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WOWO - Q1 2015 Wowo Ltd Earnings Call

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Victor Anthony *Axiom Capital - Analyst*

PRESENTATION

Operator

Thank you for standing by and welcome to the Wowo Group Limited First Quarter 2015 Earnings conference c. (Operator Instructions) I must advise you that this conference is being recorded today, Tuesday, June 30th, 2015.

I would now like to hand the conference over to your first speaker today, Shayla Suen. Please go ahead, Ms. Shayla Suen.

Shayla Suen - *Wowo Group Limited - IR Director*

Thank you, operator. Hello, everyone, and thank you for joining us on today's call. Wowo Limited announced its first quarter 2015 financial results on Monday, June 29th, before the market opens. Our earnings release is now available on the Company's IR website at ir.55.com.

Today, you will hear from Mr. Maodong Xu, our Co-Chairman, who will give you an overview of the Company strategies, recent developments and operational results, followed by the Company's CFO, Mr. Frank Zhao, who will address financial results in more details. We also have Mr. Tiger Wu, our Co-CEO on the call. They will 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 may contain certain forward-looking statements made under the Safe Harbor provisions of the U.S. 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 -- 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 you any forward-looking statements except as required under applicable laws. Now, it's my pleasure to introduce to you, Mr. Maodong Xu. Mr. Xu, please go ahead.

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

Thank you, Shayla. (Interpreted) Welcome everyone to Wowo's First Quarter 2015 Earnings call. We are pleased to report a strong quarter and excited to announce that our merger with JMU has recently closed.

Given my limited English-speaking capability, our CFO, Mr. Frank Zhao, will speak on my behalf.



Frank Zhao - *Wowo Group Limited - CFO*

Mr. Xu, my pleasure. Welcome everyone to join in our conference, first quarter 2015 earnings call. We are pleased to report year-over-year double-digits growth in revenue and a gross profit during the quarter.

First quarters typically are slower quarter for our business due to Chinese New Year in February. Our focus on user experience and our investment in content product and technology innovation continue to drive our growth in sales and profitability.

We are pleased to say our merger with JMU was completed on June 8th. This is a major milestone for the evolution of our business model, and the first merger in China that could integrate both online and offline sales opportunities within China food catering sector.

The merger has positioned us to capitalize on greater efficiency in China substantial foodservice industry as the owner of the only fully integrated B2B2C Internet company operating in the sector.

In the mobile and Internet era, the vertical integration of the industry chain has become a trend. Common features are the integration of online and offline assets and the extension from upstream to downstream in the industry value chain.

As a traditional industry with a huge market scale, the catering industry is ready for reform through technologies. We are confident that as a leader and innovator in the foodservice sector, our growth will remain robust as there is significant room for us to further develop the market.

According to the National Bureau of Statistics, the market for catering service is CNY3 trillion or approximately \$500 billion per year. while the-market for raw material food supply is CNY800 billion, or approximately U.S. \$130 billion.

Riding on the huge market potential of the foodservice industry in China, we have decided to strategically position our platform as the one stop service center on which supplier restaurants and the customers can transact and interact.

We will enable our partners to fulfill the majority of their needs on our platform we are focused on giving some suppliers access to their targeted buyers, buyers access to the safe and quality products in bulk at a discount price, and customers easy access to various healthy and convenient foodservices.

As of the end of May, JM WOWO has over 90,000 active foodservice merchants across 150 major cities in China. And JMU alone has over 350 large scale foodservice merchants that are also stakeholders. Meanwhile, JMU is in cooperation with over 50 large scale B2B suppliers which were also called source suppliers and there were over 8,000 small to medium scale supplier.

On the customer side, Wowo has accumulated over 37 million subscribers and 21 mobile apps downloaded on customers' mobile devices. We believe those achievements are just the tip of the iceberg in terms of market potential and the beginning of a new chapter of the foodservice industry.

Although Wowo and JMU came from different sectors of foodservice industry. We now share the same vision of reshaping the industry's rules and building a fair business ecosystem for medium and small foodservice businesses in China. We aim to cultivate the traditional offline business using Internet tools to create value for foodservice companies, brand suppliers and customers.

We believe JMU's broad network of food vendors and the merchants and the rich experience in supply chain management will greatly enhance our economies of scale by adding many users to our platform on the supplier side and the buyer side and allow for greater efficiency for both buyers and sellers.

Wowo's pioneer position and customized technical platform serving the catering industry, vast user base and the Big Data capabilities will provide the optimal forum to bring buyers and the sellers together, build the closed loop system from end to end and thus to suppliers and effectively monetize activities on the platform.

