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JMU - Q4 2016 JMU Ltd Earnings Call

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CORPORATE PARTICIPANTS

Bill Zima *IRC Inc. - Partner*

Jonathan Wang *JMU Limited - Senior Executive*

Frank Zhao *JMU Limited - CFO*

Xiaoxia Zhu *JMU Limited - Co-Chairperson and CEO*

CONFERENCE CALL PARTICIPANTS

Kent Oliver *Star Axis Funds - Analyst*

PRESENTATION

Operator

Thank you for standing by and welcome to the JMU Limited Fourth Quarter and Full Year 2016 Conference Call.

(Operator Instructions) I must advise you that this conference is being recorded today Friday May 26, 2017.

I would now like to hand the conference over to first speaker today, Bill Zima. Please go ahead.

Bill Zima - *IRC Inc. - Partner*

Thank you, Operator. Hello, everyone, and thank you for joining us on today's call. JMU Limited announced its fourth quarter and full year 2016 financial results on Friday May 26, before the market open and earnings release is now available on the Company's IR website at ir.ccjmu.com.

Today, you will hear from Mr. [Jonathan Wang], Senior Executive of JMU for an overview of the Company's strategy, recent developments and operational results, followed by the Company's CFO, Mr. Frank Zhao, who will address financial results in more details. Then Ms. Xiaoxia Zhu, Co-Chairperson and CEO of JMU will give an opening remark and will be available to answer your questions during the Q&A session following the call.

Please note that the discussion today contains forward-looking statements. These statements are made under the Safe Harbor provisions of the U.S. Securities Private Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as aim, anticipate, believe, estimate, expect, going forward, intend, ought to, plan, project, potential, seek, may, might, can, could, will, would, shall, should, is likely and the negative form of these words and other similar questions.

Moving on to other things, statements that are not historical facts including statements about JMU's beliefs and expectations, business outlook and quotations from management in this announcement as well as JMU's strategic and operational plans and contain forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties. The number of factors could cause actual result to differ materially from those contained in the forward-looking statements including but not limited to the following: general, economic and business conditions in China may deteriorate; the grow of internet and mobile user population in China might not as be strong as expected; JMU's plan to enhance customer experience, upgrade infrastructure and increase service offerings might not be well received; and JMU might not be able to implement all of its strategic plans as expected, competition in China may further intensify.

All information in this press release and conference call is as of the date of the earning's release, May 26, and are based on assumptions that we believe to be reasonable as of this date. JMU does not undertake any obligation to [forward] any forward-looking statements except as required under applicable law.



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With that said, it is now my pleasure to introduce, JMU Limited's, Co-Chairperson and CEO of JMU, Ms. Zhu, please go ahead.

Xiaoxia Zhu - *JMU Limited - Co-Chairperson and CEO*

(Spoken in foreign language).

Jonathan Wang - *JMU Limited - Senior Executive*

Welcome everyone to JMU fourth quarter and full year 2016 earnings call. I am pleased to speak on behalf of Ms. Zhu regarding our latest operational results.

We were pleased to achieve nearly 100% growth in gross merchandise volume for the full year 2016. Our growth was due to ongoing efforts to boost order volume from our online direct sales business and strengthen cooperation with our various membership customers. Of these holders, our black card holders contributed approximately 75% of our total sales during the first quarter. We had last experienced greater revenue from our gold and VIP card holders who are typically local restaurants that increasingly prefer to shop online as one stop shopping location like the JMU platform, which offers significant product variety and a compelling price to its customers.

As a leading online B2B full service marketplace, our mission is to connect industry customer directly with suppliers and eliminate multiple layers of distributor mark-ups to further ensure premier quality of our product available for purchase through our online marketplace, we strategically partner with 29 premium suppliers in 2016.

