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Corporate Participants

Michael Parker – Vice President & Head-Investor Relations, Coupang, Inc.
Bom Kim – Founder, Chairman & Chief Executive Officer, Coupang, Inc.
Gaurav Anand – Chief Financial Officer, Coupang, Inc.

Other Participants

Eric Cha – Analyst, Goldman Sachs (Asia) LLC (South Korea)
Stanley Yang – Analyst, JPMorgan Securities Far East Ltd. (South Korea)
James Lee – Analyst, Mizuho Securities USA LLC
Jiong Shao – Analyst, Barclays Capital, Inc.
John Yu – Analyst, Citigroup Global Markets Korea Securities Ltd.
Soyun Shin – Analyst, Credit Suisse Securities Europe Ltd. (South Korea)

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Ashley and I'll be your conference operator today. At this time, I would like to welcome everyone to the Coupang 2023 First Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Now, I'd like to turn the call over to Mike Parker, Vice President of Investor Relations. You may begin your conference.

Michael Parker, Vice President & Head-Investor Relations, Coupang, Inc.

Thanks, operator. Welcome, everyone, to Coupang's first quarter 2023 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, 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.

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Bom Kim, Founder, Chairman & Chief Executive Officer, Coupang, Inc.

Thanks, everyone, for joining us today. Before we dive in, here are five key takeaways from a strong start to 2023. First, we continue to deliver results because we focus on what matters most, customer experience and operational excellence. Second, we continued our trend of growing at a high multiple of the overall retail market and taking a significant portion of its growth. Third, we're re-igniting Active Customer growth. Fourth, we continued to drive margin improvements and generated meaningful free cash flow in Q1, a significant milestone. Finally, we're rolling out a new benefit to our WOW members that will drive additional savings for our Eats customers and make WOW even harder to resist.

Before Gaurav goes over our financial results in more detail, I wanted to frame them in the context of our continued opportunity and long-term strategy. As I mentioned, we continue to grow at a high multiple of the overall retail market. And year after year, that trend has continued to accelerate.

One reason for that sustained growth is the structure of Korea's retail market, which differs dramatically from that of markets like the US. According to one study, Korean consumers had access to less than 10% of the offline retail space per capita enjoyed by their US counterparts. We continue to defy the broader slowdown in the retail market because we offer customers something very different to the limited assortment and high prices they see in offline retail.

And there's immense potential to amplify that value and growth by increasing selection on Rocket Delivery. When we started Rocket in 2014, our selection consisted primarily of consumables. As late as 2018, nonconsumables accounted for just a third of total units sold. Expanding the selection in nonconsumables categories accelerated their growth, and today, they account for the majority of units and revenue on Rocket.

Both groups continue to grow at a high multiple of the overall retail market, and we're still far from offering the full selection of popular brands and products across all Rocket categories. As we expand both our first-party and third-party selection on Rocket, now enabled by Fulfillment and Logistics by Coupang, or FLC, we expect that trend to continue for years to come.

Despite our rapid growth, our penetration in all categories, including consumables, remains low. We're still at a single-digit market share of a massive retail market, projected to approach $550 billion in the next three years. It's hard to overemphasize how staggering the opportunity is before us, and how early we are on this journey.

We're also confident that we can expand margins to our target of 10% or higher adjusted EBITDA, thanks to the long runway we see for operational improvements. The majority of the nearly 600 bps improvement in profit margin this quarter came from operational improvements in Product Commerce, not benefits from advertising, Eats, or WOW membership. It was also not driven by one-time cost cutting measures like layoffs.

And more importantly, we achieved these profit improvements without sacrificing the customer experience, in other words, without raising prices to increase margins, rolling back benefits, or compromising service levels. To illustrate, while some online grocery services rolled back free shipping programs and increased free shipping thresholds to as high as $150 to reduce losses, we achieved profitable economics in our Fresh offering while sticking to our low prices and free shipping offer for all orders above just $11. This is the best free-shipping program for online grocery that we know of in the world. We did this by streamlining operations and reducing waste, all while expanding selection and delivering nearly all Fresh orders via Dawn and Same-Day Delivery.

