

Perfect Corp (FY 2022 Earnings)
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Perfect Executives:

- Alice Chang; Perfect Corporation; Founder, Chairwoman, and Chief Executive Officer
- Louis Chen; Perfect Corporation; Executive Vice President & Chief Strategy Officer
- Iris Chen; Perfect Corporation; Vice President of Finance and Accounting
- Rick Lee; Perfect Corporation; Vice President of Investor Relations

PRESENTATION

Operator^ Good morning and good evening, ladies and gentlemen. Thank you for standing by and welcome to Perfect Corp.'s Earnings Conference Call. At this time, all participants are in a listen-only mode. We will be hosting a question-and-answer session after management's prepared remarks. Please note that today's event is being recorded. I will now turn the conference over to the first speaker today, Mr. Rick Lee, VP of IR of the company. Please go ahead, sir.

Rick Lee^ Thank you. Hello everyone, and welcome to Perfect Corp.'s Earnings Call. With us today are Ms. Alice Chang, our Founder, Chairwoman, and Chief Executive Officer; Mr. Louis Chen, our Executive Vice President and Chief Strategy Officer; and Ms. Iris Chen, Vice President of Finance and Accounting.

You can refer to our full year 2022 financial results on our IR website at ir.perfectcorp.com or in the Form 6-K we furnished to the SEC yesterday afternoon. You can also access the replay of this call on our IR website when it becomes available a few hours after its conclusion. For today's call, management will provide their prepared remarks first, and then we will be hosting a question-and-answer session.

Before we continue, I would like to refer you to our safe harbor statement in our earnings press release, which also applies to this call, as this call may contain forward-looking statements regarding Perfect Corp.'s performance, anticipated plans, operational results, and objectives. Forward-looking statements are based on management's expectations and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied on our call today. Perfect Corp. undertakes no obligation to update any forward-looking statement except as required by law after the date of this call.

Please note that all numbers stated in the following management's prepared remarks are in U.S. dollar terms, and we will discuss non-IFRS measures today, which are more thoroughly compared and reconciled to the most comparable measures reported in our earnings release and Form 6-K furnished to the SEC.

I will now turn the call to our first speaker today, Founder, Chairwoman, and Chief Executive Officer of Perfect Corp., Ms. Chang.

Alice Chang^ Thank you, Rick. Hello, everyone. Welcome to Perfect Corp.'s Full Year 2022 Earnings Conference Call.

Despite of all the challenging events happening around the world in 2022, through discipline and agility, we achieved the revenue growth positive cash flow and customer base expansion for the full year. During 2022, we grew our total revenue by 16% year-over-year to \$47.3 million. Thanks to our brand customers increased demand for our AI and AR cloud solutions and driven by the increase of our subscription rev. nue. We ended the year with over 500 brand customers on our platform applied our technologies to over 550,000 digital SKUs for makeup, skincare, hair dye, eyewear and jewelry products and facilitated over 10 billion virtual product try-on annually.

Such an accomplishment is not a small feat considering the sea change in the market conditions throughout 2022.

At the beginning of 2022, when we embarked upon our journey to go IPO, interest rates were at its all-time low. Consumer confidence was high. The labor market was tight and corporate buyers were rushing into to buy the latest technology to supercharge their digital initiatives. However, once the Federal Reserve started to raise interest rates in the middle of the year, we started noticing a change of mood in the marketplace. The risk of a potential global synchronized recession started to surface. Coupled with Russia-Ukraine war, economic uncertainty started to weigh on corporate buyer's nerves.

During the third quarter, we experienced the beginning stage of a prolonged sales cycle. Such prolonged sales cycle inevitably impacted our operation. Even though we attained \$113 million of gross proceeds in the fourth quarter through the PIPE transaction concurrently with our de-SPAC closing, we did not allow such success to go to our heads. Instead, we enacted stringent expense controls and adopted a more prudent approach towards our costs during the fourth quarter. As a result, although we incurred net loss in 2022, we were able to achieve revenue growth of 16% year-over-year and a positive adjusted EBITDA on a full-year basis in 2022.

