demonstrated by the performance of the Q1 2022 cohort, now two years old, of new freight forwarders from that quarter, who have been with us two years now shown in the chart on the left. This cohort analysis showcases consistent substantial engagement from freight forwarders. Once they join our platform, their bookings increase significantly over time, driven by more carrier choices on the platform, more coverage, and strong retention.

On the seller side, we expanded our carrier base to 49 carrier sellers this quarter. We recently made several announcements about new airlines making their capacity available on our platform or expanding their capacity. These include Fits Cargo, Delta Cargo, and Singapore Airlines. Our most recent announcement just last week discussed our expanding collaboration with United Airlines. In the US, the expansion of our partnership with Delta Cargo enhances our domestic US offering with all the three largest domestic air cargo carriers now available for electronic booking via our platform.

Meanwhile in Asia, our collaboration with Singapore Airlines and Fits Cargo boosts our regional presence, expanding booking options in Asia Pacific's busiest hubs and boosting our nascent interlining availability. These new additions are a few examples of the multiple carrier rollouts that took place in the first quarter. And I'm pleased to say that we have a strong pipeline of new airlines for the second quarter, all of which are expected to contribute to transaction growth in the coming months and years.

Our carrier cohort analysis on the right indicates dramatic growth in bookings for each new carrier soon after joining, affirming our platform strength and the expanding scope of our marketplace, which continues to be the clear leader in this emerging space of digital air cargo. We believe that in the first quarter, we maintained a share of approximately 80% of all international air cargo digital bookings on platforms.

In our last earnings call, we set out four key growth strategies for our marketplace over and above the increase in the number of transactions. This quarter, we've seen meaningful progress across each of the four.

Firstly, more types of transactions. We continue to leverage our broad and diverse transaction types to encourage not only more transactions, but also to enhance their value. In the first quarter, we started dynamically suggesting alternative options when people book, including highlighting premium air cargo products like Express on relevant searches, driving more value for customers and, in some cases, increasing our transactional revenue. These enhanced service offerings contribute to our monetization efforts, optimizing how we generate revenue from each transaction.

Secondly, covering more aspects of the transaction on platform. We aim to cover more services related to each transaction. In Q1, we successfully rolled out payments in more countries by adding a new payments partner in Asia. We're very pleased with the strong growth in payments revenue, although the numbers are still small.

Thirdly, more buyer-seller interactions. Interlining, where one airline purchases cargo services from another, a little bit like codeshare in passenger, is a key initiative here and we introduced it last year. Traction for this interlining offering continues to be strong, and the number of such transactions in the quarter significantly exceeded our expectations, although it's still a small number. While the revenue contribution from these transactions was modest, as more airlines make their capacity available for interlining on our platform, we expect booking value and revenue from interlines to grow.

Lastly, data and connectivity. Our data utilization through Freightos Terminal has provided valuable market insights throughout the Red Sea crisis. This quarter, we leveraged our data to attract new subscribers and improve service offerings, while we also got some good publicity such as my appearances on BBC News and Fox News.

I'd like to draw your attention once again to the United Airlines announcement from last week. We're proud that United Airlines has chosen Freightos as their main technology partner to build a state-of-the-art air cargo web portal. The new portal is intended to enhance United Cargo's website offering to freight forwarders. The heightened online experience will enable seamless booking and tracking functionality as well as other capabilities. United customers have a choice in how to access and book United Cargo's available capacity directly through its website or through our WebCargo platform.

As we advance through our strategic growth avenues, it's important to keep in mind the huge market potential available to us. The combined market size for our core sectors of air and ocean freight totals in hundreds of billions in potential gross booking value per year, although the exact size of the market, of course, fluctuates with price levels.

Importantly, data indicates that 30% to 50% of this market is spot and could be transactions on a platform-based solution like ours in the coming years, presenting an opportunity for us to potentially target some \$10 billion in high margin recurring transactional revenue. This market potential fuels our drive to innovate and enhance our platform's offerings.

Moving on to the freight market conditions during the first quarter. Starting with ocean and air volumes, both showed the typical seasonal decline, but increased year-on-year. The chart on the left shows normal seasonality in global ocean freight during Q1 as volumes decreased in February during the Lunar New Year holiday in China and parts of Asia and then picked up again in March.