Another example of our operational improvements is our effort to increase recovery rates on returned items, which led to a 30% year-over-year decrease in loss per unit sold. Such efforts to

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minimize waste enable us to improve margins amidst inflationary headwinds and offer market-leading benefits like 30-day free returns on all Rocket orders for our WOW members.

And this quarter, we fulfilled our commitment to deliver positive free cash flow for the entire business. Our sustained focus on operational excellence allowed us to achieve this milestone even as we continued to invest hundreds of millions of dollars in CapEx and hundreds of millions more in Developing Offerings over the past year.

Because we take the long view, we don't expect every initiative to bear fruit immediately or evenly every quarter. Instead, we trust in our ability to drive significant operational improvements over time, enabling us to continue lowering prices for customers and expanding margins for the business for many years to come. That, along with the opportunity to scale other margin accretive offerings and automation, gives us confidence that we have a lot of upside in margin expansion.

On Developing Offerings, we believe our actions reflect both the enterprising and disciplined aspects of our strategy. Everything we do at Coupang revolves around wowing our customers, and creating new moments of wow is hard to do. Building truly differentiated offerings requires bold and unconventional thinking, as well as investment of time and capital. But we employ a disciplined investment approach. We start with small bets, then test rigorously and invest more capital over time, but only into the opportunities we feel strongest about. It's the same proven, disciplined approach we used to build our earlier offerings.

In our international initiatives, we shuttered our operations in Japan, where we weren't producing the returns we'd hoped for. In contrast, we like what we've been seeing in Taiwan, which is showing the same signs of transformative potential that we saw in Korea when we launched Rocket Delivery. While it's still early and we'll remain disciplined capital allocators, investing more only if the underlying metrics validate our convictions, we're excited about the potential we're seeing.

Another such area is our Eats offering. We promised last year that we would focus on streamlining efforts that would improve profitability and explore synergies with other offerings. The structural changes we made over the past years have enabled Eats to become self-funding, and we've built a foundation that positions it to scale with higher efficiencies.

In April, we began rolling out a 5% to 10% discount on all orders for WOW members on Eats, the latest major benefit added to our membership program. We've observed that customers who purchase Eats, much like Fresh, have higher levels of spend and engagement on general merchandise offerings. And WOW members who purchase Eats spend over twice as much as WOW members who don't.

We believe this benefit will generate savings for customers, growth for merchants, higher engagement for Rocket, and increased membership in our WOW program. This benefit has the potential to be another major catalyst that compounds value across our e-commerce and membership offerings and accelerates our entire flywheel.

In summary, we're excited about all that's in motion in 2023. In keeping with our operating tenets that we're sharing again in our presentation this quarter, we'll bring our operational rigor to all of our initiatives, investing more capital over time only in opportunities that have the best long-term cash flow potential. There's a lot to be excited about what's happening here at Coupang, and we look forward to updating you on our progress in the upcoming quarters.

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

Gaurav Anand, Chief Financial Officer, Coupang, Inc.

Thanks, Bom. This quarter, we continued our trend of strong revenue growth, as our teams worked diligently to deliver on our exceptional customer promise that fuels our demand. We grew total net revenue 13% year-over-year on a reported basis or 20% in constant currency. Product Commerce revenues grew 21% on an FX-neutral basis, growing at the same rate as in Q4.

Active customers grew 5% year-over-year in Q1, exceeding the 1% growth in Q4. And we reaccelerated active customer growth in Product Commerce, which grew faster at 8% year-over-year in Q1 to exceed the 5% growth in Q4. Overall, our Q1 results demonstrated robust growth amidst challenging retail conditions. With the Korean retail market growing at 4% in the first quarter, we continued our trend of growing at multiples of the overall market.

