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JMU - Q3 2016 Wowo Ltd Earnings Call

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CORPORATE PARTICIPANTS

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Frank Zhao *Wowo Limited - CFO*

CONFERENCE CALL PARTICIPANTS

Kent Oliver *Star Axis Fund - Analyst*

PRESENTATION

Operator

Hello, everyone. And welcome to the Third Quarter 2016 Earnings Conference Call for JM Wowo Group Limited. 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, sir.

Bill Zima - *ICR - IR*

Thank you, Operator. Hello, everyone, and thank you for joining us on today's call. Wowo Limited announced its third quarter 2016 financial results on November 22, before the market opened. An earnings release is now available on the Company's IR website at ir.ccjmu.com.

Today, you will hear from Mr. [Jonathan Wang], Senior Executive of JM Wowo, who will join us on our call today and will speak on behalf of Co-Chairperson and Co-CEO, Ms. Xiaoxia Zhu for 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 details. Ms. Zhu will give an opening remarks and will 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 statement. Please note that the discussion today may contain forward-looking statements made under the Safe Harbor provisions of the U.S. Securities Private 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 those in the forward-looking statements, please refer to our prospectus filed with the SEC on April 8, 2015. We do not assume any obligation to update any forward-looking statements except as required under applicable law.

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

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

(interpreted) Okay. Thank you, Bill. Welcome everyone to JM Wowo's third quarter 2016 earnings call. I am pleased to introduce Mr. Jonathan Wang, which is me, the Company's Senior Executive, who will speak on my behalf and address the Company's strategy and recent developments, as well as future initiatives. I will be available during Q&A session and my comments will be translated into English.

I would now like to turn the call over to Mr. Jonathan Wang. Jonathan, please go ahead.



Jonathan Wang - *Wowo Limited - Senior Executive*

Okay. Thank you, Ms. Zhu. Welcome everyone to JM Wowo's third quarter of 2016 earnings call. I am pleased to speak on behalf of Ms. Zhu regarding our latest operational results.

We were pleased to achieve nearly 100% growth in GMV and the more than 30% growth in revenue in the third quarter, as we continue to boost the order volume for our online direct sales business and strengthened cooperation with our VIP membership holders, which contributed 90% of total sales during the reporting quarter. We were also encouraged that additional famous catering companies joined our online marketplace as new active customer accounts.

In order to further ensure our premium quality of products available on our online marketplace, we raised our supply entry requirements of our platform in the third quarter, which resulted in fewer new suppliers. Despite that, we were delighted to collaborate with some new major suppliers in the food and hospitality industry, including Pacifaith International Trade Shanghai Co. Ltd., Shanghai Liangyou Haishi Oils & Fats Industry Co. Ltd., Shanghai Yimin NO.1 Foods Group Co. Ltd., etcetera. So some of them are actually very famous Chinese brands in China so we were delighted to start the collaboration with them.

As we expand our cooperation with both suppliers and purchasers, we strive to optimize the user experience by upgrading our technology and collaborate with social media platforms. Currently, we are developing a technical solutions to connect our online platform with the ERP system of our clients to streamline purchasing transactions, which we believe definitely help to improve the order efficiency. This will help us further drive our gross billing once the new system launch. We are also making progress in improving our mobile user experience by upgrading our JMU mobile application, which is now available in Android and iOS App Store as well.

So respect to our mobile users service capabilities. JM Wowo's, we also developed a wechat service account, which has passed system capacity test and is able to host more than a couple of hundred customer orders simultaneously. So we believe this mobile-focused investments can help contribute to our future growth.

As we facilitate the trade between suppliers and purchasers on our marketplace, we noticed a growing need for our supply chain financing services in our business and recognize this as the market opportunity for JM Wowo.

So during the third quarter, we have explored deeply with a few leading financial institute. [In joint], built the supply chain finance Company to provide JM Wowo's B2B customer services, that include order factoring, credit granting services on the platform, financing and leasing services.

So our ongoing efforts to serve the catering industry has resulted in recognition by both governments and our partners. In July, JM Wowo's consolidated affiliate entity in China, Shanghai Zhongmin Supply Chain Management Co., Ltd., received the Regional Headquarters Certificate from Shanghai government. And in September, Xiao Nan Guo, our leading premium cuisine restaurant chain operator acquired about 9.82% stake in JM Wowo, demonstrating a strong support for our online business.