At the same time, we have made strategic adjustments to enlarge our sales pipeline, countering the impact of a prolonged sales cycle, and maintain our revenue growth in the face of changing market conditions. These adjustments have manifested in three aspects.

First, we are building stronger relationship with existing customers to help them facilitate their online and offline offers. To help accelerate our brands adoption and deployment of our digital solutions, we are allocating more resources, such as the Customer Success Managers (CSM) to help our global brand partners activate and deploy more virtual try-on and AI skin diagnosis experience across omni-channel. To facilitate online user engagements and sales, we help beauty and the jewelry brands engage consumers through

our best-in-class AR by deploying our AR/AI platform as an integral part of their websites and mobile apps.

Second, we are focusing more resources on reaching broader beauty categories. For example, we are expanding into new segments of skincare coverage, such as creating variant taylor-made skin diagnosis, AI solutions for med spa, hair salons, aesthetic beauty clinic and expanding our advanced AI skincare SaaS solutions with newer skin concerns detection, live camera skincare mode diagnosis and skin simulation effects for before and after video comparison.

We are also targeting new growth beyond beauty industry. Our SaaS services now also cover fashion use cases. Our near-term expansion focus includes jewelry, watches, eyewear, nail designs and accessories. We have already partnered with about the 10 luxury brands around the world for our industry-leading AR virtual try-on for earrings, rings, necklaces and watches.

Third, to keep leading in the beauty tech space, we are expanding into new geographies. In 2023, besides continuing our long-term investment in North American and in the European market, we aim to accelerate growth by investing more on emerging markets, such as Southeast Asia and the Middle East. Our business in Indonesia, as example, has been growing organically very well. We aim to gain further local presence in these emergent markets.

Our long-term competitive advantage is secured by heavily investing into R&D, to innovate new beauty tech and fashion tech solutions via continuous development in AI and AR technologies. Our years of experience in deploying AI deep learning models into our product features are now further elevated with the addition of new AI training techniques, such as AI generative content, AIGC. With such a technological enhancements, Perfect is well positioned to continue in helping brands and customers on digital beauty transformation and to open new doors and address a wider market of opportunities, especially for our skin diagnosis product line that can tap into new group of clients such as aesthetic, clinic and med spa.

Our confidence in achieving our goal is grounded in our primary research and the assessment of the long-term market trend. Despite near term softness in corporate demand, we have learned through close dialogues with our customers and prospect that the long-term trend for beauty remains intact. Moreover, the current economic challenge have solidified consumer brands' determination to transform their own business through technology. We see three trends that can spur the long-term growth of our revenues.

The first mega trend is the exponential growth and acceleration in digitalization of the beauty and fashion industry across all available platforms. As beauty and the fashion brands expand beyond their traditional core customer base of affluent middle-aged customers to tech savvy millennials and Gen Z, it became very imperative for them to implement an omnichannel digitization strategy. That means brand can no longer rely solely on corporate website, SEO, social network and/or the traditional brick-and-mortar

experience to retain their customers or grow their sales. Rather, they need to fully engage consumers with personalized virtual try-on experiences through a universal platform like ours.

Because our platform has the capability to be deployed across all sales channels and social network, we are able to provide brands with the peace of mind that same set of SKUs, only needs to be configured once and then they can be easily and flexibly deployed at scale across sales channel for consistent consumer experience. Also our solution can be implemented across multiple platforms, including brand own channels, such as brands' official mobile apps, official website or in store kiosks, as well as the leading third-party platforms, including Alphabet, Google and YouTube, Snap, and in China, like platform like Taobao, Tmall, and WeChat. Such a fully seamless integration across all platforms lead to not only a very high consumer loyalty but also a compelling return on investment.

The second trend is the increase of online services for all touchpoints, new consumer behavior has embraced digital, physical plus digital more than ever. The shoppers are using digital online services while they are doing offline or online shopping journey. This trend helps increase the need for more online services for both offline retailers or online e-commerce, or in a positive way to spurs growing demand for our AR/AI cloud solutions even in post-pandemic.

