

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

JMU - Q2 2016 Wowo Ltd Earnings Call

EVENT DATE/TIME: AUGUST 22, 2016 / 12:00PM GMT



CORPORATE PARTICIPANTS

Bill Zima *ICR, Inc. - Partner*

Xiaoxia Zhu *Wowo Ltd - Co-CEO, Co-Chair*

Frank Zhao *Wowo Ltd - CFO*

CONFERENCE CALL PARTICIPANTS

Robert Greensburg *RSG funds - Analyst*

PRESENTATION

Operator

Hello, everyone. Welcome to the second quarter 2016 conference call for JM Wowo Ltd.

Today's conference is being recorded.

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

Bill Zima - *ICR, Inc. - Partner*

Thank you, Operator. Hello, everyone. Thank you for joining us on today's call.

JM Wowo announced second quarter 2016 financial results on Monday, August 22 before the market opens. The earnings release is now available on the company's IR website at ir.55.com.

Today, you will hear from Ms. Xiaoxia Zhu, Co-Chairperson and Co-CEO, who will give you an overview of the company's strategy, recent developments and operational results followed by the company's CFO, Mr. Frank Zhao, who will address financial results in more detail. We will also have Mr. Feng Pan, the company's COO and Mr. Shao on the call. They will be available to answer your questions during the Q&A session of the call.

Before we proceed, I would like to remind you of our Safe Harbor statement. Please note that discussions today may contain certain forward-looking statements made under the Safe Harbor provisions of the US Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations.

To understand the factors that could cause results to materially differ from these forward-looking statements, please refer to the (inaudible) filed with the SEC on April 8, 2015. The company does not assume any obligation to update any forward-looking statements except as required under applicable law.

Now it is my pleasure to introduce Ms. Xiaoxia Zhu, Co-CEO. Ms. Zhu, please go ahead.

Xiaoxia Zhu - *Wowo Ltd - Co-CEO, Co-Chair*

(Foreign Language Spoken) Thank you, Bill. Welcome, everyone, to JM Wowo's second quarter 2016 earnings call. So this is our first investor call since Jianguang Wu, our CEO, since we completed our merger at the end of last year.

(Foreign Language Spoken) With the rapid development of both our domestic and the international B2B business, I believe we will be actively carry out more constant communications in the future. And once again, I wish to have my appreciations for support of JMU.



(Foreign Language Spoken) All right, before I actually go to introduce the, like, operational progress in the second quarter, so I'd like to answer three questions first, which is where are we going and what are we going to do and how are we going to do it?

(Foreign Language Spoken) Yes, you probably have noticed that we changed our ticker in the first quarter from WOWO into JMU, which reflects the JM Wowo's continuous progress on the vertical like B2B supply chain service in the catering industry. So in the first half of 2016, we continued to utilize our advantages to build up industry barrier and integrated our resources for the development.

(Foreign Language Spoken) We can clearly see that after the first two quarters this year, like the past six months trial and efforts now, we can see that the JM Wowo's business operation and it's strategies is getting more and more clear now.

(Foreign Language Spoken) And first of all, I'd like to talk about the directions of our business, and we have emphasized on the development of our direct sales business and further to increase the volume of market place transactions on the JMU platform.

(Foreign Language Spoken) Right; generally we - from developments of our direct sales business, we introduced more like world-class international reward suppliers to JMU's online marketplace with established strategic cooperation's with high profile brands and carried out purchases on regular products.

(Foreign Language Spoken) As I spoken, our marketplace transactions - we actually increased both JMU's platform capacity of marketplace transactions and from removing the transaction services, so we aim to further increase the volume of marketplace transactions. In addition, we gradually implemented data and the credit analysis and more interest systems for our marketplace transaction service which will set a well regulated environment for the targeted promotions, and the supply chain financing service we also plan to include in our platform.

(Foreign Language Spoken) So in the second quarter of 2016, we have large number of direct sales products have entered a profitable status, which means we have already made profits on this direct sales products supported by the scalable efforts of our B2B business. We have confidence that to reach process across to platform in the near future.

(Foreign Language Spoken) So additionally, to support our direct sales and the market placements, we formed specialized teams to improve the 50 insurance system and user experience. We introduced resources from government entities and related associations.

(Foreign Language Spoken) For those more to mid-scale catering merchants, to improve the user experience we developed a really successful mobile app for those more to mid-sized catering users. And for the restaurant chain and the corporate clients, we introduced a cloud purchase service, which can directly connect to the merchant system and the client's representative to help accomplish efficient and intellectualized purchases.