JMU's offline network and experience and the Wowo's online platform and marketing capabilities are a well-suited match with numerous advantages that will drive our future growth.

Our synergies will leave us to expand upon our unique e-commerce model to build a platform bridging China's vast number of food buyers which range from restaurants to individuals with food product producers and vendors across the country and drive rapid growth over the whole industry.

First, buyer which we consider food catering enterprises that are highly fragmented and not unified. Will benefit from having greater choices and increased competition which leads to better quality and lower procurement cost on B2B platform formed by industry associations and alliances. With the aid of Wowo's established e-commerce system, the upstream supply chain service will be extended to more merchants.

Second, catering enterprises will also benefit from having a larger customer base to which they can target their goods and services. Leveraging these resources, our e-commerce platform can benefit millions of restaurants by boosting revenue and introducing advanced foodservices to a younger generation of customers with greater levels of efficiency.

Additionally, the participants will benefit from these supply chain efficiencies which include removing several distribution layers of the traditional supply chain and the convenience of the platform.

Which allows for efficient communication via PC and Smartphone integration. With the assistance of our online platform, both sides will have easy access to data collection and analysis and be capable of providing flexible services and change in real-time.

To maximize the revenue scale of the combined company and the maintain brand recognition of B2B and B2C platforms, we will continue to operate as two separate websites with two separate brands.

Now, I would like to highlight for you many of JMU's major B2B developments and initiatives that can provide some perspectives on how a combination of JMU's operations with Wowo's platform can create significant growth opportunities for our business going forward.

Firstly, we will continue to expand our business to more cities leveraging our strong offline resources. JMU has close collaborative relationships with three top national and many regional industry associations.

With the help of whom, JMU has already established 50 regional platforms and another 50 under construction. And also the merged company will integrate on market strategy to develop our relationship with key industry associations and develop regional platform in more cities.

Secondly, we will continue to expand our merchant base. JMU and Wowo have great synergic opportunities to develop and expand the JMU's merchant base. Just as I mentioned already, JMU has over 350 large-scale important foodservice merchants in China, including 40 top-notch foodservice enterprises that are also key stakeholders.

In order to penetrate smaller scale merchants, JMU will rely on the influence of industry associations in local market as well as Wowo's registered merchant base. Together, we believe, we can more significantly expand our merchant base.

Thirdly, we will continue to cooperate with suppliers to foster our active online marketplace. JMU is in collaboration with over 50 large scale B2B suppliers and over 8,000 small to mid-scale suppliers.

It's working together with large source suppliers to deepencoperation in key product verticals and data collection analysis. The goal is to attract supplier online through the influence of well-known brand users in the industry association, transactions on Wowo platform can influence and stimulate more merchants/ suppliers to join this platform.

Lastly, we will continue to work on R&D to secure the intergration of online and offline resources. As a merged entity, our ongoing investment in R&D, especially Wowo's expertise on the e-commerce platform, can help optimize user experience in three core areas, the online platform, mobile app and the smart cloud procurement platform for foodservices and Enterprises.



Our plans to provide a B2B platform that works in different scenarios and for different participants. So that it can be monetized through tiered commissions through the industry integration.

Also on the retail side or B2C side, we intend to build a cloud marketing system that will not only expand Wowo's existing mobile e-commerce services to more foodservice merchants but also bring various advanced foodservices to more customers.

In the first quarter, we launched the food-focused section that include the features such as ordering for delivery or takeout, making reservations and group buying activities, which were well-received by our foodservice merchants, and drove our sales in the quarter.

After the merger, we will further build a cloud marketing platform on the B2C end to include food sector category of data, operational data, channel data and the membership data.

Doing so can help provide data analysis, enhance marketing efficiency for foodservices enterprises and offer more choices for users.

China's catering industry is a huge, scalable business opportunity. And we believe this partnership is uniquely positioned to capture meaningful share of the future growth. From a long-term, shareholder value creation point of view we believe that our ability to scale this platform is central to the success of our business model and will maximize our shareholders' value in the long term.

In 2015 alone, merchants have signed procurement agreement with JMU totaling CNY10 billion which is only a small part of the currently, CNY800 billion raw material food supply market.

We are starting to see tremendous growth in this sector going forward. We have already developed open communication channels with the JMU to maintain energy and the momentum needed for successful execution during the transaction period.

We have already implemented activities and transaction tracking procedures to access our progress. We believe we will see cost savings of at least \$\$10 million to \$20 million across various areas including technology, sales and the marketing within 12 to 18 months after the merger due to increased efficiency from the partnership.