The third trend is the increasing diversification of AR/AI technology use cases. Upholding our mission to “Transform the World with Digital Technology Innovations”, we started to invest resources into developing our proprietary AR/AI technology five years ago. Since the end of last year, we expanded our horizon further, by encompassing AIGC into our development roadmap. By incorporating various new AI techniques, such as AI powered generative diffusion model into our product development process, we can generate an abundance of realistic images for virtually anything in combination with our AR virtual try-on. This will open an even wider window of opportunities for consumers and for brands.

In addition to those three trends, we are continuously uncovering new emerging opportunities as we broaden and deepen our technology application and expand our market reach. We are committed to accelerating innovation in AI and AR SaaS solutions and expanding our business beyond the beauty and fashion industry with our technological advantage and the omnichannel reach. With our rapid advancements into med spa clinic and the fashion tech, we plan to replicate our success from the beauty markets and dominate the fashion vertical as well. We strive to be a full 360 degree beauty tech and fashion tech company for our customers and clients.

To conclude, we remain committed to driving topline growth while focusing on profitability in the face of an increasingly challenging environment. This combination of growth and the targeting profitability differentiates us from many other growth oriented software companies that have struggled with a clear path to profitability. We have

operated with a discipline, efficiency and a focus with a view to generate profitable growth and will continue to do so.

Regardless of market conditions we firmly uphold our mission to transform the world with AI technology innovation and we aim to achieve this by helping brand customers utilizing our leading technologies to improve their customer shopping experience in omni-channel. We have the team, the product, the technology and the action plan to win the market. Tremendous opportunities unfolding in front of us, we are well positioned to capitalize such AI/AR opportunities. As more and more brands look to improve sales efficiency, reduce product waste and drive growth along with the emerging digital trend. We remain steadfast in our efforts to expand profitability, drive organic growth and lead with efficiency over the long term.

With that, I will now turn the call over to Louis to go over the financial details. Thank you.

Louis Chen^ Thank you, Alice. Before I go into the details of our financial results, please note that all comparisons are on a year-over-year basis and the reporting period is the full year of 2022 versus a comparable period of 2021. And that on top of the IFRS measures, we will be also discussing non-IFRS measures to provide greater clarity on the trend in our actual operations.

For the full year of 2022, we grew our total revenues by 16% to \$47.3 million from \$40.8 million, mainly driven by growth within our AR/AI cloud solutions and subscription revenues. Among our revenue, the AR/AI cloud solution subscription revenue grew by 25.3% to \$36.9 million or 78% of total revenues mainly due to the continuous strong demand of our online virtual try-on solutions on the brand customers and an increase in monthly active subscribers for our consumer app.

Licensing revenues decreased by 4.8% to \$8.4 million or 17.8% of total revenues, primarily caused by our brand customer lower demand for the in-store offline solution while they brand customers shift investing into the online virtual try-on.

Gross profit for the full year of 2022 was \$40.2 million while gross margin decreased slightly to 84.9% from 85.9%. Total operating expenses increased to \$111.2 million from \$40.1 million mainly due to the one-time professional service fee and de-SPAC merger related costs incurred during our public listing process.

To break down, sales and marketing expenses decreased by 2.9% to \$24.5 million as we reduced spending on paid advertising campaigns in connection with our mobile app subscription while increase our focus on organic user acquisition and trial-to-paid conversion. As a percentage of total revenue, sales and marketing decreased to 51.9% from 62% demonstrating the improved efficiency in our sales and marketing activity.

Research and development expenses increased by 6.5% to \$10.5 million as a result of a strategic investing in product development and expanding our engineering talent pool.

General and administrative expenses increased to \$76.2 million mainly due to the professional service fee incurred during the course of our de-SPAC transaction and public listing. Excluding those transactions that they were one-time in nature, recurring G&A expenses were \$5 million in the full year of 2022, relatively flat compared to \$4.9 million in 2021.

All expenses categories shows a very good control placed by the management team to increase our team productivity under such a challenging macroeconomic environment and to stay competitive in the market.