Including multiple leading brands in China like COFCO and Haier as well as international suppliers like Macy and the China branch of renowned global brands like [Bangji, Grant and Oil] Company Limited. As we continue to expand our operations with both suppliers and purchasers, our platform now exceed over 50,000 SKUs including over 800 direct sales product SKUs. We have also broadened access to our online operating platform both internally and externally. Through our cooperation with Alibaba, we successfully connect our mobile platform with Koubei, one of the largest local foodservice platforms.

To streamline digital transactions, we upgraded our WeChat platform and developed tier pricing programs and customized inventory display functions. We are also developing ERP integration as a source of the JMU online orders to improve order processing efficiency.

In the fourth quarter, we successfully incorporated and launched a new ERP integration program with one of our core black card members. While this collaboration is still in its early stage, we are encouraged which initial results. We believe these tech focused investments and accomplishments can help contribute to our future growth in 2017 and beyond.

As we work diligently to grow our online marketplace and broaden our presence in China's food catering industry. We believe our efforts have become more broadly recognized by our various business partners and respective government authorities.

For example, our April 11, 2017, JMU's finalized partnership agreement with Zoneco Company Ltd, one of the largest seafood suppliers in China, integrated its marine agriculture product and the logistic service with JMU's online platform to expand its product categories and provide more choices for its customers.

In March 2017, JMU entered into a strategic partnership with Joyoung Soymilk Maker to offer its product on JMU online marketplace as a strategic supplier.

In January 2017, JMU signed a partnership agreement with Jinyi Comprehensive Free Trade Zone to build a cross-border platform as a platform JMU's online marketplace to facilitate efficient food supply import and export transactions to provide clients in the catering industry with O2O exhibition and bonded logistic service.

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In December 2016, JMU was granted Leading E-commerce Enterprise of Shanghai Award by the Shanghai Municipal Commission of Commerce. While there were many accomplishments for our business in 2016, we are also very excited about what lies ahead. I would like to take some time to address several 2017 initiatives.

First, we will be more focusing on key cities, including Shanghai, Wuhan, [Chongqing], Nanjing, and Hangzhou, we are building up local sales force using online direct sales and offline marketing promotions to gain market share in the large scale restaurant chain space. We're also increasing our exposure among small and local restaurant owners through our distributors and supply chain system to convert more offline users to our online marketplace and broaden our revenue base.

Secondly, we will emphasize omnichannel marketing. On one hand, we have broaden our corporation with like Koubei and other online key channels. On the other hand, we plan to further enhance our offline presence and activities, including we will host a 20 offline product promotion campaigns across China with upgraded format. Also we plan to [pursue] an integrated R&D and display center for our customer visiting and experiencing our new products.

Thirdly, we will go international. We are in the progress of finalizing the trends and conditions with Jinyi Free Trade Zone. With such, we are able to gain competitive edge in the importation business in the future in terms of cost effectiveness and lead time.

We will start the direct importation from our overseas strategic partners to introduce small international brands and products to China. Also we plan to export good Chinese food to overseas in the future. We would like to express our thanks to our investors for their continued support and we expect continuous improvements to our online marketplace to provide our clients with a reliable platform procurement service. We look forward to updating you on our new future progress.

This concludes our operational comments. At this point, Frank Zhao, our CFO will review our financial results for the fourth quarter and full year 2016. Frank, please go ahead.

Frank Zhao - JMU Limited - CFO

Thank you, Mr. Wang. Hello everyone and welcome to JMU's fourth quarter and fiscal year 2016 earnings conference call. We are very pleased with our continued double digits revenue growth for the second consecutive quarter, which illustrated the successful and limitation of our growth strategy.

As previously announced in September 2016, JMU divested Wowo Limited, the Company's group buying and other non-foodservice-related business in an effort to focus on building one of China's largest internet foodservice platforms and through profitability and to streamline business operations.

Starting this quarter, we will compare our quarterly results to the same period in the previous year to better reflect the seasonality of our business. I will briefly review our fourth quarter 2016 results first, followed by our full year results and balance sheet.

