

FINAL TRANSCRIPT

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EFUT - Q3 2010 eFuture Information Technology Inc. Earnings Conference Call

Event Date/Time: Nov. 23. 2010 / 1:00PM GMT



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CORPORATE PARTICIPANTS

Troe Wen

eFuture Information Technology Inc. - Company Secretary

Adam Yan

eFuture Information Technology Inc. - Chairman, CEO & Acting CFO

Dehong Yang

eFuture Information Technology Inc. - President

CONFERENCE CALL PARTICIPANTS

John Banks

B&G Capital Management - Analyst

PRESENTATION

Operator

Good evening and thank you for standing by for eFuture's Third Quarter 2010 Earnings Conference Call. At this time, all participants are in listen-only mode. After management's prepared remarks, there will be a question and answer session. Today's conference is being recorded. I would now like to turn the meeting over to your host for today's conference, Ms. Troe Wen, eFuture's Secretary of the Board.

Troe Wen - *eFuture Information Technology Inc. - Company Secretary*

Hello, everyone. And welcome to eFuture's third quarter 2010 earnings conference call. We distributed eFuture's third quarter 2010 earnings release last night. And a copy can be found on our website at www.e-future.com.cn.

Joining me on the call today are Adam Yan, Chairman, CEO, and Acting CFO; and Dehong Yang, President. Following the prepared remarks, Adam and Dehong will be available to answer your questions.

Before we continue, please note that the discussion today will contain forward-looking statements made under the safe harbor provisions for the US Private Securities Litigation Reform Act of 1995. eFuture does not undertake any obligation to update any forward-looking statements, except as required under applicable law. Some of these risks are beyond the Company's control and could cause actual results to differ materially from those mentioned in today's press release and this discussion.

A general discussion of the risk factors that could impact eFuture's business and financial results is included in certain filings of this Company with the Securities and Exchange Commission, including its annual report on Form 20-F.

As a reminder, this conference call is being recorded. In addition, a webcast and presentation will be available on our website at www.e-future.com.cn. I will now turn the call over to Adam Yan.

Adam Yan - *eFuture Information Technology Inc. - Chairman, CEO & Acting CFO*

Good morning and good evening. (interpreted) Welcome to eFuture's third quarter 2010 earnings conference call. My interpreter will now read my speech on my behalf.



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Unidentified Company Representative

I'm pleased to say that the robust revenue growth we've seen since the start of 2010 continued into the third quarter. As you will see from slide five, we exceeded our guidance and achieved top line growth of 29% year over year.

In terms of the value of executed software license and services contract, we achieved a 91% rise compared with the third quarter of 2009. Year-to-date growth remained strong for all revenue categories, although there were some quarter-on-quarter fluctuations due to timing differences of software revenue booking.

This revenue growth came both from deepening revenue penetration with existing clients, as we benefited from our strong ongoing client relationships as well as from healthy growth from new clients. This strong growth stems from the investments we have made in the last few quarters to position ourselves to take advantage of the market rebound we have seen starting from the fourth quarter of last year.

I will now turn to our President Dehong to tell you about the initiatives that allowed us to capitalize on the opportunities in China's retail and consumer goods market.

Dehong Yang - *eFuture Information Technology Inc. - President*

(interpreted) Thanks, Adam. It gives me a great pleasure to share with our investors the business performance of eFuture's third quarter 2010. Now my interpreter will read my speech on my behalf.

Unidentified Company Representative

Thank you, Adam. During the third quarter, we continued to benefit from the sales organization restructuring we completed in the first quarter 2010. As shown on slide seven, we shifted to a matrix sales organization that promotes cross selling across verticals and geographically. The structure allows us to better cater to the industry trend for clients to demand one-stop solutions, and means we can better capitalize on strong relationships with key accounts.

It also makes our sales efforts more efficient and meant that the 91% year-over-year increase in the value of executed software licenses and service contracts that Adam mentioned was achieved without an accompanying rise in selling and distribution expenses. Instead, selling and distribution expenses remained stable as a percentage of revenue.

Closely tied with our sales organization restructuring is another area we've been focusing on over the past year, extending our reach into Tier II and Tier III cities. During the third quarter, we benefited from our two-pronged strategy of increasing exposure to these cities. On the one hand, we capitalized on the increasing penetration by our existing customers, especially those within the top 100 retailers into Tier II and Tier III cities. At the same time, our restructured sales organization facilitated wins of clients operating locally.

