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JMU - Q4 2017 JMU Ltd Earnings Call

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CORPORATE PARTICIPANTS

Bill Zima *ICR Inc - Managing Director*

Frank Zhao *JMU Limited - CFO*

Jianjun Shao *JMU Limited - Finance Director*

CONFERENCE CALL PARTICIPANTS

Brian Donter *Donter Capital - Analyst*

PRESENTATION

Operator

Hello, everyone, and welcome to Full Year 2017 Earning Conference Call for JMU Limited. Today's conference call is being recorded.

At this time, I would like to turn the call over to Mr. Bill Zima from ICR for opening remarks and introductions. Please go ahead, sir.

Bill Zima - *ICR Inc - Managing Director*

Thank you, operator. Hello, everyone, and thank you for joining us on today's call. JMU announced its fiscal 2017 financial results earlier today. And earnings release is now available on the Company's IR website at ir.ccjmu.com.

Today, you will hear from the Company's CFO, Mr. Frank Zhao, who will speak on behalf of Ms. Xiaoxia Zhu, Co-Chairperson and CEO of JMU for an overview of the Company's strategy, recent developments and operational results. After that Frank will address the financial results in more detail. JMU's Chief Strategy Officer, Feng Pan; and Finance Director, Jianjun Shao, 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 statements. Please note that the discussion today contains forward-looking statements. These statements are made under Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward looking statements can be identified by terminologies such as aim, anticipate, believe, estimate, expect, going forward, intends, ought to, plan, project, potential, seek, may, might, can, could, will, would, shall, should, is likely to, and the negative forms of these words and other similar expressions.

Among other things, statements that are not historical facts including statements about JMU's beliefs and expectations, the business outlook and quotations from management in this announcement as well as JMU's strategic and operational plans, are or 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; the growth of internet and mobile user population in China might not be as strong as expected; JMU's plan to enhance customer experience, upgrade infrastructure and increase 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 intensify this further; all information provided in this press release is as of the date of this press release and are based on assumptions that we believe to be reasonable as of this date, and JMU does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

Now with that said, it is now my pleasure to introduce JMU Limited's Chief Financial Officer, Frank, please go ahead.



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Frank Zhao - JMU Limited - CFO

Thank you, Bill. Welcome everyone to JMU's full year 2017 earnings call. Today, I will speak on behalf of Ms. Zhu, to address Company's strategy and the recent developments as well as future initiatives.

In 2017, the Chinese restaurant industry experienced an upgrade in catering consumptions that reached approximately RMB4 trillion, accounting for about 30% of total industry purchases.

Catering business including online take out and offline catering experienced significant improvements in operational efficiency through sourcing standardized products via standard supply chain. Our core standard supply chain and the products business were in line with this trend that's expected to continue throughout 2018.

We were able to achieve growth in our revenues and the gross profits, despite a net loss in 2017, compared to 2016. Gross merchandise volume also increased 46.8% year over year for the full year. This growth was due to large order volume from our online direct sale business and an increase in the number of active customer accounts. Among these active customers, our Black cardholder contribute over 80% of our total sales during 2017.

We will continue our work in expanding our supplier portfolio to provide more choices to our customers and explore new profit drivers. We have further condensed our direct sale SKUs down to around 200, with most of direct sale products selected from our top 10 categories with higher margin.

Our restructured products category, pricing strategy, new strategic partnership and the cooperation agreement and the growth in online direct sale contributed to our delivery of revenue and the gross profit growth for 2017.

Going forward, we will maintain our focus in our top 10 product categories while exploring high demand market opportunities to provide a range of choices for our customers with optimized pricing.

Looking ahead, our initiative that drove growth in 2017 and the new Asia New Food Material Research and Development Center established in January 2018 to develop Ready-to-Cook and Ready-to-Eat products based on the integration of the standardized food material, standardized flavoring and standardized operations will further supplement our online direct sale business.

Now for the financials, I will briefly review our fiscal year 2017 financial performance first. Followed by our balance sheets, unless stated otherwise, all figures are in U.S. Dollar terms.

Revenues were \$88.7 million for the year in 2017, an increase of 21% from \$73.2 million in 2016. The gross revenue in fiscal 2017 was mainly due to the increase in order volumes.

Cost of revenues was \$88.2 million in 2017, an increase of 21% from \$72.9 million in 2016, which is generally in line with the growth of the Company's revenues.

Gross profit for fiscal 2017 was \$0.5 million, compared to \$0.3 million in 2016.

Selling and marketing expenses in 2017 decreased 25% to \$15.2 million from \$20.4 million in 2016. As a percentage of total revenue, selling and marketing expenses was 17.1% and 27.9% in fiscal year 2017 and 2016, respectively. The decrease was primarily attributable to one, a decrease of \$4.2 million expense related to loyalty programs; and two, a decrease of \$0.6 million in the cost of advertisement campaigns and promotions.