(Foreign Language Spoken) We are pleased to achieve continuous top line growth in the second quarter of 2016. Our revenue growth was attributable to the increase in other volume from our growth corporate clients. We continue to expand a number of qualified international suppliers into our online platform and to better serve our customers.

(Foreign Language Spoken) Next I'd like to introduce the reputations we have received from the government in the last month back in July, and our VIE; it's Zhongmin Supply Chain Management Company, which is the JMU's online platform, received the regional headquarter certificate from the Shanghai municipal government, recognizing it's one of the key trading companies headquartered in Shanghai.

(Foreign Language Spoken) Well, in order to accommodate our future growth we have relocated our headquarters in Shanghai to a larger facility located in the Bay Valley neighborhood of the city to better prepare us for the future expansion.

(Foreign Language Spoken) Well, I'm also very pleased to introduce our Human Resources program in the last quarter. So in second quarter of 2016, we have found an international ecommerce expert, Dr. Yu, to serve as our independent director.



(Foreign Language Spoken) Well, Dr. Gang Yu was the co-founder and the Chairman of Yihaodian, as you may have known, that is the well-known marketplace website in China. And before that, Dr. Yu served as a Vice President at Dell and also at Amazon as Vice President at Word-Wide Supply Chain department.

(Foreign Language Spoken) We believe that with Dr. Yu's joined to the company, it will be a great fortune to our long-term development.

(Foreign Language Spoken) We have also employed an outstanding team with extensive international and the local business platform operating experience and to making the progress to build a first tier operating team in this sector.

(Foreign Language Spoken) Well, after all, I'm really happy to see that all the efforts we have been made on the business development. And I certainly believe that we will have more opportunities and more growth opportunities in the future.

(Foreign Language Spoken) But we do believe that there is, like, huge scalable business opportunities and the potentials in China's catering industry. And we look forward to a bright future and our goal is to build a leading B2B online e-commerce platform that provides integrated service to the suppliers and the customers in this industry.

(Foreign Language Spoken) Well, next we will continue to update you with the latest progress and we have to be located in China, but we have to look for the global resources. So we will - to realize that global purchase, China's purchase global supplies, we want to have the platform to be built on the food service industry globally in the coming weeks and months. Thank you.

(Foreign Language Spoken) Next I would like to invite Frank, our CFO, to have the financials for the second quarter 2016. Frank, please.

Frank Zhao - Wowo Ltd - CFO

Thank you, Ms. Zhu. Hello everyone, and welcome to JM Wowo's second quarter 2016 earnings conference call. Well, we're pleased with our financial performance for the second quarter and continue to make good progress on the execution of our growth strategy.

As previously announced in September 2015, JM Wowo divested the Wowo Group Limited, the Company's group buying and other non-foodservice-related businesses in an effort to build one of China's largest internet foodservice platforms, improve its profitability, and streamline its business operations.

When you compare our second quarter results sequentially to the first quarter of 2016 to better reflect this change. The revenues were \$56.1 million for the second quarter of 2016, an increase of 26.8% from \$44.3 million in the first quarter of 2016. The growth of revenue in the second quarter of 2016 was mainly due to the larger order volume from our growing online direct sales business. Going forward, we are aiming to increase our direct sales as a percentage of GMV.

Cost of revenues was \$56.2 million in the second quarter of 2016; an increase of 26.5% from \$44.4 million in the first quarter of 2016. Gross loss for the second quarter of 2016 was \$45,000, an improvement from gross loss of \$160,000 in first quarter of 2016. The improvement was mainly due to the rise in sales in the second quarter of 2016.

Selling and marketing expenses in the second quarter of 2016 increased 29.4% to \$2.1 million from \$1.7 million in the first quarter of 2016. As a percentage of total revenue, selling and marketing expenses was 3.8% and 3.7% in the second quarter and the first quarter of 2016, respectively. The increase in marketing expenses was primarily due to higher expenses, associated with intensive marketing activities.

General and administrative expenses in the second quarter of 2016 was \$3.5 million, up 14.1% compared to \$3 million in the first quarter of 2016. The increase in G&A expenses was mainly due to the increase of R&D staff cost as the Company expanded its platform development team and increased salaries in the second quarter of 2016. As a percentage of total revenue, G&A expenses was 6.2% and 6.9% in the second quarter and first quarter of 2016, respectively.

Loss from operations in the second quarter of 2016 was \$5.7 million, an increase of 16.6% from \$4.8 million in the first quarter of 2016. Net loss attributable to the Company in the second quarter of 2016 was \$5.1 million, an increase of 18.9% as compared to \$4.3 million in the first quarter of 2016. Non-GAAP net loss is attributable to the Company, which excludes amortization of acquired intangible assets, impairment of goodwill, and related provision for income tax benefits was \$3.5 million compared to \$2.7 million in the first quarter of 2016.