We also continued to undertake marketing activity to support our sales efforts. During the third quarter, we convened an annual meeting for clients, which acts as a forum for them to voice their opinions and for us to gather invaluable feedback to help us constantly enhance our offering and ensure that we remain at the forefront of industry trends.

In tandem with these initiatives to boost revenues, we continued to invest in R&D to further broaden our service offerings. This is a key element of our strategy. And we believe that generating new revenue streams will not only optimize our revenue mix but also smooth out our revenue to make it more evenly distributed throughout the year.

I will now hand back to Adam to give you further operational updates and then take you through the financials.



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Thank you, Dehong. As you may remember, back in September, eFuture entered into a share purchase agreement to sell 337,685 ordinary shares to 13 shareholders for \$1,813,368 in cash. The largest purchaser in the sale will be eFuture, Inc., which is a Cayman Island holding company whose members include members of eFuture's management team. I founded and exercise control over eFuture, Inc., which will purchase 152,604 shares.

The remaining 185,081 shares will be sold to 12 individuals, who include a Board member, other than an Independent Director, management, and key employees of eFuture. eFuture plans to close the transaction as soon as possible. And the net proceeds from the sale of the ordinary shares will be used for general corporate purposes.

This agreement provides additional capital to pursue growth opportunities in China's retail and consumer goods market. Furthermore, this agreement also allows the participants to demonstrate their commitment to, and continuing confidence in, eFuture's long-term prospects.

Moving on to the financials, as I mentioned earlier, as shown in slide nine, total revenue for the third quarter 2010 increased 28.8% to RMB32.5 million from RMB25.2 million in the third quarter 2009.

Despite the fact that the value of software license contracts increased 63% year over year, software license revenue decreased 17.7% year over year to RMB11.4 million, as some software license contracts bundled with delivery service had not yet reached the point of revenue recognition.

Supported by a 123% increase in service contracts value compared with the third quarter of 2009, service fee income increased 6.4% year over year to RMB11.3 million compared to RMB10.6 million in the third quarter 2009. Hardware revenue increased 1,127.6% year over year to RMB9.8 million compared to RMB0.8 million in the third quarter 2009, when economic conditions were more challenging and before the restructuring of eFuture's sales organization.

Although hardware is not an area of focus for eFuture, as margins are not as high as for software license and service fee income, the Company needs to provide some hardware as part of its total solution as a complement to its other offerings.

Third quarter 2010 gross profit increased 29.0% year over year to RMB12.4 million from RMB9.6 million in the third quarter 2009. Consolidated gross margin for the third quarter 2010 was 38.3%, in line with the third quarter 2009.

Research and development expenses for the third quarter 2010 increased 241.5% year over year to RMB1.5 million or 4.5% of total revenue compared with RMB427,195 or 1.7% of total revenue in the third quarter 2009. The significant rise reflected the booking of expenses at an earlier stage of development compared to the previous year, as well as increased investment to broaden eFuture's service offering in order to generate new revenue streams to position the Company to further capitalize on the continued strong market growth.

General and administrative expenses for the third quarter 2010 increased 54.8% year over year to RMB11.1 million, or 34.2% of total revenue, compared with RMB7.2 million or 28.5% of total revenue in the third quarter 2009. General and administrative expenses decreased slightly on a quarter-on-quarter basis.

Selling and distribution expenses for the third quarter 2010 increased 27.8% year over year to RMB10.1 million, in line with top-line growth. Selling and distribution expenses accounted for 31.2% of total revenue compared with RMB7.9 million or 31.4% of total revenue in the third quarter 2009.

eFuture continued to reap the rewards of its sales organization restructuring that it completed in the first quarter 2010, as sales and distribution expenses as a percentage of total revenue were stable despite a 91% increase in the value of software license and service contracts during the third quarter 2010 compared with the third quarter 2009. Selling and distribution expenses decreased slightly on a quarter-on-quarter basis.



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Operating loss in the third quarter 2010 was RMB10.2 million compared with an operating loss of RMB5.9 million in the third quarter 2009, arising from the timing difference between signing a significant number of new contracts in the third quarter 2010 and the revenue recognition related to those contracts in subsequent quarters.

Adjusted net loss for the third quarter was RMB670,481 compared to an adjusted net income of RMB706,275 in the third quarter 2009. Third quarter 2010 adjusted basic and diluted losses per share were RMB0.19 compared to adjusted basic and diluted earnings per share of RMB0.21 in the third quarter 2009.