Revenue was \$20.9 million for the fourth quarter of 2016, an increase of 182.3% from \$7.4 million in the fourth quarter of 2015 and an increase of 5.3% from \$19.8 million in the third quarter of 2016. The increase in revenue for the first quarter were mainly due to the increase of direct sales and the sales through our platforms.

Cost of revenue were \$20.2 million in the fourth quarter of 2016, an increase of 152.5% from \$8 million in the fourth quarter of 2015. An increase of 1% from \$20 million in the third quarter of 2016, this is generally in line with growth of Company's revenues.

Its gross profit for the fourth quarter of 2016 was \$0.7 million as compared to gross loss of \$0.6 million in the first quarter of 2015, and the gross loss of \$0.1 million in third quarter of 2016.



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Operating expenses was \$9.8 million in the fourth quarter of 2016, a decrease of 89.4% from \$92 million in the prior year, which included \$85.6 million goodwill impairment cost and an increase of 25.6% from \$7.8 million in the third quarter of 2016.

Loss from operations in the fourth quarter of 2016 were \$9.2 million, a decrease of 90.1% from \$92.8 million in the fourth quarter of 2016 and an increase of 16.5% from \$7.9 million in the third quarter of 2016.

Net loss attributable to the Company to the fourth quarter of 2016 was \$8.5 million, a decrease of 90.8% as compared to \$92.3 million in the fourth quarter of 2015.

Now let's turn to our fiscal year 2016 financial performance. Revenue were \$73.2 million for the year in 2016, the increase of 536.5% from \$11.5 million in 2015. The growth of revenue in fiscal year 2016 was mainly due to large order volumes from third party sales through our platform.

Cost of revenue was \$72.9 million in 2016, the increase of 452.3% from \$13.2 million in 2015, which is generally in-line with growth of Company's revenue. Gross profit for the fiscal 2016 was \$0.3 million compared to a gross loss of \$1.7 million in 2015, the improvement was mainly due to the well-maintained relationship as corporate clients and the lower pricing from suppliers for significant transaction volumes.

Selling and marketing expenses in 2016 increased 277.8% to \$20.4 million from \$5.4 million in 2015. As a percentage of total revenues, selling and marketing expenses was 27.9% and 47% in fiscal year 2016 and 2015 respectively. The increase in marketing expenses was primarily due to client promotional activities in the fourth quarter.

General and administrative expenses in 2016 were \$7.5 million, a decrease of 41.9% compared to \$12.9 million in 2015. The decrease in G&A expenses was mainly due to one-time fee of \$4.1 million for the merger of Wowo Limited and the JMU Limited in 2015. As a percentage of total revenue, JMU administrative expenses was 10.2% and 112.2% in the [fourth] quarter of 2016 and the 2015 respectively.

Loss from operations in 2016 was \$27.6 million, the decrease was 73.9% from a loss of \$105.9 million in 2015.

Net loss attributable to Company in 2016 was \$25.3 million, a decrease of 75.7%, as compared to \$104.6 million in 2015. Net loss per share from continued operations was \$0.02 and \$0.1 (sic - see press release "\$0.01") in 2016 and the 2015 respectively.

Non-GAAP net loss attributable to the Company was \$17.8 million compared to \$15 million in fiscal year 2016 and 2015 respectively.

Let's turn to our balance sheet, as of December 31, 2016, the Company's cash and the cash equivalent was \$2.6 million, a decrease of 76.8% as compared to \$11.2 million as of December 31, 2015. A decrease in cash and the cash equivalents was mainly due to the increase operation cost and the growth of the Company's online direct sales which require cash flows for procurement. Total shareholders' equity was \$248.4 million and the \$304.7 million as of December 31, 2016 and 2015 respectively.

This concludes our prepared remarks for today. Operator, we are now ready to take some questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will now take our first question from [Kent Oliver] from [Star Axis Fund].

Kent Oliver - Star Axis Funds - Analyst

I'm pleased to see strong top-line performance and better growth profit than past quarters. Can you confirm the number of collaboration agreements you signed in the fourth quarter both from a domestic and international standpoint?

