

THOMSON REUTERS STREETEVENETS

EDITED TRANSCRIPT

JMU - Q2 2018 JMU Ltd Earnings Call

EVENT DATE/TIME: AUGUST 22, 2018 / 12:30PM GMT



AUGUST 22, 2018 / 12:30PM, JMU - Q2 2018 JMU Ltd Earnings Call

CORPORATE PARTICIPANTS

Bill Zima *ICR - Partner*

Xiaoxia Zhu *JMU Limited - Chairperson and CEO*

Frank Zhao *JMU Limited - CFO*

CONFERENCE CALL PARTICIPANTS

Jeff Oliver *Star Funds - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to JMU Group Limited Second Quarter 2018 Earnings Conference Call. (Operator Instructions) I must advise you that the conference is being recorded today, Wednesday, August 22, 2018.

I would like to hand the conference over to your first speaker for today, Mr. Bill Zima from ICR. Thank you. Please go ahead, sir.

Bill Zima - ICR - Partner

Thank you, operator. Hello, everyone, and thank you for joining us on today's call. JMU announced the second quarter 2018 financial results earlier today. An earnings release is now available on the Company's IR website at ir.ccjmu.com.

Today, you will hear from Ms. Xiaoxia Zhu, 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's strategy, recent developments and operational results. After that, Frank will address the financial results in more detail.

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 statements. Please note that the discussion today contains forward-looking statements. These statements are made under the 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 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, the business outlook and quotations from management in this announcement as well as JMU's strategic and operational plans are to 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 further intensify.

All information provided in this press release is as of the date of this 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.

With that said, it is now my pleasure to introduce Ms. Zhu, please go ahead.



AUGUST 22, 2018 / 12:30PM, JMU - Q2 2018 JMU Ltd Earnings Call

Xiaoxia Zhu - JMU Limited - Chairperson and CEO

(interpreted) Thank you, Bill. Welcome everyone to JMU's second quarter 2018 earnings call. Today, our CFO, Frank Zhao will speak on my behalf and address the Company's strategy and recent development 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 our CFO, Frank. Please go ahead.

Frank Zhao - JMU Limited - CFO

Thank you, Ms. Zhu. Welcome everyone to JMU's second quarter 2018 earnings call. I'm pleased to speak on behalf of Ms. Zhu regarding our latest operational results.

During the second quarter of 2018, our revenues and non-GAAP net loss attributable to the Company were improved and we are on track with our operational plans to continue to improve revenue and the profit growth in the second half of 2018. These results were driven by gross merchandise volume reaching 2.1% growth year over year for the second quarter. Order volumes from our online direct sales business increased and so did our number of active customer accounts.

Among these active customers, our black card cardholders contributed over 76.4% of our total sales during the second quarter of 2018. These improvement in our operations are related to our effective execution of our several business initiatives and are due to our online and offline marketing strategies.

Continuing our effort, in the development of Ready-to-Cook or RTC and Ready-to-Eat or RTE products, we're able to broaden the product options on our marketplace for our customers amid the wave of cost-efficient product innovation in the restaurant industry in China.

We have also further condensed our direct sales SKU to concentrate on our higher margin products. To fully present the value of our RTE and RTC products to customers, we applied a combined online and offline marketing strategies in this quarter, raising product awareness and the collecting market feedback for the future product improvements. We also worked diligently to improve profitability, not just by redesigning our product portfolio but also through optimizing our internal corporate structure and the controls.

Our improved internal corporate structure, growth in online direct sales and the boost of our RTC and RTE product contributed to our delivery of revenue and the gross profit growth for the second quarter of 2018. In pursuing the goal of establishing a leading B2B online e-commerce platform that provides integrated and efficient business solutions to customers, we will remain focused on our new food material advancement while utilizing our combined set of online and offline activities, for campaigns for our standard food, catering source supplies and value-added services for the coming quarters.

Now for our financials, I will briefly review our second quarter 2018 results and our balance sheet. Unless then stated otherwise, all figures are in U.S dollar terms. Revenues were \$26.3 million for the second quarter of 2018, an increase of 27.7% from \$20.6 million year-over-year and a decrease of 10.8% from \$29.5 million quarter-over-quarter. The growth of our revenue in the second quarter of 2018 was driven by the increase of our order volumes.

Cost of revenues was \$26 million in the second quarter of 2018, an increase of 27.3% from \$20.4 million year-over-year and a decrease of 11.3% from \$29.3 million quarter-over-quarter. This was in line with our growth of revenue.