Net loss in the full year of 2022 increased to \$161.7 million from \$156.9 million. Excluding non-cash, share-based compensation, foreign exchange impact and one-time non-recurring costs associated with our de-SPAC deal, adjusting net income was \$4.1 million compared to our adjusted net loss of \$1.8 million a year ago.

Adjusted EBITDA was positive \$3.1 million for the full year of 2022, compared to a loss of \$0.9 million one year ago, mainly due to the strong subscription revenue growth, more efficient expense control across all functions, especially in sales and marketing paid advertising expenses.

Turning to our balance sheet. As of December 31 2022, our company held \$192.6 million in cash and cash equivalent in six months time deposits compared to \$80.5 million as of December 31st 2021. Our public listing via the de-SPAC transaction which was completed on October 31 2022 served as a significant source of capital.

In total, our customer base has a net increase of 75 brand clients achieving a total of 509 brand clients with over 550,000 SKUs across makeup, skincare eyewear and jewelry products as of December 31 2022. The company has a positive net increase of 28 key customers in 2022 now servicing a total of 152 key customers as of December 31 2022.

While there are signs that the macro situation may improve in the quarters to come, the present situation is one of the uncertainties. Despite these difficulties, we believe our health cash position, effective cost management strategies and expansion into new categories and geographies will leave us well positioned to take advantage of future growth opportunities. That concludes my prepared remarks. Operator, let's open up the call for questions.

QUESTIONS AND ANSWERS

Operator^ We will now begin the question-and-answer session. (Operator Instructions). And your first question comes from the line of Timothy Zhao of Goldman Sachs. Your line is open. Your next question comes from the line of Brian Schwartz of Oppenheimer Group.

Brian Schwartz^ Yeah, hi. Thanks for taking my questions here this morning. Alice, can you share what you're hearing or at least an update from the brand and the key customers how they're thinking about prioritizing virtual try-on solutions in their 2023 IT budgets? And does the prioritization for these type of solutions does it vary between beauty and some of the newer categories that you've entered? Thanks.

Alice Chang^ For beauty, big beauty groups, from what we discussed with them, the virtual try-on things, it's a must-have, very essential. These groups also looking forward to more beauty innovations, beauty tech innovations which we are working in the POC. If you're talking about the beyond beauty and we are getting to besides makeup and skin diagnostics, personalized recommendation, it's the next line for beauty brand and for skincare brands and also for those, as I said, new market aesthetic clinics or med spa, they also has this strong demand which is a different market than the brand.

For jewelry, we worked very hard for the past one year and finally, we successfully win 10 luxury brands with all the POC completed. We are looking forward to their digital enablement for the virtual try-on for jewelry. This is very new. You know. For luxury brands, they are still conservative about to see our technology for the past year. Since we passed all the POC, they tested it. So I do looking forward to see a full deployment for those luxury brands this year. That's how we discuss with the beauty and fashion groups.

Brian Schwartz^ Thank you.

Alice Chang^ Thank you.

Operator^ Your next question comes from the line of Clarke Jeffries of Piper Sandler. Your line is open.

Clarke Jeffries^ So thank you for taking the question. First question is your profitability came up multiple times in the prepared remarks so I was just wondering if I could ask maybe looking into 2023, how should we think about EBITDA margins? I mean, is it fair to say that profitability on an EBITDA basis would be something to expect for the full year of 2023 or how should we think about that?

Louis Chen^ Hi, Jeffries. This is Louis. As we presented the remark, I think we're certainly possible on the growth of the company but also to look at profitability. I think it is very important first year in 2022 that we're showing a positive EBIDA margin and certainly that's our target for 2023. And so to -- at the same time investing in this new opportunity to address that new segment but certainly I think there's a synergy based on what we have already built in the beauty space continues to contribute into some margin there. We continue to invest in growth in new categories.

