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JMU - Q3 2017 JMU Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Bill Zima** *ICR - IR*

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

**Frank Zhao** *JMU Limited - CFO*

**Feng Pan** *JMU Limited - Chief Strategy Officer*

## CONFERENCE CALL PARTICIPANTS

**Jeff Oliver** *Star Access Funds - Analyst*

## PRESENTATION

### Operator

Good day, everyone. Welcome to the JMU Limited Third Quarter 2017 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Mr. Bill Zima from ICR. Please go ahead, sir.

### Bill Zima - ICR - IR

Thank you, operator. Hello, everyone, and thank you for joining us on today's call. JMU announced its third quarter 2017 financial results on Wednesday, November 22, 2017 before the market opened. Earnings release is now available on the Company's IR website at [ir.ccjmu.com](http://ir.ccjmu.com).

Today, you will hear from Ms. Xiaoxia Zhu, Co-Chairperson and CEO of JMU, who will give opening remarks, followed by the Company's CFO, Mr. Frank Zhao, who will speak on behalf of Ms. Zhu, for an overview of the Company strategy, recent developments and operational results. After that, Frank will dive into the financial results in more details. Ms. Zhu and JMU's Chief Strategy Officer, Feng Pan, will also be available to answer your questions during the Q&A session following the call.

Before we proceed, I would like to remind you of our Safe Harbor statement. Please note that the discussion today contains forward-looking statements. These statements are made under the Safe Harbor provisions of U.S. Private Securities 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 to and the negative form of these words and other similar expressions.

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

Forward-looking statements involve inherent risks and uncertainties. A number of factors could cause actual results to differ materially from those contained in any forward-looking statement including but not limited to the following general economic and business conditions in China may deteriorate; growth of internet and mobile user population in China may not be as strong as expected; JMU's plan to enhance customer experience, upgrade infrastructure and increased service offerings might not be well received; JMU might not be able to implement all of its strategic plans as expected; competition in China may further intensify; all information provided in this earnings call as of the date of this press release are based on assumptions that we believe are reasonable as of this date, and JMU does not take any obligation to update any forward-looking statements, except as required under applicable law.

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



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

(interpreted) Thank you, Bill. Welcome everyone to JMU's third quarter 2017 earnings call. Today, our CFO, Frank Zhao, will speak on my behalf and address the Company's strategy and recent developments as well as future initiatives. I will be available during the Q&A session and my comments will be translated into English.

I would now like to turn the call over to our CFO, Frank. Please go ahead.

### **Frank Zhao** - JMU Limited - CFO

Thank you, Ms. Zhu. Welcome everyone to JMU's third quarter 2017 earnings call. I'm pleased to speak on behalf of Ms. Zhu regarding our latest operational results.

We were pleased that our GMV, gross merchandise value, increased 68.8% in the third quarter of 2017 as compared to the prior period. This growth was due to our ongoing efforts to boost order volume from our online direct sales business. Among these corporate clients, our black card holders contributed approximately 85% of our total sales during the third quarter.

We worked diligently to expand our supplier portfolio to provide more customer choices as well as explore new profit drivers. Our direct sales SKU increased to over 1,400 from around 800 at the end of 2016.

Also in the third quarter, we continue to expand our product supplier portfolio on a relatively steady basis. We added over 30 source suppliers in the regional businesses onto our platform. In addition to adding traditional raw food material and the seasoning suppliers, we also broadened our product offering by adding select interior design and kitchen equipment suppliers to provide our clients a one-stop solution to penetrate local restaurant market.

We're also actively seeking new growth opportunities beyond our online direct sales model to strengthen our core competency and to enhance client engagement and the stickiness in order to establish our new closed-loop supply chain system to provide restaurant and food service business a one-stop procurement services. Our goal is to provide our clients more value-added supply chain solutions through research and advanced technology.

We have formed an R&D center for ready-to-cook and ready-to-eat, for short RTC and RTE products, to provide market testing, trial production with new material invested based on our client demand. Moving forward, we will strategically select our partners and source suppliers to support and facilitate our development of RTC/RTE products. We're aimed to deliver premium RTC/RTE products to our clients by our careful [select upstream] raw material suppliers with strict quality control standards.

Looking ahead, we will continue to focus on expansion of our source suppliers to achieve higher organic growth as well as selectively partner with well-known brands to develop our packaged food product line and the supply chain solutions.

This concludes our operational comments. Next, I will review our financials for the third quarter of 2017.

We are pleased with our continued double-digit revenue growth for the third quarter -- for the third consecutive quarter, which illustrates successful implementation of our growth strategy. Revenues were \$27.1 million for the third quarter of 2017, an increase of 36.9% from \$19.8 million in the third quarter of 2016. The growth of revenue in the third quarter of 2017 was mainly due to the ongoing increases in sales from online direct sales.

Cost of revenues was \$27 million in third quarter of 2017, an increase of 35.1% from \$20 million in the third quarter of 2016, which was generally in line with revenue growth.

Gross profit for the third quarter of 2017 was \$150,600, as compared to gross loss of \$145,000 in third quarter 2016. The improvement was mainly attributable to JMU's new pricing strategy and higher discounts in purchasing price from suppliers due to a sizable trading volume.



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Operating expenses were \$5 million in the third quarter of 2017, a decrease of 35.6% from \$7.8 million in the prior year period. The decrease in operating expenses was mainly due to a decrease of \$2.2 million in volume-based rebates.