Total ocean volumes were up 9% compared to the first quarter of 2023. On the right side, IATA data for global air cargo volumes shows that the global demand continued its recovery in Q1, increasing 13% compared to Q1 last year. Demand growth out of China is largely attributable, though, to the new and growing presence of B2C e-commerce volumes, such as Temu and Shein, as a major air cargo segment. While Red Sea disruptions to ocean freight push some ocean volumes to air cargo, especially out of India and the Sea Air hub, Dubai.

Looking at our Freightos Terminal, we can see that air and ocean freight price levels also showed a typical seasonal trend but were also affected by the Red Sea crisis. On the left, our FBX Indices showed that ocean container shipping rates increased more than a 150% from the close of 2023 to the peak in late January, but then gradually eased 57% from that January peak till the end of Q1 as demand pressure decreased and operations stabilized to a new normal as carriers adjusted their networks and schedules and sailing speeds to the new situation of circumventing Africa. However, since the new routine requires longer journeys and more vessels, absorbing significantly more capacity than normal, rates remained double their level compared to late December and 84% higher than in Q1 last year. On average, FBX was 58% higher than Q1 last year.

This next chart shows that air cargo rates, to which our GBV is significantly more exposed, and it's tracked by our Freightos Air Index, FAX, which dipped during the Lunar New Year period, but ended the quarter 3% higher than at the end of Q4. This was driven by B2C e-commerce volumes from China and shifts from sea to air due to the Red Sea crisis. South Asia export rates increased 80% to North America and 125% to Europe, also contributing to the global rate level. On average, our FAX air cargo price index was 21% lower compared to Q1 last year.

In closing, our progress this quarter reinforces our optimism and commitment to reshaping the freight industry through innovation. Our mission to streamline global logistics continues to drive us forwards and inspire our actions.

Now let's turn to our CFO, Ran, who will discuss our Q1 results and outline our projections for the future. Ran?

Ran Shalev - Freightos Ltd - Chief Financial Officer

Thank you, Zvi. I'm pleased to share our first quarter results, which exceeded our expectations in every metric, delivering top line growth while at the same time driving operating leverage. We are pleased to see that focusing our resources into the growth areas of our business have been paying off.

Revenue for Q1 '24 was \$5.4 million, up 11% compared to Q1 of '23, the highest growth rate in our five quarters as a public company. Total platform revenues in the first quarter was \$1.9 million, up 12% compared to the first quarter of '23. Within the mix of platform revenue, the main contribution to this growth came from air cargo digital booking by freight forwarders.

Solution revenue was \$3.5 million, up 10% from Q1 of last year. Solution revenue Q1 performance reflects solid and balanced growth across the components of this segment, with both software and data subscription growing.

We have been successful in maintaining profitability level, with IFRS gross margin at 62.6%, up from 58.3% in Q1 of 2023, and non IFRS gross margin reaching 70.3% for the quarter, up from 65% in Q1 of 2023. The improvement comes from both platform and solutions. Platform margins are benefiting from higher efficiencies of scale and increased automation. Solution margins are benefiting from economic of scales in customer service and operations too.

We are operating more efficiently: Adjusted EBITDA in Q1 '24 was negative \$3.6 million compared to a negative \$5.8 million in Q1 last year. This significant year-on-year improvement was achieved primarily through our cost restructuring program, which reduced headcount from 387 at the end of March last year to 340 at the end of March of this year, as well as increased revenues and profit margin contribution to the bottom line. We expect to continue to improve adjusted EBITDA each quarter for the rest of the year.

Our cash balance at the end of the year includes short-term bank deposits and short-term investment was \$49.8 million. We remain confident that as we continue to responsibly manage our expenses, we will reach positive cash flow with available cash on hand.

Let's move on to our Q2 guidance. We expect 27% to 29% of transaction growth, so once again at the high end of the long-term model transaction growth of 20% to 30%. This is driven by many airlines that joined and expanded their platform supply availability at the beginning of the year as well as growth in other modes.

As for GBV, the outlook for 15% to 18% year-on-year growth is based on current rate decline in air freight rates compared to the beginning of the year. However, on a year-on-year basis, it is expected to show solid growth that reflects the low rates in Q2 of last year and the transaction growth.

Q2 revenue is expected to reach \$5.5 million to \$5.6 million. Revenue growth is driven by both segments, monetization of our platform and incremental solution sales.