General and administrative expenses in 2017 were \$6.7 million, a decrease of 11% compared to \$7.5 million in 2016. As a percentage of total revenues, G&A expenses was 7.5% and 10.3% in 2017 and 2016, respectively.



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Loss from operations in 2017 was \$168.4 million, an increase of 510% from \$27.6 million in 2016. The change in loss from operations was mainly due to goodwill impairment loss of \$168.9 million after annual impairment test for the year ended December 31, 2017.

Net loss attributable to the Company in 2017 was \$161.9 million, an increase of 540% compared to \$25.3 million in 2016. Net loss per share from continuing operations was \$0.11 and \$0.02 in 2017 and 2016 respectively.

Non-GAAP net loss attributable to the Company was \$12.3 million compared to \$17.8 million in fiscal 2017 and 2016, respectively. For the year ended December 31, 2017 and December 31, 2016, the Company's weighted average number of ordinary shares used in computing loss per ordinary share was [1,476,144,194] (corrected by company after the call) as compared to [1,474,087,060] (corrected by company after the call) respectively.

Let's turn to our balance sheet. As of December 31, 2017, the Company's cash and cash equivalent was \$4.9 million, an increase of 89% compared to \$2.6 million as of December 31, 2016. Total shareholders' equity was \$103.6 million and \$248.4 million as of December 31, 2017 and the 2016 respectively.

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

QUESTIONS AND ANSWERS

Operator

Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions)

The first question comes from the line of [Brian Donter] from [Donter] Capital. Please go ahead.

Brian Donter - Donter Capital - Analyst

My first question is how big of an opportunity do you believe your newly developed Ready-to-Cook and Ready-to-Eat products can be for JMU in 2018 and beyond?

Unidentified Company Representative

(Spoken in foreign language).

Frank Zhao - JMU Limited - CFO

The reason we're [entering] to this new business is we see there's a huge potential market for Ready-to-Eat and Ready-to-Cook products. For the -- this 2018 is our first year to try this new business platforms and this model. So, we can't give exact guidance as to how much percentage of revenue is going to be contributed by the new business but we feel certain we have confidence it's going to be growing fast. And also our focus, business focus in 2018.

Brian Donter - Donter Capital - Analyst

Okay, thank you. Two more questions. How much money do you think JMU will spend on R&D this year and will most of the spending be applied to your new Ready-to-Eat and Cook business?

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Unidentified Company Representative

(Spoken in foreign language).

Frank Zhao - JMU Limited - CFO

The new product R&D is going to be our focus in 2018. Even though I cannot give exactly dollar amount of R&D [spending] in 2018, but basically we have an open budget for this R&D research and because we believe it's going to be our major drivers in the coming year.

Brian Donter - Donter Capital - Analyst

Can you comment on any important new strategic partnerships or customers that were signed in the first four months of the year?

Unidentified Company Representative

(Spoken in foreign language).

Frank Zhao - JMU Limited - CFO

And [honestly] speaking, frankly speaking, we don't have a new partnerships in the first four months in 2018 for our existing business in the supply chain business. Since we start to focus on the high quality clients and also the clients in our selected client business for those who originally provide a higher margins for our services and actually now I have in the earlier segment, we narrowed down our client base and SKUs with effort to increase margins and since GMV or revenue only is not our focus this year. We are now focus on the increase or improve our profitability, yes, earning performance of the sales team.

Brian Donter - Donter Capital - Analyst

Let's see, do you believe you have enough cash to execute on your growth strategies, marketing R&D efforts for this year?

Unidentified Company Representative

(Spoken in foreign language).

Jianjun Shao - JMU Limited - Finance Director

(Spoken in foreign language).

Unidentified Company Representative

So the major shareholder has prepared enough cash to support the marketing and selling expense for the Company's growth strategy for 2018.

Frank Zhao - JMU Limited - CFO

Yes, [the Company have] sufficient cash available for continuing operations and also as Mr. Shao has said our major shareholders standing by to provide further funding -- we need.

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Brian Donter - *Donter Capital - Analyst*

Okay. Do you have an update for when you think you will become profitable?

Frank Zhao - *JMU Limited - CFO*

Even though our company policy, we [don't] give our guidance yet, but our goal is to be breakeven early 2019.

Brian Donter - *Donter Capital - Analyst*

Okay. And then lastly, would your Company considered a stock buyback given that the stock market price is below \$1?

Frank Zhao - *JMU Limited - CFO*

Yes, that's a good question. We are also in discussing among the management and also with some professional advisors and we'll find a way now to solve this under \$1 issue. Even now -- even we are -- we understand -- we believe our stock is undervalued, [much, much] undervalued and -- but we will -- we'll resolve this issue before the deadline.

Operator

(Operator Instructions) There are no further questions. I would now like to hand the call back to the management for the final remarks.

Frank Zhao - *JMU Limited - CFO*

Hello all. This concludes our full year 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

Ladies and gentlemen, that does conclude the conference for today. Thank you for participating. You may all disconnect now. Thank you.

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