So, next, I would like to take some time to address a few important initiatives, which we plan to employ in the near future. First, in December, we planned to host our second anniversary ceremony of our business, as well as invite over 200 top tier brands to our China Restaurant Industry Summit to discuss future opportunities and the challenges in our industry. As a leading B2B e-commerce platform, we feel compelled to connect our suppliers and customers, so they can better understand the ecosystem of the industry with the aim to identify new trends and growth opportunities.

Second, as we continue to scale the business, it is important to add new talent to our team, refine our business strategy and effectively execute operating activities daily. So we are in the progress of adding senior operational and R&D talent to our team, people like myself, to improve operating efficiency and R&D capabilities.

In the third quarter, we announced that Dr. Gang Yu, who is the Co-founder of a very famous B2C platform, Yihaodian, as our Independent Director on our board, whose appointment has strengthened our corporate governance efforts, as well as guide our executive team.

Third, we plan to help small business in the food catering industry transition, their operations to an online platform. We are planning to partner with leading Chinese internet companies to develop a small restaurant B2B service plan, which will enable our customers and suppliers to adapt their business to our online marketplace. We also plan to establish a restaurant industry development fund, which we can invest in early-stage companies that shows great future and promise.

We would like to express our thanks to our investors for their support and we expect continued improvements to our online marketplace to provide our clients with reliable one stop procurement services. We will keep close communication with our investors and to update you on our latest initiatives and the developments.

With that, I would like hand over to Frank to go through the financial results for the third quarter. Frank, please.

Frank Zhao - Wowo Limited - CFO

Thank you, Mr. Wang. Hello, everyone and welcome to JM Wowo's third quarter 2016 earnings conference call. We are very pleased with our continued double-digit revenue growth for the second consecutive quarter, illustrating the successful implementation of our growth strategy.

As previously announced, in September 2015, JM Wowo divested 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.

We will compare our third quarter results sequentially to the second quarter of 2016 to better reflect this change. Additionally, when preparing the unaudited condensed consolidated financial statements for the three months and the nine months ended September 30, 2016, per the advice of our auditor, we revisit the presentation of revenue for the period of January 1 to June 30, 2016, and concluded that certain revenue recognized on a gross basis disclosed in the earning release dated August 22, 2016 for the second quarter of 2016 should have been presented on a net basis in accordance with relevant U.S. GAAP. Accordingly, the Company revised revenue and cost of revenues for the three months ended June 30, 2016 to reflect such change of gross presentation to net presentation.

With that said, I will continue with the financials. Revenues were \$19.8 million for the third quarter of 2016, an increase of 30.7% from \$15.2 million in the second quarter of 2016. The growth of revenue in the third quarter of 2016 was mainly due to the larger order volume from increased clients of our online direct sales business.

Cost of revenue were \$20 million in third quarter of 2016, an increase of 31.3% from \$15.2 million in the second quarter of 2016, which is generally in-line with the growth of the Company's revenues.

Gross loss for the third quarter of 2016 was \$145,000, compared to gross loss of \$45,000 in the second quarter of 2016. The increase in gross loss was mainly due to increased \$90,000, the share-based compensation granted to senior technical staff in the third quarter of 2016.

Selling and marketing expenses in the third quarter of 2016 increased 98.4% to \$4.2 million from \$2.1 million in the second quarter of 2016. As a percentage of total revenue, selling and marketing expenses was 21.4% and 14.1% in the third quarter and second quarter of 2016, respectively. The increase in marketing expenses was primarily due to client promotion activities in the third quarter. To be more specific, we rewarded \$2.2 million back to our clients for their 2015 annual purchase in the third quarter and we granted \$370,000 share-based compensation to our sales staff.

General and administrative expenses in third quarter of 2016 were \$3.6 million, an increase of 2.8% compared to \$3.5 million in the second quarter of 2016. The increase in general and administrative expenses was mainly due to the \$200,000, the increases, in share-based compensation for administrative staff in the third quarter of 2016. As a percentage of total revenues, general and administrative expenses were 18% and 22.9% in the third quarter and second quarter of 2016, respectively.



Loss from operations in the third quarter of 2016 was \$7.9 million, an increase of 40.7% from \$5.7 million in the second quarter of 2016. The increase in loss from operation was mainly due to our reward of \$2.2 million to our clients for their 2015 annual purchase and the \$700,000 share-based compensation granted to our staff in the third quarter.