We continue to manage costs very closely and remain committed to our goal of reaching positive adjusted EBITDA on our existing cash. At the same time, we continue to invest in our future and expect a small amount of hiring throughout the rest of the year to support our growth. Overall, we are on track to achieve our full year goals and our outlook for the year remains as it was.

Anat Earon-Heilborn - *Freightos Ltd - Vice President - Investor Relations*

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

QUESTIONS AND ANSWERS

Anat Earon-Heilborn - *Freightos Ltd - Vice President - Investor Relations*

Our first question will come from George Sutton.

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

I wondered if we could walk through the cohort analysis and pricing that you're getting from folks that are participating on your platform. Is there a point in time where the strength we're seeing starts to really turn into higher pricing? It's more of a negotiating question.

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

Yes, I think it's related in the sense that as our transaction volumes grow, we become a more important channel for the sellers, particularly the airlines which are the most significant sellers. And then as their contracts come up for renewal, we're typically able to demonstrate that we've become a very valuable sales channel for them and a bigger and bigger sales channel over time. And that certainly helps us in the negotiation, helps them to justify the return on investment on a higher fee, so yeah, there is a correlation, definitely. The more we're a valuable sales channel, the more there's a willingness to pay for our platforms.

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

Curious on this United deal, how unique is this in terms of the portal you're creating for them? It sounded like it was a little broader than what you're normally doing. I just want to make sure I was clear on that.

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

Yes, indeed. So it's actually -- what we're doing for most of the other airlines is that we're a platform that connects to them, but not we're not building their portal. So if you go to the website of, whatever, Lufthansa or Air France KLM, then we're not involved in that. You're talking to them directly, and we're not involved in building their own private portals.

If you come to our WebCargo by Freightos, then of course you can communicate with all the airlines through us, and that goes through us. But for United, we're actually, being trusted as their partner to build their own portal, which means that all bookings on United, whether you go to their own website, whether you come even through one of the small third-party platforms, we're actually there providing the technology for all their channels effectively.

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

Superb. And then lastly for me, relative to the Red Sea issue, you mentioned it's creating more air cargo out of India and Dubai, but rates are down pretty significantly. And just from a supply demand perspective, I want to make sure we understand that.

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

I don't have at my fingertips those specific rates. Eytan, if you have that, maybe you could check. I thought that rates origin Asia are actually up in the air. Overall rates, maybe not.

I can tell you though, while there's been extra demand for air cargo out of India and some other parts of Asia, to be perfectly honest, it hasn't helped us very much, because in many cases, some big companies have monopolized some of that capacity, and there hasn't been a lot of spot capacity available. In fact, there's been less spot capacity available for us to sell on our platform origin Southeast Asia, origin India. So if anything, when hopefully, that situation normalizes, it will actually help our bookings out of Asia.

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

Okay. Understood. Thank you very much.

Anat Earon-Heilborn - *Freightos Ltd - Vice President - Investor Relations*

Okay. Thanks, George. The next question will come from Jason Helfstein.

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

So you pretty much have the model, at this current spending level, seems to be -- I want to say it's on autopilot. Obviously, you're working very hard to keep boosting both sides of the marketplace. But I mean, what's the path to break out to sustainable 20% plus revenue growth? I mean, you kept the full year guide the same. It does look like you can get the high 10s or maybe 20% by the end of the year. But just what's the pathway to sustained 20% revenue growth? And are you in a desire to prove profitability on the EBITDA line? Are you not leaning into growth as much as you could have if that wasn't the focus? Thank you.

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

Look, there's always some balance between growth and breakeven, obviously. Growing costs money, which doesn't return itself immediately. But I think we've found a balance that I'm comfortable with right now in the sense that, yes, we do have a lot of emphasis on reaching breakeven with our existing cash reserves.

So we're still investing a fair amount in growth. We're investing a lot in research and development, as you can see. We're investing a lot in sales and marketing. Obviously, if money wasn't an issue, we'd invest even more, yes, but I'm fairly comfortable that we've found a balance which allows us to break even on our current cash reserves, but still to grow considerably. I hope at least 20%. I think 20%, we're already in that groove. Now we're looking continuously looking for ways to accelerate that further without spending a large amount of capital. So overall, I think, we've found a fair balance between getting to profitability and growing, and always exploring ideas how can we grow, even faster for sure, without breaking the bank.

