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JMU - Q2 2017 JMU Ltd Earnings Call

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CORPORATE PARTICIPANTS

Bill Zima *ICR Inc. - IR*

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

Frank Zhao *JMU Limited - CFO*

CONFERENCE CALL PARTICIPANTS

Jeff Oliver *Star Funds - Analyst*

PRESENTATION

Operator

Good day and welcome to the JMU Limited Q2 2017 Earnings Conference Call. Today's conference is being recorded.

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

Bill Zima - ICR Inc. - IR

Thank you, operator. Hello, everyone, and thank you for joining us on today's call. JMU announced second quarter 2017 financial results earlier today before the market open. Earnings release is now available on the company's IR website at ir.ccjmu.com.

Today, you will hear from 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 address results in more details. Ms. Zhu and JMU's Chief Strategy Officer, Feng Pan, will also be available to answer 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 Safe Harbor provisions of the 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, 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 or contain forward-looking statements.

Forward-looking statements involve inherent risks and uncertainties. The number of factors could cause actual result to differ materially from those contained in the forward-looking statements, including but not limited to the following, the general, economic and business conditions in China may deteriorate; the growth of the Internet and mobile user population in China may not be as strong as expected; JMU's plan to enhance customer experience, upgrade infrastructure, and increase service offerings may not be well received; JMU may not be able to implement all of its strategic plans as expected; competition in China may intensify 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 as 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 of JMU, 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 second quarter 2017 earnings call. Today, our CFO, Frank Zhao, will speak on 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 to our CFO, Frank. Please go ahead.

Frank Zhao - JMU Limited - CFO

Thank you, Ms. Zhu. Welcome, everyone, to JMU's second quarter 2017 earnings call. I'm pleased to speak on behalf of Ms. Zhu regarding our latest operational results. We are happy to say our gross merchandise volume increased 47% in the second quarter of 2017 as compared to the prior year period. Our growth was due to ongoing efforts to boost order volume from our online direct sales business and increase in the number of corporate clients.

Among these corporate clients, our black and top black cardholders contributed approximately [92%] of our total sales here in second quarter. We're glad that our corporate client base increased 11.5% compared to the end of 2016, totaling [817] corporate clients as of June 30, 2017.

We worked diligently to expand our supplier portfolio to provide more customer choices as well as explore new profit drivers. Our platform now [exceed] 55,000 SKUs, a 10% increase from end of 2016, and our direct sales SKUs increased to nearly 1,300 from around 800 at the end of 2016.

[Over in the] the second quarter, we added over 300 product suppliers, including over [30,000] suppliers and regional distributors on to our platform. In addition to adding traditional food raw material and the seasoning supplier, we also broadened our product offering by adding select interior design, kitchen equipment, and pest control suppliers to provide our customers a one-stop service to penetrate the local restaurant market.

We also make progress on establishing our new closed-loop supply chain system to provide restaurant and the food service business a one-stop [procurement] service. First, we finalized the terms of the cooperation with Jinyi Free Trade Zone and the [commerce] (inaudible) for the shipment in the second quarter. This will allow a shorter customer clearance time so that international food materials will be delivered for our customers earlier than through the regular process. [We feel it] as an opportunity and a competitive advantage for us to introduce global premium perishable food to (inaudible). We (inaudible) signed a contract with Nippon ACCESS to share our SKUs and explore customized product opportunities.

Second, as for the new profit driver through a partnership with a well-know commercial property manager to become the exclusive provider of supply chain services for the tenants [in a definite] to the area. Instead of our traditional method of acquiring clients through marketing channels, we're trying a new model that locks down customers through partnerships with commercial property managers.

Third, we announced that in August of 2016, we started to build our supply chain finance system to provide our customers credit lines. After one year effort, we are now partners with two financial institutions and are able to provide our customers longer payment periods. This is also [alternative] to further attract new customers who can see that the (inaudible) procurement from offline to online with one-stop purchases. With the fulfillment of this initiative, the aim to expand our growth opportunities and the footprint in the food supply chain and the catering industry.

This concludes our operational comments. Next, I will review our financial results for the second quarter of 2017.

We are very pleased with our continued double-digit revenue growth for the first consecutive quarter, which illustrated the successful implementation of our growth strategy. Revenue were \$20.6 million for the second quarter of 2017, an increase of 35.5% from \$15.2 million in the second quarter of 2016. The growth of revenue in the second quarter of 2017 was mainly due to the ongoing increase in sales from online direct sales.

Cost of revenues was \$20.4 million in second quarter of 2017, an increase of 34.2% from \$15.2 million in the second quarter of 2016, which was generally in line with revenue growth.



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Gross profit for the second quarter of 2017 was \$133,000 (sic -- see press release "\$134,000") as compared to gross loss of \$45,000 in the second quarter of 2016. The improvement was mainly attributable to JMU's new pricing strategy and the higher discounts in purchasing price from supplier due to sizable trading volume.

