

FINAL TRANSCRIPT

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EFUT - Q4 & Fiscal Year 2009 eFuture Information Technology Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

Troe Wen

eFuture Information Technology Inc. - Secretary of the Board

Adam Yan

eFuture Information Technology Inc. - Chairman, CEO

Ping Yu

eFuture Information Technology Inc. - CFO

CONFERENCE CALL PARTICIPANTS

John Banks

- Analyst

PRESENTATION

Operator

Good evening. And thank you for standing by for eFuture's 2009 Fourth Quarter And Full-Year Earnings Conference Call. At this time, all participants are in a 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 Company Secretary.

Troe Wen - *eFuture Information Technology Inc. - Secretary of the Board*

Hello, everyone. And welcome to eFuture's 2009 fourth quarter and full-year earnings conference call. We distributed eFuture's 2009 fourth quarter and full-year 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, eFuture's Chairman and CEO, and Ping Yu, eFuture's CFO. Following the prepared remarks, Adam and Ping will be available to answer your questions.

Before we continue, please note the discussion today will be containing forward-looking statements made under the safe harbor provisions of the U.S. 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 is being recorded. In addition, a webcast of this conference call is available on our website.

I will now turn the call over to our Chairman and CEO, Adam Yan.

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

Thank you, Troe. (interpreted) Ladies and gentlemen, good morning. Welcome to the eFuture 2009 fourth quarter and full-year earnings conference call. And now I'll have my translator to read out the script on my behalf.



Apr. 30. 2010 / 12:00PM, EFUT - Q4 & Fiscal Year 2009 eFuture Information Technology Inc. Earnings Conference Call

Unidentified Company Representative

I'm pleased to say that the pickup in activity that we saw starting from the third quarter of 2009 intensified during the fourth quarter, indicating a recovery in our retail and consumer goods market. Our results were supported by a rebound from two of our strategic business units, or SBUs, in particular Department Store & shopping Mall and Logistics, with increased revenue coming from both new and existing customers. Our focus throughout the year and in the fourth quarter remained on continued innovation, which we believe is the key to driving growth in the long term.

Before going into more details on our performance during the fourth quarter and full-year 2009, I'd like to begin by saying how delighted I have to have Mr. Dehong Yang onboard. Mr. Yang joined eFuture on January the 1st in the newly created role of President. He brings with him over ten years of international business management experience and a proven track record of successfully implementing and driving strategic initiatives. He has held senior roles at Wincor Nixdorf and IBM and has extensive experience in the retail and consumer goods and e-commerce markets, providing him with an ideal background to support eFuture's growth initiatives.

As President, Mr. Yang is responsible for the overall management of operations company-wide. Since coming onboard in January, he has begun to drive the development and execution of a number of key priorities. Under his guidance, we are firmly focused on optimizing our revenue mix by moving toward a higher margin structure, realigning our cost base with industry best practices to enhance our profitability.

And furthermore, we are developing our sales and marketing strategy to strengthen leadership positions and drive market share growth and ensuring the effective deployment of our R&D resources to help us capitalize on the growth opportunity in our end markets.

Since early 2009, we have redeployed 35% of our sales team to help expand new client development in tier 2 and 3 cities in China. This effort is a critical building block to help us expand our geographic reach and client base.

In addition, we have invested in new marketing initiatives to support our sales team as they work to deepen our penetration in tier 2, 3, and 4 cities. We have also set up a new and specialized marketing team with about 50 staff located around China to help speed up the sales cycle, develop new sales leads, and increase our market share in all key markets in China.

This effort has resulted in good progress in the following areas. During the second, third, and fourth quarters, we expanded our sales and marketing outreach efforts into a number of tier 2, 3, and 4 cities. As of December the 31st, our pipeline had grown to over 1,000 clients with operations in 350 cities across China. And we believe we will start to generate new contract signings in the coming year.

We have seen steady growth in our pipeline of new projects. In fact, up until the end of December, out of a total of 968 new contracts with a value of \$20.4 million, new contracts from tier 2, 3, and 4 cities accounted for 25.7% of total contract value. This will help us to continue to build up our revenue for the next few years.