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

And then to the extent that certain dynamics we're seeing, obviously, you're playing in the overall shipping of goods system. We're still seeing consumer spending, at least in the US, but not growing as fast as services. I mean, when you think about the macro, do you ultimately think that we're still going through some COVID hangover with the consumer and that there is more growth that can be unlocked broadly and you will benefit, whether it's when rates ease or et cetera, but that consumer spending, reminder consumer spending in a broader way can have a positive impact on the business?

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

I mean, it's -- predicting consumer spending in the US or elsewhere is not something I'm going to -- smarter people than me have given that their best guess and nobody really knows.

I think at this point, we've got so much of the market to capture. The market is still 98% offline. So if consumer spending is up 5% or down 5%, I think it's a slight headwind if consumer spending increases, but it's not all that material.

We have -- the main emphasis for us is to take all of the offline freight and digitalize it. And that's such a huge growth opportunity that the macroeconomics is almost is pretty marginal to the opportunity that we have, if that makes sense.

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

Okay. And then just one last question. Is there any products, without being specific, but as you're thinking about the product pipeline and potentially new features, or new products that you plan to release end of this year into next year, that could meaningfully inflect the growth curve around solutions?

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

I think potentially, yes. I've got to be careful. I can't say too much about product plans. But we've got a -- we're investing a lot in research and development. We have many ideas to sell more to airlines. You saw the United announcement, and so that's given us validation that we can sell solutions to airlines as well as platform to airlines, which is encouraging. Within the world of freight forwarders, we have different products, because we made some acquisitions over time. We're now working hard to unify those and create a stronger multimodal product. And then we mentioned also some new directions that I mentioned in my comments about interlining and payments.

So yes, we have a lot of exciting things going on. I can't say too much. But yeah, rest assured that our product and development teams are innovating the whole time.

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

Okay. Thank you.

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

Thanks, Jason.

Anat Earon-Heilborn - *Freightos Ltd - Vice President - Investor Relations*

So next we have a question from the chat. The question is, can you talk about number of daily or weekly flights as it related to United and Delta?

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

So I don't know the number of daily flights off the top of my head, I apologize. But as you know, these are two of the three. And then if you add United as well, which we talked about, those are the three biggest carriers in the United States. So we're talking about thousands of flights a day, but I don't know the exact number. So I believe that we're on track to have all of their cargo capacity, domestic and international, available on WebCargo by Freightos. So it's a huge number of flights. I don't know the exact number. And the three of them are a very big -- between them are a very big proportion of the American air market.

Anat Earon-Heilborn - *Freightos Ltd - Vice President - Investor Relations*

Great. And another question from the chat is, can you expand on TAM not in gross booking terms, but in terms of available revenue for Freightos?

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

Yeah, I alluded to that before. I think if at all, if you start with the gross bookings because that's where our revenue -- in the end, the biggest revenue opportunity over time is platform revenue, so it is related to the gross booking value TAM. So if the gross booking value TAM, the entire market is well over a \$1 trillion, but the most relevant air and ocean spot market is hundreds of billions of dollars. I won't say an exact number because it fluctuates quite a lot as the rates change. I won't give an exact number, but let's say it's hundreds of billions. And our take rate today is order of

magnitude 1%, but in some segments, it's multiple percent. And so our platform revenue is potentially several percent, maybe eventually 10% of hundreds of billions of dollars. So it's many -- the potential TAM for our platform revenue is easily tens of billions of dollars.

Anat Earon-Heilborn - *Freightos Ltd - Vice President - Investor Relations*

Okay. If anyone else wants to ask a question, please raise your hand. We'll give it another minute or so. Okay.

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

By the way, Anat, just to mention, I just got -- somebody just looked up for me about the rates, which George asked. And he confirmed that although air rates overall may not be so strong, the China to Asia, China to US, China to Europe are indeed elevated for the reasons that we discussed.

Anat Earon-Heilborn - *Freightos Ltd - Vice President - Investor Relations*

Okay. Thank you, Zvi. And thank you everyone for joining. Have a good day.

Zvi Schreiber - *Freightos Ltd - Chairman of the Board, Chief Executive Officer*

Thanks, everyone. Thanks a lot.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.