Operating expenses were \$5.7 million in the second quarter of 2017, an increase of 1% from \$5.6 million in the prior year period. The increase in operating expenses was mainly due to the \$0.3 million in share-based compensation from sales team and the \$0.2 million in the share-based compensation for the administration team, which did not occur in the same period of last year.

Loss from operations in second quarter of 2017 was \$5.5 million, a decrease of 2.2% from \$5.7 million in second quarter 2016.

Net loss attributable to the company in the second quarter of 2017 was \$5.1 million, consistent with the second 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 \$3.1 million compared to \$3.5 million in the second quarter of 2016.

For the quarter ended June 30, 2017 and June 30, 2016, the Company's weighted average number of ordinary shares used in computing loss per ordinary share was remained stable at approximately [1.476 million] common shares.

Let's turn to our balance sheet. As of June 30, 2017, the Company's cash and cash equivalent was \$1.1 million, a decrease of 57.5% as compared to \$2.6 million as of December 31, 2016. Total shareholders' equity remained stable at \$245 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 reliable one-stop procurement service. We look forward to updating you on our further progress.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from [Jeff Oliver] from [Star Funds]. Please go ahead.

Jeff Oliver - Star Funds - Analyst

Given that you added over 300 products suppliers in the second quarter alone, could you confirm the total number of products suppliers on your network to-date?

Xiaoxia Zhu - JMU Limited - Co-Chairperson and CEO

(interpreted) Our supplier reached to 16,170 as of June 30, 2017 this quarter.

Jeff Oliver - Star Funds - Analyst

Okay, thank you. My next question is what steps are you taking to increase your active customer account total in the quarters ahead? Do you have a percentage growth rate in mind for the third and fourth quarters?



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Xiaoxia Zhu - JMU Limited - Co-Chairperson and CEO

(interpreted) First of all, we're going to increase our customer base through the cooperation with local and the multinational partners to increase our clients portfolio. And second, our cooperation with well known property manager to -- it's called (Inaudible). It's explained in our press release and we are going through the property manager side, we are going to attract quality clients on this platform to increase our qualified customer base. And we're also working with (inaudible) for Alibaba's (inaudible) and to increase our penetration to the small- to medium-size clients.

Jeff Oliver - Star Funds - Analyst

My next question, I was please to read about Japanese partnership announced in the second quarter. Could the company talk more about its strategies and more international brands on to your online networks?

Xiaoxia Zhu - JMU Limited - Co-Chairperson and CEO

(interpreted) Yes, we are going to work with Nippon ACCESS on the following areas, firstly, to expanding our international trade [expos]; and also in the supply chain and the warehouse cooperation in China; and on the R&D side, the survey on the Chinese food, new Chinese food [formula]; and also the co-branding or introduce new branding from worldwide; and standardize supply chain system.

Jeff Oliver - Star Funds - Analyst

Okay, thank you. My next question, how was revenue growth -- okay, great. How was revenue growth tracking for the third quarter in July and the first part of August? Do you expect to continue steady revenue growth?

Xiaoxia Zhu - JMU Limited - Co-Chairperson and CEO

(interpreted) We are excited we all see probably a significant improvement in our revenue and profits based on our earlier effort in the first -- the second -- first part of the year, our effort in building our [growth] to foundation through the cooperation and through the improvement of our profit model.

Jeff Oliver - Star Funds - Analyst

Okay, thank you. That was tied to my next question, what key areas of the business are expected to help drive revenue growth in this second half of the year?

Xiaoxia Zhu - JMU Limited - Co-Chairperson and CEO

(interpreted) First, we are going to continue to increase our direct sales through our online platform; and second, we are going to trying to add our revenue from [clients and commissions] for those domestic sales for the large-size restaurant chain and (inaudible) plant. And the third one is for those who are going to introduce to our new platform through the property manager cooperation, we are going to collect in service fees. And finally now, we are going to extract some revenue from our supply chain financing services.

Jeff Oliver - Star Funds - Analyst

Okay, thank you. Finally, my last question, I know there is a focus on profitability for your business, can you provide more insight on the timing of when the business can turn profitable?



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Xiaoxia Zhu - JMU Limited - Co-Chairperson and CEO

(interpreted) Jeff, as you know, we don't give really [a] guidance for the company but (inaudible) we are starting now to break even or minor profit is now trailing to 2018, early 2018. [We'll be there] in the year of 2018.

Operator

(Operator Instructions) It appears there are no further questions. It appears there are no questions at this time. This time I'd like to turn the call over to management for any closing or final remarks.

Frank Zhao - JMU Limited - CFO

Okay, thanks. This concludes our second quarter 2017 earnings call. Thank you for your participation. We look forward to updating you on our 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 and the Mainland China. Thanks.

Operator

This concludes today's presentation. We thank you for your participation. You may now disconnect.

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