Overall, this transaction represents a fantastic opportunity for us to continue the modernization of China's food service industry. China's Internet-enabled foodservice industry will likely experience tremendous growth in the years ahead. And we intend to capitalize on these growth opportunities.

The executive team members that come from JMU have a wealth of knowledge and have a broad range of skills and experience and perspective in the food industry sector, that will contribute to our growth performance in the future. Ms. Zhu, our Co-Chairwoman and the Co-CEO and Ms. Wang, our Director, in particular are well-known for their pioneering efforts in the foodservice industry in China.

We look forward to a bright future and we look forward to update to you our progress and the latest developments in the coming months.

On that note, I will take you through the key financials for the first quarter of 2015. On the revenue side, total net revenues reached \$7.6 million in the first quarter of 2015, representing an increase of 38% from \$5.5 million in the same quarter of 2014.

We continue to make good progress converting our revenue model to storefront fees. Net revenues contribution from storefront fees increased from 24.2% in the first quarter of 2014 to 50.7% in the same quarter of 2015.

Net revenues from storefront fees increased to \$3.9 million in the first quarter of 2015, representing an increase of 189.3% from \$1.3 million in the same quarter of 2014. The growth was primarily driven by the increase in the number of paying merchants who have been receptive to the implementation of the product upgrade designed to the foodservice merchants that we rolled out during the first quarter of 2015.

Gross profit in the first quarter of 2015 was \$6.3 million, representing an increase of 72.9% from \$3.7 million in the same quarter of 2014. Gross margin for the first quarter of 2015 increased to 83.3% from 66.4% in the same quarter of 2014.

The increase in both gross profit and the gross margin was mainly because of our focus on the more sustainable revenue model and thus the lower transaction fees paid to the third-party payment platforms caused by decreased commission-based businesses.

Total operating expenses in the first quarter of 2015 decreased by 0.3% from \$13.8 million in the same quarter of 2014 to \$13.7 million. Non-GAAP operating expenses in the first quarter were \$13.9 million, representing 3.8% increase from \$13.4 million in the same quarter of 2014 primarily due to the one-time adjustment to the share based compensation expenses.

The stabilization of total operating expenses, reflects our efforts to achieve economies of scale, optimize our expense infrastructure and leverage its strong revenue growth.

Marketing expenses decreased by 37.5% from \$2.5 million in the first quarter of 2014 to \$1.6 million primarily due to the reduced spending, less effective marketing activities and the promotions.

Selling and the general administrative expenses increased by 8% from \$11.2 million in the first quarter of 2014 to \$12.1 million in the same quarter of 2015. The increase was primarily driven by higher R&D expenses and the growth of our sales force.

Loss from operations in the first quarter decreased to \$7.4 million from \$10.1 million in the same quarter of 2014 as a result of our financial performance.

Net loss attributable to Wowo Limited in the first quarter was \$7.4 million, compared to \$10.1 million in the same quarter. Net loss per diluted ADS attributable to ordinary shares was \$0.57 in the first quarter of 2015 compared to \$1.30 in the same quarter (inaudible).

Having recently closed the acquisition of JMU on June 8, we're currently working on the post-transaction integration, including a financial review of the second quarter of 2015 and a financial model and the forecast for the combined business. We will provide investors updates on any major developments in the integration and financial forecasting in the coming months.

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

QUESTIONS AND ANSWERS

Operator

We will now begin the question-and-answer session. (Operator Instructions). Your first question comes from the line of Victor Anthony from Axiom Capital. Please go ahead.

Victor Anthony - Axiom Capital - Analyst

Yes, sure, thanks and thanks for the qualitative color and the rationale for the transaction.

The question I have though is maybe you could give us some quantitative numbers around the impact of the combined company, maybe some guidance on revenues and ultimately, EBITDA. Can you talk about, I think, some -- quite clearly, I think you may have mentioned some cost synergies of the combined mergers, so maybe you could draw into that a little bit further for me? Thanks.



Frank Zhao - *Wowo Group Limited - CFO*

(Spoken in Chinese).

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

Hello, Victor. I will translate for Mr. Xu. Actually, we are not going to disclose the Q2 revenue for the current moment because actually, we started talking with the JMU about the potential merger, you know, in the latter half of April.

And then we reached agreement in May, so from that moment, we're basically -- our focus was, you know, to consider our synergies and how to maximize our current resources and our -- [commercial] resources vendor, other, you know, resources to -- you know, to maximize our potential market.

So actually, our -- you know, our books -- our [base] books in Q2 are basically, you know, to consider how we can, you know, reach our maximum synergies after the merger. So we are not in the position to disclose the Q2 outlook for this moment.