Adjusted EBITDA for the third quarter of 2010 was negative RMB4.8 million compared to negative RMB716,158 in the third quarter 2009.

As of September 30th, 2010, cash and cash equivalents were RMB51.1 million, a 13.6% decrease compared with RMB59.1 million at the end of December 2009. This decrease was mainly due to the final cash payment for Proadavancer, the logistics solutions and service provider that eFuture acquired in 2008. The decrease was partially offset by payments received relating to revenue not recognized during the quarter and by cash received from subscribers for our ordinary shares during the third quarter 2010.

Inventories as of September 30th, 2010, rose to RMB18.5 million, an increase of 233.8% compared with RMB5.5 million as of December 31st, 2009. The higher level of inventories reflects the increase in the value of contracts signed amid business expansion, as the inventories figure relates largely to contracts classified as work in process, which do not become costs until they reach the point of revenue recognition.

Turning to slide 13, we expect total revenue for the fourth quarter 2010 to be in the range of approximately \$6.4 million to \$8.6 million. Adjusted EBITDA for the fourth quarter 2010 is expected to be in the range of approximately \$0.6 million to \$1.6 million. eFuture expects total revenue for the full-year 2010 to be in the range of approximately \$19.1 million to \$21.3 million. Adjusted EBITDA for the full-year 2010 is expected to be in the range of approximately minus \$1.5 million to \$0.1 million.

Looking ahead, as we move into what is historically our peak season in terms of revenue booking, we expect particularly strong demand for our logistic solutions as well as for our FMCG solutions.

As shown on slide 14, our strategy remains to strengthen our higher-margin software core business, increase our more stable recurring service fee revenue, extend penetration into Tier II and Tier III cities, and use innovation to further broaden our service offering. I am confident that the investments we have made and initiatives we have taken will continue to pay off as China's retail and consumer goods market continues to enjoy robust growth.

Dehong and I would now be happy to take your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of John Banks of B&G Capital Management.

John Banks - B&G Capital Management - Analyst

Hi, guys. I just got two or three quick questions. The first question on the share purchase, I know, Adam, you bought half of it. The rest were I think it was 12 different people. Is this management of the Company, Board members? Can you just give me some flavor who else is buying the shares? That's my first question.



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Adam Yan - eFuture Information Technology Inc. - Chairman, CEO & Acting CFO

(interpreted) As we have publicly announced, the transaction of the share purchase has been conducted on a fair market price basis. And it's also sold to the management members and shareholders of the fund, which include me, myself, and some management members.

John Banks - B&G Capital Management - Analyst

Okay. No problem. My second question, we saw pretty good revenue growth, dramatic revenue growth in the second and third quarter compared to last year. I know you guys are trying to even out the numbers. I was wondering why the fourth quarter -- is the guidance conservative? Or it's not as high as growth of the previous quarters.

Adam Yan - eFuture Information Technology Inc. - Chairman, CEO & Acting CFO

(interpreted) The current guidance we have offered is based on the extent to which we have fulfilled the contracts. We should say we have a fair basis for the current guidance.

And the progress of fulfilling those contracts are determined by the terms and conditions set forth in the contract. So we will fulfill the projects with our clients according to the demand.

John Banks - B&G Capital Management - Analyst

Okay. My third question, last call, I think you guys were saying you were going to do an investor road show in the fourth quarter. Have you guys any plans coming to the States and meeting investors?

Adam Yan - eFuture Information Technology Inc. - Chairman, CEO & Acting CFO

(interpreted) Yes, exactly, currently, we are planning for the schedule to conduct the road show in the second half of December 2010.

John Banks - B&G Capital Management - Analyst

Okay. Thank you so much, Adam. And when you come to the States, I can't wait to meet you guys.

Adam Yan - eFuture Information Technology Inc. - Chairman, CEO & Acting CFO

Thank you so much.

John Banks - B&G Capital Management - Analyst

All right. Bye, bye.

Operator

(Operator Instructions). And there are no audio questions. I'd like to turn it over to management for closing remarks.



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Unidentified Company Representative

Thank you for joining us today. We look forward to telling you more about our recent developments in the next call. Thank you.

Operator

Thank you for your participation. This concludes today's conference. You may now disconnect.

Editor

Portions of this transcript that are marked (interpreted) were spoken by an interpreter present on the live call. The interpreter was provided by the Company sponsoring this Event.

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