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Jonathan Wang - *JMU Limited - Senior Executive*

Sorry, let me clarify your question, so your question is the number of agreements we signed in the fourth quarter, are you talking about the suppliers agreement?

Kent Oliver - *Star Axis Funds - Analyst*

That's correct.

Jonathan Wang - *JMU Limited - Senior Executive*

Okay, in the fourth quarter -- the whole year, we signed new supplier agreement about 29. In the fourth quarter, we signed about 10 out of 29.

Kent Oliver - *Star Axis Funds - Analyst*

Okay. How do you expect that to trend in the first quarter?

Jonathan Wang - *JMU Limited - Senior Executive*

Because typically in the [fourth] quarter, most our suppliers they would emphasize doing business because [first] quarter is our peak season. So generally speaking, the speed of signing new suppliers in the [fourth] quarter were relatively slower than compared to the previous quarters. So that's the typical trend. But for the coming new quarters like in Q1 and Q2 in 2017, we will speed up new suppliers agreement signing.

Kent Oliver - *Star Axis Funds - Analyst*

Also do you've an update on the development of your mobile app and how are things progressing with that?

Jonathan Wang - *JMU Limited - Senior Executive*

Okay, sure. Actually, we find out WeChat is very useful and powerful platform for China mobile users. So we actually spent a lot of time in -- develop the new functions in WeChat apps and we find it's very light and user friendly.

Kent Oliver - *Star Axis Funds - Analyst*

And given that JMU is reporting it's fourth quarter later than in the past, can you comment on how first quarter results are trending, are you still expecting sizable revenue growth in the first quarter?

Frank Zhao - *JMU Limited - CFO*

[Seriously now], we are not ready to give guidance for the investors yet, but we are expecting now we will take the same trending and we expect to report first quarter results in early June.

Kent Oliver - *Star Axis Funds - Analyst*

In early June, thank you. With that said, can you -- do you expect any unusual charges in the first quarter such as an impairment charge?



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Frank Zhao - JMU Limited - CFO

At this moment, we don't see any impairment charge that will be included in the first quarter.

Kent Oliver - Star Axis Funds - Analyst

Can you comment on the overall competitive environment in China? I'd like to better understand, do you have mostly local or national competitors, any information [of] the competitive landscape will be helpful?

Jonathan Wang - JMU Limited - Senior Executive

I think in our industry, we are facing the competitive most from the local players. So as more and more clients realize the importance to have a full safety, so actually they will give us a better opportunity for people like us with source supplier and full visibility in our sourcing capability. So I think that actually gives us opportunities, but on the other hand, the price competition is still quite challenging and tough in China.

Kent Oliver - Star Axis Funds - Analyst

And lastly, what are your core R&D initiatives and growth initiatives planned for this year? Thank you.

Jonathan Wang - JMU Limited - Senior Executive

Okay, so you're saying what's our R&D initiatives in 2017, right?

Kent Oliver - Star Axis Funds - Analyst

Correct.

Jonathan Wang - JMU Limited - Senior Executive

Okay. So, actually, we are building up our R&D capability in offering not just the raw materials, but also some half cooked materials. So actually this gives us our clients a one-stop solutions rather than just a raw materials. For example, those new -- what we call new food materials, they can just -- using a very simple processing ways to heat it up and then the material can easily transfer into a fully cooked dishes in the restaurants. So this is the type of R&D initiatives we are looking at in the near future.

Kent Oliver - Star Axis Funds - Analyst

Okay. Will that impact your revenue for 2017?

Jonathan Wang - JMU Limited - Senior Executive

Of course, any successful R&D in those type of products will give us a unique advantage because this is a non-standard products, so we have more room in terms of pricing and the profitability.



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Operator

(Operator Instructions) As there are no further questions, I would like to hand the call back over to management for closing remarks.

Frank Zhao - JMU Limited - CFO

Hello, this will conclude our fourth quarter and fiscal year 2016 earnings call. Thank you.

Operator

Thank you. That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.

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