Our sales and marketing initiatives resulted in a contracts backlog amounting to approximately \$7.2 million at December the 31st, 2009. Of this \$7.2 million, we expect to recognize around 80% in 2010.

Furthermore, we acquired a number of key customers for our FMCG and Logistics SBUs in 2009. We completed pilot programs for many of our new customers by the end of 2009. And we are in the process of rolling out full product launches as a result.

Underpinning our successful sales and marketing strategy is our continued investment in R&D, which is focused on two areas, core software solutions and development platforms, and consists of either upgrading existing systems or developing new versions.



Apr. 30. 2010 / 12:00PM, EFUT - Q4 & Fiscal Year 2009 eFuture Information Technology Inc. Earnings Conference Call

During 2009, we increased investment in new products and services to increase revenue potential from existing clients and drive the expansion of eFuture's addressable markets.

As a result of this investment in R&D, we have been able to upgrade our CRM system for the Department Store & Shopping Mall SBU, as well as for the Grocery, Hypermarket & Supermarket SBU. We have also launched a number of new product areas, including a business intelligence and digital analytics suite. These upgraded systems and new products allow us to offer our retail and consumer goods customers a broad and deep technology portfolio to help them maximize customer relationships, business efficiencies, and sales potential while limiting costs.

As I mentioned earlier, we believe that innovation is the cornerstone of our growth going forward. R&D investment in new releases of core software solutions and sales-related activities has enabled us to improve our market position, further strengthening our penetration into tier 2 and tier 3 cities. We will continue to broaden our service offering in order to generate new revenue streams and a more even distribution of total revenue throughout the year.

During 2009, we continued to shift our revenue mix towards a higher-margin structure, with service fee income increasing to 38.1% of total revenue from 33.6% in 2008. Looking forward to 2010, we plan to continue to optimize our revenue mix by strengthening our software core business at the same time as expanding beyond the core to develop recurring maintenance service and e-service revenues.

Looking ahead to 2010, we believe we are well positioned to deliver consistent top-line growth as customers and end markets continue to recover. As well as top-line growth, we are also focusing on improving our cost structure, with particular emphasis on further margin expansion.

In 2010, we are firmly focused on two strategic priorities; improving cost efficiency and optimizing our revenue mix. We plan to execute on our cost-efficiency initiative by shortening the implementation cycle for the expanding service fee income segment of our business, as well as rationalizing sales and marketing expenses.

And to optimize our revenue mix, we plan to focus on generating more software and service fee income, which should allow us to enjoy higher overall gross margins in future. The shortening of the implementation cycle will not only result in lower labor costs and therefore lower cost of sales, but the faster implementation time will allow us to offer customers a quicker service.

With that, I will hand the call over to our CFO, Ping Yu, to walk you through the financials. Ping?

Ping Yu - eFuture Information Technology Inc. - CFO

Thank you, Adam. First of all, I'd like to draw your attention to a small mistake in our earnings release relating to general and administrative expenses. As a percentage of revenues in the fourth quarter 2009, general and administrative expenses increased, not decreased, year over year.

Please note that we have converted U.S. dollar values mentioned from RMB using the December 31st, 2009, currency exchange rate of RMB6.8259 to \$1.

Total revenues for the fourth quarter 2009 decreased 17.8% year over year to \$9 million. Revenue during the quarter was primarily driven by eFuture's Department Store & Shopping Mall, Logistics, and Grocery, Hypermarket & Supermarket units.

As for the full year 2009, total revenues decreased 12.5% to \$18 million from \$20.5 million in 2008, due to weakness in the Department Store & Shopping Mall, Logistics, and Grocery, Hypermarket and Supermarket business units during the first three quarters of the year as a result of the economic slowdown.



Apr. 30. 2010 / 12:00PM, EFUT - Q4 & Fiscal Year 2009 eFuture Information Technology Inc. Earnings Conference Call

Software license revenues in the fourth quarter 2009 decreased 25.6% year over year to \$3.6 million. Software license revenues for the full-year 2009 decreased 18.2% to \$18.0 million.

Service fee income in the fourth quarter decreased 20.4% year over year to \$2.5 million. Service fee income held up relatively well over the year as a whole, decreasing less than 1% from the full-year 2008 to \$6.8 million.