Our 1P offering remains a key driver of that growth. Customers continue turning to Rocket for its low prices, unparalleled delivery experience and its vast selection that continues to expand rapidly. And with FLC as another key driver, there's fuel to accelerate that selection expansion on Rocket even more. In Q1, FLC units sold increased nearly 90% from a year ago. It continues to scale rapidly, reaching 7% of our revenue and 4% of total units sold this quarter.

We're also constantly improving the merchant experience, including by reducing average onboarding times by a third, simplifying inventory inbounding and changing the contracts to clarify the value proposition. And as FLC remains a very small portion of our overall transactions, our runway for growth in FLC, and thus across our entire business, remains massive.

Starting in Q2, the contract changes will impact how the related FLC revenue is reported on a gross versus net basis, due to the accounting rules. That will also affect our calculation of revenue growth and gross profit margin rates. For example, counting net FLC in Q1 2023 and gross FLC in Q1 2022, the Q1 revenue growth in constant currency would be 540 bps lower, and gross profit margin would be 120 bps higher.

We expect this accounting change will be fully reflected in our reporting by Q4, as merchants gradually transition to the new contracts. As this change has no impact on FLC's economics or gross profits, we see gross profit dollars as a more meaningful indicator of the underlying growth and profit potential of our business going forward.

We continue to work on initiatives to drive higher levels of profit without sacrificing price, selection or service quality. In the first quarter, we delivered record gross profit of over $1.4 billion, with a gross profit margin of 24.5%. This represents a 36% year-over-year improvement in gross profit dollars, and a margin increase of over 400 bps year-over-year and 50 bps quarter-over-quarter. This profit expansion is being driven by our Product Commerce segment, where gross profit margin grew to 24.7%, an increase of over 300 bps year-over-year and over 30 bps quarter-over-quarter.

We believe the improvements we are delivering, which are a continuation of the improvements we highlighted throughout 2022, are structural and sustainable. We fundamentally improved our operational processes and scaled automation. We continued investing in technology and infrastructure. We optimized our supply chain, and we are scaling our higher margin products and offerings. There remains significant potential for further profit expansion from each of these levers in the long term.

As our business continues to scale, we remain focused on maintaining discipline in our operational spend. This quarter, we delivered a year-over-year improvement of nearly 180 bps in OG&A expenses as a percentage of revenue, despite the headwinds from the annual increases in labor rates. Net income for the quarter was $91 million, an improvement of $300 million over last year.

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We also continue to maintain a very low overall equity dilution rate. Over the past 12 months, our dilution rate was only 1.2%, all from equity compensation awards to our employees. We also had another record quarter for adjusted EBITDA, hitting $241 million for a margin of 4.2%. This represents an improvement of 600 bps year-over-year and 20 bps quarter-over-quarter.

Broken down by segment, Product Commerce generated a record $288 million adjusted EBITDA, or 5.1% margin. We remain confident in our ability to achieve our long-term margin target of 10% or higher. Developing Offerings recorded minus $47 million in adjusted EBITDA, representing a $46 million improvement over the last year.

Revenue declined 17% year-over-year on a constant currency basis. This was largely due to a contraction in Eats, which was affected by 11% year-over-year decline in the overall food delivery segment. But we are pleased with the structural improvements in profitability we have made in Eats and excited about the new benefits launched in Q2, which we expect to strengthen the WOW membership program and drive more growth in Product Commerce over time.

We are also encouraged by the long-term opportunities we are seeing in Taiwan. We will continue to be disciplined, but when we see signals that merit more investment, we won't be shy about leaning in. 2022 was a year of significant milestones, and we begin 2023 with another major achievement. For the first quarter since the launch of Rocket, we generated positive free cash flow of $451 million for the trailing 12 months. This represents an improvement of $1.5 billion year-over-year, driven by $1.1 billion in operating cash flow. We anticipate that this trend of meaningful free cash flow will continue, and that the free cash flow generated and adjusted EBITDA will continue to converge.

Regarding our expectations for future top line revenue growth, we anticipate that we will continue to see strong demand drive our growth at multiples of the broader retail market, capturing a significant portion of market growth each quarter.

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

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And we'll take our first question from Eric Cha with Goldman Sachs. Please go ahead.