Clarke Jeffries^ Perfect. And then just maybe a follow-up, you mentioned over \$190 million in cash pretty small use of cash flow here on a yearly basis, what kind of opportunities are you contemplating to maybe accelerate the expansion beyond beauty or

any other potential and uses of that cash? If sales cycles are slowing, what kind of opportunities are there to kind of accelerate the business by using that cash?

Louis Chen^ I think one of the key strategies to try to fight a prolonged sales cycle was to widen the pipeline, right, to addressing. We know that enterprise buyer, they're going to take more time to go through evaluations and go through their process. So the one thing that we're doing is to expand our funnel by addressing a wider market both in geography but also in product categories. Investing organically, I think Alice mentioned about investment heavily in AI development, I think that will create opportunity and that's where I think organic growth comes both on the R&D side but also to expand our business development functional, our customer success function to grow the business overall.

Of course, we have always been paying attention to synergetic M&A or strategy investments and, again, we don't want to do that for the sake of doing it. We think we will look into opportunities that we can combine into a global distribution and bring the value. We remain very flexible in our M&A effort going forward but also looking for opportunities. But I think as while we can control and drive, I think is going to see and grasp the demand that we see the demand for virtual try-on or beauty tech and fashion tech in general growing even stronger because they make a trend in digital transformation.

Clarke Jeffries^ It makes a lot of sense to have a stronger business kind of exiting the cycle with a lot more capabilities in customer success and geographic scope. Thank you for taking the questions.

Operator^ (Operator Instructions). And your next question comes the line of Timothy Zhao of Goldman Sachs. Your line is open.

Timothy Zhao^ Hi, management, thank you for taking my questions and sorry about the technical issue just occurred. I have two questions. One is about the revenue growth in '22 by different regions. Just wondering if you could share any color if we see or compare North America versus Europe, Europe versus emerging market like you mentioned in Southeast Asia or Middle East, what kind of growth rate that we were seeing in last year and what is your outlook for the revenue growth in '23? And any color on the growth rate across different regions? So that would be my first question.

And second one, I think you mentioned you have experienced longer sales cycle in this macro environment. Just wondering if you can provide any color on the customer retention rate or the dollar retention rate among key customers in '22. Thank you.

Louis Chen^ Hey, thank you, Timothy. So in 2022, U.S. region remained our number one region and in terms of U.S. dollar basis is also the fastest-growing region in last year. Year-over-year, it contributed a little bit over 20% of the growth coming from USA. Our number two, number three country remain the same in Japan and France. Both of them suffered from a foreign exchange impact because of Japanese yen and euro so their

growth are a little bit less. In U.S. dollar basis, France growth was 7% and Japan growth was 4.3%. Again, if we look at U.S. dollar appreciation against Japanese Yen for the whole year was 15.5%, against euro was 5.8% and against Taiwan dollar was 11%.

So these all have impacted -- in general, I think we look at about 2.6% in our total revenue impact on the U.S. dollar basis. So hopefully, this year that the foreign exchange impact goes away and we will return to that. But I think the moral of that story is U.S. remains to be very strong demand across all categories and with additional strong currency certainly that shows.

For 2023, I think we were very cautious. I mean, the environment is a lot of uncertainty as we said in our remark. The company isn't putting a clear forecast to the investor at this point, right. So I think we want to remain working closely with our customers, try to get all those deal in the pipeline close. I think the fundamental is the demand is very clear. The customer renewal rate has been pretty much the same as we have seen it as this service becoming pretty much essential part of the e-commerce journey. So from the service renewal adoption perspective, we haven't seen much difference in terms of retention and renewal.

For the other metrics, we are still preparing for that. Please pay attention to our 20-F to be filed later. So that will have a full year-on-year basis metrics.

Timothy Zhao^ Thank you. Thank you, Louis.

Louis Chen^ You're welcome.

(Operator Instructions). As there are no further questions at this time, I'd like to hand the conference back to the management for closing remarks.

Rick Lee^ All right. Thank you again for joining our call today. If you have any further questions, please feel free to contact us or request through our IR website. We look forward to speaking with anyone in our next call. Have a good day.

Operator^ That does conclude our conference for today. Thank you for participating. You may now all disconnect.