As a proportion of total revenue, service fee income increased from 33.6% in 2008 to 38.1% in 2009. As Adam noted, increasing service fee income as a proportion of revenue is a key strategic goal for eFuture. And we are pleased to see positive results.

Gross profit in the fourth quarter 2009 increased 6.3% year over year to reach \$4.1 million. Consolidated gross margin increased to 45.5% from 35.2% in the fourth quarter 2008. For the full year 2009, gross profit decreased 10.3% year over year to \$7.6 million. And gross margin increased to 42.3% from 41.3% in 2008, mainly due to the slight improvement in software and hardware gross margins.

Moving onto our operating expenses, R&D expenses for the fourth quarter 2009 decreased 67.7% year over year to \$278,494, or 3.1% of total revenues, compared with 7.9% of total revenues in the fourth quarter 2008. R&D expenses for the full-year 2009 decreased 61.4% year over year to \$368,291, or 2.1% of total revenues, compared with 4.7% of total revenues in 2008. The change was due to product launches following the successful completion of product development and pilot phases.

G&A expenses for the fourth quarter 2009 decreased 3.5% year over year to \$2.5 million, or 27.7% of total revenues, compared with 23.6% of total revenues in the fourth quarter 2008. G&A expenses as a percentage of revenues increased year over year as a result of provision for employees' social security having been made on a quarterly basis during 2009, in contrast to a yearly basis in the fourth quarter 2008 relating to the full-year 2008. Additionally, the impairment of assets in the fourth quarter 2008 contrasted with no impairment in 2009.

G&A expenses for the full-year 2009 increased 3.8% year over year to \$6.2 million, or 34.3% of total revenue, compared with 28.9% of total revenue in 2008. The year over year increase in G&A expenses as a percentage of revenues was primarily due to the implementation of a share option scheme to offer enhanced incentives to senior and middle management, as well as to higher rental expenses incurred due to operational expansion.

Selling and distribution expenses for the fourth quarter 2009 increased 76.0% year over year to \$1.7 million, or 18.5% of total revenues, compared with 8.7% of total revenue in the fourth quarter 2008. The year-over-year increase in selling and distribution expenses was due to higher salaries and a continued investment in marketing activities, such as client meetings and associated travel costs.

Selling and distribution expenses for the full-year 2009 increased 64.8% year over year to \$5.0 million, or 28.0% of total revenue, compared with 14.9% of total revenue in 2008. The increase in selling and distribution expenses for the fourth quarter and full-year 2009 was primarily due to higher salaries and a continued investment in sales and marketing activities, such as client meetings and associated travel costs, and the redeployment of the sales force in order to continue penetration of tier 2, tier 3, and tier 4 cities.

As a result, the operating loss for the fourth quarter 2009 improved to \$343,321 million -- I'm sorry, this shouldn't be million. It's \$343,321, compared with an operating loss of \$545,000 in the fourth quarter 2008. The improvement was mainly attributable to the slight increase in software sales gross margin.

The operating loss for the full-year 2009 was \$4.0 million, compared with an operating loss of \$1.5 million in 2008. The change was mainly attributable to the combination of a decrease in sales volume during the market slowdown and an increase in selling and distribution expenses to capitalize on improving market conditions towards the end of 2009.



Apr. 30. 2010 / 12:00PM, EFUT - Q4 & Fiscal Year 2009 eFuture Information Technology Inc. Earnings Conference Call

As a result, fourth quarter 2009 net loss improved to \$156,902, compared with net losses of \$0.9 million in the fourth quarter 2008. Full-year 2009 net loss was \$3.5 million, compared with a net loss of \$0.7 million in 2008.

Basic and diluted losses per share in the fourth quarter 2009 improved to \$0.05, compared to basic and diluted losses per share of \$0.27 in the fourth quarter 2008. Basic and diluted losses per share in the full-year 2009 was \$1.05, compared to basic and diluted losses per share of \$0.02 in 2008.

Adjusted net income, on non-GAAP basis, for the fourth quarter improved to \$1 million, compared to an adjusted net income of \$24,728 in the fourth quarter 2008. Adjusted net loss for the full-year 2009 was \$239,365, compared to an adjusted net profit of \$2.3 million in 2008.