<Q – Eric Cha – Goldman Sachs (Asia) LLC (South Korea)>: Yeah. Thank you. Thank you for the opportunity to ask questions and appreciate the extra color on FLC. My first question is, during the opening remarks, I think Gaurav mentioned that FLC on a unit sold basis grew by 90% year-over-year. Can we safely say that the GMV growth is also similar to the unit sold basis growth? My second question is, can you maybe talk about the relative profitability of FLC, whether its rise in the GMV mix should be accretive to the bottom line margin? Thank you.

<A – Bom Kim – Coupang, Inc.>: Hi, Eric. Thanks for the question. FLC is scaling roughly in line with the units growth that we mentioned. I do want to emphasize that despite its high growth, FLC represents just 4% of total units sold and the opportunity before us is massive. More selection on Rocket has historically driven greater growth and we're of the same conviction that expansion of selection through FLC will continue to drive greater growth for the entire business over the long term. From a margin perspective, FLC is margin accretive, however, we are reinvesting some of that to market the service and drive adoption at this very early stage.

<Q – Eric Cha – Goldman Sachs (Asia) LLC (South Korea)>: Thank you.

Operator: [Operator Instructions] We will take our next question from Stanley Yang with JPMorgan. Please go ahead.

<Q – Stanley Yang – JPMorgan Securities Far East Ltd. (South Korea)>: Thank you for the opportunity. So, congratulation on good result. First question for me is, so what is the key rationale and strategy behind the recent discount offering for Eats business? Is competitor Baemin's stronger countermeasure, i.e., bigger discounts, not a concern to you? Is there any chance of further price competition going forward?

My second question is Coupang's growth remains significantly superior to the industry growth. Can you please share the growth momentum of each category? How it is tracking in apparel and electronics categories specifically? Thank you.

<A – Bom Kim – Coupang, Inc.>: Hi, Stanley. Thanks for the questions. Our Eats benefit is the 10th and latest benefit we've added on WOW for customers since launch and we're still looking to add more. As we mentioned, we're finding the ROI of this benefit in our e-commerce offerings and WOW membership. Any growth to Eats would be a bonus or icing. There are tens of millions of shoppers online who're yet to join WOW. From our perspective, WOW members get the best experience in the world at the best price, but our focus continues to be on creating even more value surplus for our members. Our strategy here is in service of that goal. Our goal is to make WOW the best deal on the planet for customers.

And regarding growth, as you know, we're in the single digit share of the overall market opportunity. Overwhelming majority of the retail market is offline with high prices and limited selection. We're growing at a multiple of the market because we're providing something much better, with Rocket Delivery, wide selection, low prices, convenience and speed, WOW membership, as I just mentioned, is still in its early stages with tens of millions of shoppers yet to join, active customers growth is reaccelerating. Because of that, all of our categories are growing, a testament to how early a stage we're at and how low the penetration is. And being a tiny share of that $550 billion retail market projection in just the next three years, we expect that trend to continue. But we're confident, as we've demonstrated quarter after quarter that we'll continue to grow at a multiple of the market in any scenario.

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Operator: [Operator Instructions] We will take our next question from James Lee with Mizuho Securities. Please go ahead.

<Q – James Lee – Mizuho Securities USA LLC>: Great. Thanks for taking my questions. Two here. Could you guys maybe give us an update what the trend looks like in 2Q so far, maybe in March and maybe exit 1Q March and maybe into April, how are we looking into the revenue growth in 2Q? And also, secondly, in terms of CapEx expectations for FY 2023, can we get some color on that in terms of looking at fulfillment center investment, is that level of investment still shifting towards own versus lease? Thanks.

<A – Bom Kim – Coupang, Inc.>: Hi, James. I'll take the guidance and the growth question. We've historically not given top line guidance. We're not focused on sharing month to month updates because the variability can often be high within a quarter. If we see anything that is meaningfully different from recent quarters, we'll let you know.