Now let's turn to our balance sheet. As of June 30, 2016 the Company's cash and cash equivalents was \$3.6 million, a decrease of 68% as compared to \$11.2 million as of December 31, 2015. The decrease in cash and cash equivalents was mainly due to the growth of our online direct sales, which requires cash outflow for products procurement. We are expecting to collect about around \$5.2 million of project related account receivables in September, so we have confidence we'll have sufficient cash to support our operations in the coming 12 months.

Working capital was \$7.9 million as compared to \$16.1 million as of December 31, 2015. Total shareholders' equity was \$284.8 million and \$304.7 million as of June 30, 2016 and December 31, 2015, respectively.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Robert Greensburg from RSG Funds.

Robert Greensburg - RSG funds - Analyst

Can you talk about the competitive environment, specifically who are your biggest competitors in the online food service industry in China? And what are JM Wowo's strategic advantages to compete against its competitors?

Xiaoxia Zhu - Wowo Ltd - Co-CEO, Co-Chair

(Foreign Language Spoken) We're trying to find our, like, competitors that's rivals, as you mentioned, in China. But fortunately, we haven't seen anyone, like, doing the business, like, the exact same business models as us. So we're trying to find the competitors or, like, business models from world-wide perspectives. Then we think we could compare us like the Cisco in the United States, and another Japanese enterprise, I'm trying to find it's English name. So for these two companies, we'd like to compare us from their marketplace perspective. And as far as the offline business, they have been built up.

Robert Greensburg - RSG funds - Analyst

Also, can Ms. Zhu comment on how she expects gross billings and active customer accounts to trend in the third quarter?

Xiaoxia Zhu - Wowo Ltd - Co-CEO, Co-Chair

Sorry, you mean for the customer trends? So could you specify that?

Robert Greensburg - RSG funds - Analyst

Yes. In the press release you talk about gross billings and active customer accounts. How is that expected the trend in Q3 as well as Q4, if you have that information?



Xiaoxia Zhu - *Wowo Ltd - Co-CEO, Co-Chair*

(Foreign Language Spoken) All right; from my experience, and as I specifically see the three and quarter four, we think the growth of the GMV should have a huge growth.

(Foreign Language Spoken) Well, we do have the orders from our customers, which will be realized in the second half of this year. So pretty much the growth of our business, is heavily relies on the development of the catering business in China, which we think there is huge growth in second half.

Robert Greensburg - *RSG funds - Analyst*

Do you expect the growth in the second half to be stronger than the results for Q2's growth?

Xiaoxia Zhu - *Wowo Ltd - Co-CEO, Co-Chair*

Yes, that's what she had mentioned.

Frank Zhao - *Wowo Ltd - CFO*

Q2 is our lowest season; we have some seasonality usually the Q1 is the strongest season year-on-year, and in Q3 and Q4, as Ms. Zhu commented, we expect much stronger growth in Q2.

Robert Greensburg - *RSG funds - Analyst*

Could you give some perspective on when you - could you be profitable in the third and fourth quarter of this year?

Frank Zhao - *Wowo Ltd - CFO*

(Foreign Language Spoken).

Xiaoxia Zhu - *Wowo Ltd - Co-CEO, Co-Chair*

(Foreign Language Spoken) Well Robert, we are trying to optimize our business models and our profitability in the second half. And we think it's really depends on the developments of our direct sales business sector.

Robert Greensburg - *RSG funds - Analyst*

And for my final question; if we look out over the next one to two years, what could JM Wowo look like? What is Ms. Zhu's vision for the company over this time period?

Xiaoxia Zhu - *Wowo Ltd - Co-CEO, Co-Chair*

(Foreign Language Spoken) We're very confident to see that in next one or two years, JMU will become a much stronger company with GMV get doubled or tripled. I think if we are taking considerations, our target is about 50 billion GMV on which our direct sales business will account for 30% of the total GMV. So this is our target.

Operator

(Operator Instructions) As there are no further questions in the queue, I'd now like to turn our call back to our host for any additional or closing remarks.

Frank Zhao - Wowo Ltd - CFO

Hello, everyone. This concludes our second quarter 2016 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 the US; and have a good night for those who are based in Hong Kong and the Mainland. Thank you.

Xiaoxia Zhu - Wowo Ltd - Co-CEO, Co-Chair

(Foreign Language Spoken) Thank you, everyone.

Operator

That will conclude today's conference call. Thank you for your participation. Ladies and gentlemen, you may now 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.

©2016, Thomson Reuters. All Rights Reserved.