Net loss attributable to the Company in the third quarter of 2016 was \$7.4 million, an increase of 45.2% as compared to \$5.1 million in the second quarter of 2016. Non-GAAP loss attributable to the Company, which excludes amortization of acquired intangible assets, related provision for income tax benefits and the share-based compensation was about \$5.1 million, compared to \$3.5 million in the second quarter of 2016.

For the quarter ended September 30, 2016 and June 30, 2016, the Company's weighted average number of ordinary shares used in computing loss per ordinary shares was 1,476,208,000 and the same for the second quarter -- same number of shares for the second quarter.

Now let's turn to our balance sheet. As of September 30, 2016, the Company's cash and cash equivalents was \$8.8 million, a decrease of 21.3% as compared to \$11.2 million as of December 31, 2015. The decrease in cash and cash equivalents was mainly due to the operating cost and the growth of the Company's online direct sales, which requires cash advance for products procurement.

Working capital was \$2.6 million as compared to \$16.1 million as of December 31, 2015. Total shareholders' equity was \$277.2 million and \$304.7 million as of September 30, 2016 and December 31, 2015, respectively.

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

QUESTIONS AND ANSWERS

Operator

Thank you, sir. (Operator Instructions) Your first question comes from [Kent Oliver] from [Star Axis Fund]. Please go ahead. Your line is open.

Kent Oliver - Star Axis Fund - Analyst

Can you confirm the total number of suppliers you've had in your business as of the end of the third quarter?

Jonathan Wang - Wowo Limited - Senior Executive

(interpreted) Okay. By the end of third quarter, our active suppliers is about 14,000.

Kent Oliver - Star Axis Fund - Analyst

Okay. Thank you. My second question, I was wondering if the Chairwomen could comment on the Company's progress thus far in the fourth quarter. Are you still expecting the strong sales growth and do you continue to add new suppliers?

Xiaoxia Zhu - Wowo Limited - Co-Chairperson and Co-CEO

(interpreted) Okay. So we will -- yes. We forecast we will have a strong growth compared to the last Q4 -- Q4 in last year, at least 30% increase in terms of the GMV and the revenue.

Kent Oliver - *Star Axis Fund - Analyst*

Okay. That's helpful. How about just adding new suppliers this fourth quarter, have you had success in the last month and a half?

Jonathan Wang - *Wowo Limited - Senior Executive*

Yes. In terms of the number of suppliers, actually from Q3, we did some adjustment. So we are not just talking about the quantity but we also need to focus on quality so that we increase the number of the regional suppliers, so that we have higher threshold to make sure the suppliers come in we want to work with is the right suppliers. So, by saying that, we see still a number of growth in terms of suppliers, but we have more emphasis on the quality.

Kent Oliver - *Star Axis Fund - Analyst*

Okay. Thank you. That's helpful. My next question is, can you provide further comments on your mobile app and wechat services, specifically, how will these platforms generate more revenue for your business going forward?

Jonathan Wang - *Wowo Limited - Senior Executive*

Okay. Yes, mobile is a very important channel, particularly for the small and medium business. So, as I mentioned, we have developed different mobile applications, including Android and iOS, as well as wechat platform. So in Q3, we have did some experiment on the wechat. So we did some small promotion to the small and medium business, and we received a quite positive feedback from that.

So in Q4 actually we are in the process of exploring the further collaboration opportunity with some leading Chinese internet companies, particularly on the small and medium restaurant business. So we are doing some R&D for that part, so we see it will definitely drive our future growth.

Operator

(Operator Instructions) We will now take a follow-on question from Kent Oliver from Star Axis Fund. Please go head.

Kent Oliver - *Star Axis Fund - Analyst*

I was continuing my questions. As we look out to next year or 2017, how big do you believe revenue can grow in 2017 compared to 2016?

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

(interpreted) Okay. We have confidence in that our revenue will keep increasing from 100% to 200%.

Kent Oliver - *Star Axis Fund - Analyst*

Okay. That's very helpful. Finally, my last question, do you have a timetable as to when you expect to become profitable?

Jonathan Wang - *Wowo Limited - Senior Executive*

Yes. Actually we plan to see operating profitable by end of next year, probably.



Operator

(Operator Instructions) There are no further questions at this time. Mr. Zima, please continue.

Frank Zhao - Wowo Limited - CFO

Yes. This concludes our third 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 U.S. and have a good night for those who are based in Hong Kong or Mainland China. Thanks.

Operator

Thank you. Ladies and gentlemen, that concludes our conference for today. Thank you for your participation. Ladies and gentlemen, you may all disconnect.

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