<A – Gaurav Anand – Coupang, Inc.>: Yeah. On the CapEx question that you asked, James, we continue to invest in our CapEx in a disciplined way and we don't expect material – a big changes in the CapEx behavior over time. And our focus is that our trailing 12 months free cash flow will start converging with our adjusted EBITDA over time. So we'll continue to invest in a disciplined manner as we continue to scale.

<Q – James Lee – Mizuho Securities USA LLC>: Okay. If I can squeeze in one more question here, maybe, Bom, how should we think about maybe gen AI, how that would improve your business? And maybe give us a sense how do you plan to implement the technology? Thanks.

<A – Bom Kim – Coupang, Inc.>: We've been working with machine learning models across all aspects – virtually all aspects of our business. I think generative AI is exciting. Like all these new technologies, we'll continue to invest and look at all the tools that we can harness to deliver a better customer experience and to drive operational excellence.

<Q – James Lee – Mizuho Securities USA LLC>: Great. Thank you.

Operator: [Operator Instructions] We will go next to Jiong Shao with Barclays. Please go ahead.

<Q – Jiong Shao – Barclays Capital, Inc.>: Thank you very much for taking my questions. I have two as well. First question is about – I think I heard you mention there was some accounting changes for your contracts that sort of artificially depressed your growth. Is that above the net other revenue line? Is that why the growth was 6% year-over-year vis-à-vis 14% for the net retail sales? And could you please repeat the magnitude of that accounting change on revenue?

My second question is about the Eats. It's great you're offering 5% to 10% discount to your WOW members. I was just wondering, as you're offering additional benefits to your WOW members, are you expanding your coverage in your Eats networks? I know you have done restructuring in that business last year or so. Just want to see where you are in terms of the footprint build-out. Thank you.

<A – Bom Kim – Coupang, Inc.>: Hi, Jiong. Thanks. Thanks for your questions. On the accounting change, as Gaurav mentioned, it's exactly that, just an accounting change and it doesn't reflect the underlying growth or profitability of the business. And the accounting change doesn't mean we're simply removing FLC revenues from our calculations. To clarify, adjusting the net FLC revenues in both 2022 and 2023, our constant currency growth rate in Q1 would have been about 18% year-over-year or 200 basis points lower.

However, if we were to calculate our Q1 numbers with the accounting change that starts in Q2, we would calculate with FLC's net revenue in 2023 and FLC's gross revenue in 2022, resulting in a

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540 basis point impact on our 20% constant currency growth revenue rate or the revenue growth rate in Q1 and gross margins would be 120 basis points higher. Again, this is simply an accounting change that doesn't reflect our underlying growth or profitability. And to clarify, it has not taken – it is not in effect yet. It starts in Q2, and I'm illustrating the impact of it with our Q1 numbers.

I think the second question you mentioned was about our Eats coverage. With this benefit, we're rolling it out right now in Seoul. Of course, we intend to keep rolling it out to the rest of the country in the coming months and quarters. We are pleased with the investment we made over the last year to build a strong foundation for both better customer experience and higher efficiencies. We believe we're poised now to provide the best customer experience at the best cost and best price for customers.

<Q – Jiong Shao – Barclays Capital, Inc.>: Thank you.

Operator: [Operator Instructions] We will go next to John Yu with Citi. Please go ahead.

<Q – John Yu – Citigroup Global Markets Korea Securities Ltd.>: Hi. Thanks for taking my questions. I have two questions, both regarding Coupang Eats. The first question is about recent discount promotion. As you said, Eats began to offer 5% to 10% discount to Rocket WOW subscribers in certain regions in Seoul. So regarding the initial user feedback, do you see an increase of order volume or market share in the selected regions in April or May? Could you please share more color on this? And when would you expand the promotional coverage to more major regions like Gangnam or Gyeonggi?

My second question is regarding competitive landscape. So if we assume competitors replicate similar strategies with some more aggressive discount promotions or making subscription programs in the following days, would there be sort of changes in the current strategy of Coupang Eats? Thank you.