Fourth quarter 2009 non-GAAP adjusted diluted earnings per share improved to \$0.30, compared to \$0.01 in the fourth quarter 2008. Full-year 2009 adjusted non-GAAP diluted loss per share was \$0.07, compared to non-GAAP diluted earnings per share of \$0.73 in 2008.

EBITDA for the fourth quarter 2009 improved to \$918,155, compared to \$354,265 in the fourth quarter 2008. EBITDA for the full-year 2009 was negative \$506,919, compared to \$1.6 million in 2008.

As of December 31st, 2009, cash and cash equivalents were \$8.7 million, which was a 2.8% decrease compared with \$8.9 million at the end of 2008.

Guidance for first quarter 2010 -- to better reflect the dynamics of eFuture's business, the Company has decided to provide quarterly guidance instead of annual guidance. eFuture expects total revenues for the first quarter of 2010 to be in the range of approximately \$1.8 million to \$2.2 million. Adjusted EBITDA for the first quarter of 2010 is expected to range between a loss of \$0.9 million and a loss of \$1.2 million.

This concludes my prepared remarks. So I will now pass the call to Adam for closing remarks.

Unidentified Company Representative

Thank you, Ping. In conclusion, our fourth quarter 2009 results demonstrate an upturn in our performance, which we believe will continue throughout the remainder of 2010. I am confident that eFuture has the people and systems in place to capitalize on the opportunities presenting themselves amid the economic upturn. And I look forward to working together with our enhanced management team to driver our strategy and enhance shareholder value. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). You have a question from the line of John Banks.

John Banks -- Analyst

Congratulations, guys, on the turnaround. And I really like the gross margins moving up. I guess my question is more of if you can give us any color on the future. What kind of growth are you looking for in the next two, three years? Or can we model 20%, 30% growth? Just if you can give us a -- I know you didn't give any specifics. But what are you guys looking at next one to three years on, on growth? Thanks.



Apr. 30. 2010 / 12:00PM, EFUT - Q4 & Fiscal Year 2009 eFuture Information Technology Inc. Earnings Conference Call

Adam Yan - eFuture Information Technology Inc. - Chairman, CEO

(interpreted) Thank you for your question. And you may have heard that we have just given a guidance of Q1, which we expect our revenue to be between \$1.8 million to \$2.2 million.

In terms of the next three years, we know that the Chinese market is experiencing an important change for China to turn from an export-driven economy to a consumption-driven economy. In other words, this presents very good development opportunities for us. We have great expectations for future growth.

I will talk about our major accounts because we have a leadership position in the major accounts. 36 of the top 100 retailers in China are our clients. And we have more than ten clients among the Fortune 500 companies, such as P&G. The top 100 retailers in China have a market share of 11%. And we will grow together with those major accounts as they grow their market share in the future.

At the same time, we will provide professional and one-to-one service to our major clients in order to further consolidate our leadership position and expand our market share.

As to the expenses, tier 2, tier 3, and tier 4 markets in China, they account for only less than 26% in our total revenue. We have already deployed investments to leverage our brand and leadership position to further penetrate in tier 2, 3, 4 cities. This market is still a very fragmented market. Although we are number one in this market, we only have 7.5% of the market share. And the top six players in the market have a combined market share less than 30%.

So in the future, we'll continue to elaborate our market leadership position and our capital markets position to acquire smaller vendors and accelerate industry consolidation in order to expand our market share. Thank you.

John Banks - - Analyst

Thank you very much. And congratulations. And hope we get some growth in the next couple years. Thanks.

Adam Yan - eFuture Information Technology Inc. - Chairman, CEO

Okay. Thank you.

Operator

(Operator Instructions). And there are no further questions. I would like to turn it over to Adam for concluding remarks.

Unidentified Company Representative

Thank you, again, for joining us today. We look forward to updating you on our progress in the near future.

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.



Apr. 30. 2010 / 12:00PM, EFUT - Q4 & Fiscal Year 2009 eFuture Information Technology Inc. Earnings Conference Call

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