Loss from operations in third quarter of 2017 was \$4.9 million, a decrease of 38.7% from \$7.9 million in third quarter 2016.

Net loss attributable to the Company in the third quarter of 2017 was \$4.5 million, as compared to \$7.4 million in the third quarter of 2016. Non-GAAP net loss attributable to the Company which excludes amortization of acquired intangible assets, share-based compensation and the related provision for income tax benefits was \$2.6 million in the third quarter of 2017 as compared to \$5.1 million in the third quarter of 2016. For quarter ended September 30, 2017, the Company's weighted average number of ordinary shares used in computing loss per ordinary share was 1,476,144,194 and 1,476,208,670, respectively.

Let's turn to our balance sheet. As of September 30, 2017, the Company's cash and cash equivalents was \$2.7 million, an increase of 4.9% as compared to \$2.6 million as of December 31, 2016. Total shareholders' equity remained stable at \$245.4 million, compared to \$248.4 million at the end of 2016.

We would like to express our thanks to our investors for their support and we expect continued improvement to our online marketplace to provide our clients with reliable one-stop procurement services. We look forward to updating you on our further progresses.

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

### QUESTIONS AND ANSWERS

#### Operator

Thank you, sir. (Operator Instructions) We will take our first caller, it'd be [Jeff Oliver] from [Star Access] Funds.

#### Jeff Oliver - Star Access Funds - Analyst

Hello. Thank you for taking my call. I was curious did you introduce more international brands onto the JMU online marketplace in the third quarter?

#### Feng Pan - JMU Limited - Chief Strategy Officer

(interpreted) Yes. In the third quarter, we didn't have the new brand, international new brand into our platform, but we have the new suppliers from the international brand during [third] quarter.

#### Jeff Oliver - Star Access Funds - Analyst

Okay. Thank you. That's helpful. Do you have any updates on the performance of your mobile app, how is the transaction volume and how did your number of active users increase?

#### Feng Pan - JMU Limited - Chief Strategy Officer

(interpreted) So, first, we announced things, most of our clients, they still know or use the laptop or computer as the main communication tools. So, we didn't make any new investment in the mobile apps. And for the active users in third quarter, there is no significant impact, [the main] primary stable around 1% increase as compared to the last quarter or last year, since we are focused on our new approaches and new strategies



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to use new material, new recipes for making our packaged food for our existing clients. So, our testing [run] is focused on existing clients, that's why we didn't make more [invest] or more exploring of the new clients.

**Jeff Oliver** - *Star Access Funds - Analyst*

Okay, thank you. Could you comment on your cash flow from operations in the third quarter? And how would you describe your ability to increase your cash position moving forward?

**Frank Zhao** - *JMU Limited - CFO*

Let me answer your question. For the cash flow, we have a positive cash flow in the third quarter, and cash and cash equivalent remained at \$2.7 million as of 9/30 as compared to \$11.1 million (sic - "\$1.1 million") for 6/30/2017. So, for the future ongoing basis, we believe we have sufficient cash flow or funding, either from our operations, also from our major shareholders for the further growth [or] operating demand.

**Jeff Oliver** - *Star Access Funds - Analyst*

Okay, I see. And my final question is for Ms. Zhu. Can she address the Company's growth strategy for next year and what does she think will drive both revenue and profit growth in the business?

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

(interpreted) Thank you for your question. This is a very good one and this is also what we want to express, to tell, share with our investments for our future growth. And in future, we will focus on our efforts on the standard material and the packaged food products to supply to the chain restaurants and also supermarkets, and to make sure we provide high quality, premium quality, standardized precooked and pre -- ready-to-eat food packages and provide revolutionary supply chain solutions to the chain restaurant and to the third party, like supermarkets. We believe that those markets are ahead of us and most of our products in the future. This will drive our future growth.

And we have done some testing work with our close partner, TANSI Group and used our standardized food package and also our revolutionized supply chain solutions with TANSI. They have achieved significant improvement in their revenue growth and also profit.

**Feng Pan** - *JMU Limited - Chief Strategy Officer*

(interpreted) In last couple of years, we've focused on providing procurement solutions for our clients, our chain restaurant clients to improve their margin or their profitability through the bargain purchase and large scale purchase activities. But along those business developments, we also find the demand of the -- the likelihood of those restaurant chains or their demand, also one of the big demand for them is to get the standardized supplies of raw material -- quality raw material and also packaged products. And as we mentioned earlier, ready-to-cook and ready-to-eat packaged food, we believe this will help them to increase their profitability and operational efficiency.

And as our packing result with our partners like TANSI and also other restaurant chains, we received very well [exceptions] from those clients. And so, we believe in the future. This is -- will bring resolution for our clients and also of our sales as it's going to be a major revenue driven product in our future business. And this will also increase our core competence and also increase the stickiness with our clients.

**Operator**

(Operator Instructions) And it looks like we have no further questions at this time. So, I'd like to turn it back over to management for any additional or closing remarks.



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**Frank Zhao - JMU Limited - CFO**

This concludes our third quarter 2017 earnings call. Thank you for your participation. We look forward to updating you on the progress of our business next quarter. Thank you and have a good day for those who are based in U.S. and have a good night for those who are based in Hong Kong or Mainland China. Thanks.

**Operator**

That does conclude today's conference. We thank you everyone again for their participation.

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