<A – Bom Kim – Coupang, Inc.>: Hi, John. Thanks for your question. As I mentioned, our strategy here is really in service of our goal to make WOW an amazing program, even – providing even more value surplus for our customers. We continue to see customers respond well, but again, the goal of this – I think it would be icing to have some growth in Eats, but the primary objective here is to generate ROI across our e-commerce offerings and our WOW membership program. And if you live in Gyeonggi in the suburb of Seoul, you should be seeing our benefits expansion reach your neighborhood soon. We're rolling out to the rest of Seoul, rest of Gyeonggi and rest of the country in the coming months and quarters. I think that was your second question as well. I hope I covered it all.

Operator: [Operator Instructions] We will take our next question from Soyun Shin with Credit Suisse. Please go ahead.

<Q – Soyun Shin – Credit Suisse Securities Europe Ltd. (South Korea)>: Hey. I have the two questions. So for the Taiwan, can you elaborate more on your strategy in that market and, yeah, does it going to change and impact on our guidance, like EBITDA guidance of developing operation and the division.

My second question is that the – thanks for your colors on the FLC, right, in terms of the percentage of the total units. So can you provide more colors, like long-term colors, like the target penetration rate and the margin expansion plan like are the fashion, the merchants are using this service more than the other categories and et cetera? Thank you.

<A – Bom Kim – Coupang, Inc.>: Hi, Soyun. Thanks for the question. I think regarding Taiwan, as I mentioned, we are seeing – we're encouraged by the response we're getting. We believe the

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opportunity to break trade-offs, the same transformative potential that we saw in our early days in Korea, we're starting to see some signs of that. We'll, of course, test and learn at this stage.

And to your question about whether – about Developing Offerings guidance, our investment level is so far within what we anticipate at the beginning of the year, but we're delighted by what we've seen in not only our Eats benefits roll out, but also in Taiwan. And while we're rigorous, we'll analyze all the results and the data rigorously, we will take advantage of opportunities where we feel strong – strongest about our ability to generate meaningful returns. And if there are or if and when there are any changes in our expected levels of spend, we intend to update the guidance.

And on FLC target penetration and categories, we've been pleased to see our – selection expansion on Rocket has generally been a growth driver across all categories. We have yet to see an exception to the rule that customers want wide selection, low prices and exceptional service. And we're particularly pleased to see the progress we're making in fashion and consumer electronics categories that are quite early – even earlier in their journey than other categories.

All categories are growing, but fashion and consumer electronics grew faster than our overall business in Q1. And in FLC, both categories grew even faster than the fast growth rate of FLC overall. So we are excited about the progress we're making there. And our aim is to keep expanding selection in all categories, including fashion and consumer electronics, in the years ahead.

Again, we're still at an early, early stage with low penetration across all our categories, overall penetration still in the single digits of the entire retail market and then FLC also comprising a very small percentage of our overall volume within our business. So we expect both of those numbers to – both of those penetration levels to go up over time as we focus on expanding selection across all of our categories.

Operator: And we will take our last question from Eric Cha with Goldman Sachs. Please go ahead. Your line is open.

<Q – Eric Cha – Goldman Sachs (Asia) LLC (South Korea)>: Thank you. Thank you for the additional opportunity. Just one last question. So in some of the news outlets, we've been hearing some noises regarding between the brands and Coupang, just wanted to see if there were any impacts from that. Thank you.

<A – Gaurav Anand – Coupang, Inc.>: Yeah, Eric. I'll take that one. So as a retailer, we on a daily, weekly, monthly basis continue to optimize our assortment for our customers. At any given point, we are buying some products and not others, and this is a continuous and ongoing process for any retailer in the world. And, yeah, I hope that answers the question.

<A – Bom Kim – Coupang, Inc.>: Yeah, I think [indiscernible] (00:36:26) business, I don't think – I think we remain on our trajectory on all fronts.

<Q – Eric Cha – Goldman Sachs (Asia) LLC (South Korea)>: Got it.

Operator: There are no further questions at this time and this does conclude today's conference call. You may now disconnect.

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