Gross profit for the second quarter of 2018 increased 83.6% to \$246,000 from \$134,000 in the second quarter of 2017, and a 9.3% from the \$225,000 in the first quarter of 2018. The increase was mainly due to the growth of our revenue and higher profit margin of our Ready-to-Cook and Ready-to-Eat product.



AUGUST 22, 2018 / 12:30PM, JMU - Q2 2018 JMU Ltd Earnings Call

Operating expenses were \$76.8 million in the second quarter of 2018 compared to \$5.7 million in same period of prior year and \$2.9 million in the prior quarter. The increase of operating expenses was due an impairment loss of \$73.8 million. We will continue to finalize annual impairment test for the goodwill and long-lived assets for the second quarter -- second half of 2018, including engaging an independent appraiser to the valuation process.

Loss from operations in second quarter of 2018 was \$76.6 million, compared to a \$5.5 million in same period of prior year and \$2.6 million in the prior quarter.

Net loss attributable to the Company in the second quarter of 2018 was \$76.6 million, compared to \$5.1 million in the same period of prior year and \$2.7 million in the prior quarter.

Let's turn to our balance sheet. As of June, 30, 2018, the Company's cash and cash equivalents was \$10.7 million, an increase of 118.8% compared to \$4.9 million as of December 31, 2017. Total shareholders' equity was \$22.9 million compared with \$103.6 million as of December 31, 2017.

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

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) We have a first question coming from the line of [Jeff Oliver] of [Star Funds]. Please ask your question.

Jeff Oliver - Star Funds - Analyst

Thank you for taking my questions. Were there any new high profile customers or accounts that were added to your business in the second quarter?

Unidentified Company Representative

(Spoken in foreign language).

Frank Zhao - JMU Limited - CFO

Hi, Jeff. Thank you for your question. In the second quarter for this year, we don't have a significantly large portfolio or customers join us, but we (inaudible) -- but ten new source suppliers joined our company network as compared to 32 in the first quarter.

Jeff Oliver - Star Funds - Analyst

Okay, thank you. That's helpful. My second question is without the impairment charge, it looks like your net loss is decreasing. Do you have a timeline in which you believe you will be profitable?

Unidentified Company Representative

(Spoken in foreign language).

AUGUST 22, 2018 / 12:30PM, JMU - Q2 2018 JMU Ltd Earnings Call

Frank Zhao - JMU Limited - CFO

Yes, Jeff, our losses decreased without a consideration of goodwill impairment, but since now, we do not give particular guidance in terms of profit or revenue. So I can only say the management team is trying our best to execute our strategies, to improve our revenue and profitability in the second half of 2018. I don't have a particular time, sorry, but we're on track now towards achieving the profitability and revenue growth.

Jeff Oliver - Star Funds - Analyst

Okay, thank you. Also you mentioned how you will continue to strategically develop your higher margin new food material initiative in the remaining quarters of 2018. How much higher are the gross margins for this new food initiatives compared to your traditional business?

Unidentified Company Representative

(Spoken in foreign language).

Frank Zhao - JMU Limited - CFO

So good question. Our higher margin products remains our RTC and RTE products and the average gross margin around the 10% [to 15%] (corrected by company after the call). As compared, [our traditional source supplies is 7% to 14.5% lower] (corrected by company after the call).

Jeff Oliver - Star Funds - Analyst

Okay, thank you. My final question is -- I have one last question. My final question is could you comment on your growth initiatives for the second half of the year? What will be the key drivers of growth in your business?

Unidentified Company Representative

(Spoken in foreign language).

Frank Zhao - JMU Limited - CFO

Our key strategy is to improve the awareness of our new product or new food material and to get a good partnership with OEM manufacturers and to improve the supply chains of our new products, and we have been working on to improve the supply chain and including warehouse management because most of our products have low temperature requirement.

So, also currently, we don't have our own manufacturers. So, we're working on this new direction to work with OEMs, of course in the long run, we're working on to establish our own product facilities. Of course and I forgot to mention R&D of our new products is core competence for our key drivers.

Jeff Oliver - Star Funds - Analyst

Great. Thank you for answering my question. Keep up the progress and I look forward to receiving any new updates on your business in the future.

Operator

Thank you. (Operator Instructions)



AUGUST 22, 2018 / 12:30PM, JMU - Q2 2018 JMU Ltd Earnings Call

There are no more questions, and I would like to turn the call over to our presenters. Please continue.

Frank Zhao - JMU Limited - CFO

This concludes our second quarter of 2018 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.

Operator

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

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2018, Thomson Reuters. All Rights Reserved.