Victor Anthony - *Axiom Capital - Analyst*

Okay, thank you very much.

Operator

(Operator Instructions). Your next question comes from the line of Victor Anthony. Please go ahead.

Victor Anthony - *Axiom Capital - Analyst*

Yes. Sorry, a follow-up on the earlier question on the cost synergies that you are looking to achieve via this merger.

Maybe you could talk to in most specifics, I think you touched on it during your prepared remarks, what sort of synergies that you see on the cost side and how the plans will play out over the next several quarters?

Frank Zhao - *Wowo Group Limited - CFO*

(Spoken in Chinese).

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Frank Zhao - *Wowo Group Limited - CFO*

(Spoken in Chinese).



Shayla Suen - *Wowo Group Limited - IR Director*

Okay. I'll translate it for Mr. Xu. Actually, for -- talking about the synergies, so JMU actually at the online procurement platform to, you know, provide the group products or food raw materials for the -- for the restaurants.

And at Wowo actually, we are an online marketing platform for those restaurants. Essentially, we have the same, you know, merchant base, so we have the -- you know, the similar, you know, customer target.

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

Okay, currently, actually, Wowo has over 2,000 [sales representatives], you know, spread across the 150 cities in China. So they basically do provide those online marketing and services for these restaurants.

So after the merger, we -- those [reps] -- they were not only, you know, to provide a service but provide online service for those -- to those restaurants. We will also, you know, provide the B2B services to those restaurants.

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

Okay. In the coming 12 to 18 months, we expect \$10 million to \$20 million cost savings.

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

Okay. So actually, JMU has a very strong offline resources. They have -- they have also a very strong industry alliances and associations to work with. So in the year 2015 alone, those key merchants who have signed for those procurement agreements with JMU totaling RMB 10 billion which will be realized mainly within this year.

Victor Anthony - *Axiom Capital - Analyst*

Okay. And the next question I have is really, you know, Alibaba recently reduced the commission rates on its group buying platform. And, you know, I think the interpretation of that is it's largely due to competition.

So maybe you could just talk about the competitive landscape that you see in -- for your platform, so both platforms and how you plan to compete?

Frank Zhao - *Wowo Group Limited - CFO*

(Spoken in Chinese).

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Frank Zhao - *Wowo Group Limited - CFO*

Yes. Hi, Victor. I hope you can be particular on which part of the commission rate that Alibaba cut off or reduced to improve their competition or core competencies and because it's very - value with our company and it is helpful for us which one you reference to.

Victor Anthony - *Axiom Capital - Analyst*

I'm sorry, were you asking me -- I'm sorry, what are you asking me , I'm sorry?

Frank Zhao - *Wowo Group Limited - CFO*

You said, you know, Alibaba cut off or reduced the commission.

Victor Anthony - *Axiom Capital - Analyst*

(inaudible) the group buying platform?

Frank Zhao - *Wowo Group Limited - CFO*

Group buying.

Victor Anthony - *Axiom Capital - Analyst*

Yes.

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

So Victor, actually, were you meaning the (inaudible) or a part -- a group buying basis of Alibaba?

Victor Anthony - *Axiom Capital - Analyst*

Yes, the group buying of Alibaba, yes.



Shayla Suen - *Wowo Group Limited - IR Director*

(Spoken in Chinese).

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Victor Anthony - *Axiom Capital - Analyst*

If you're unaware of it, maybe you could just, you know, discuss the -- just the competitive landscape just on both platforms.

Frank Zhao - *Wowo Group Limited - CFO*

(Spoken in Chinese).

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

(Spoken in Chinese).

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

(Spoken in Chinese).

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

Okay, Victor, to answer your question, actually, the group buying channel of Alibaba, they focus on the virtual products. So at Wowo, we are just very focused on the local lifestyle services.

And after the merger, we will focus on the restaurant for the catering industry. Actually, we are in two the different, you know, industries, and so we are in different competitive landscapes.



Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

Actually, for Wowo's platform, we are a -- we are an online direct sales platform for local lifestyle service to merchants. We are not alike other group buying companies in China, so they basically, they procure from third party and then reach out to customers, so we are in different industry, we are in different business model.

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

So actually, after the merger, we will, you know, extend our biggest -- we will extend our business to a wider scope. You know, after the merger, we will not only provide online market services to merchants, we will also provide B2B to provide the raw material, the product to those customers.

So after the merger, we think that we have (inaudible) we create a very unique competitive position that will -- that will differentiate us from other group buying companies in China.

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

(Spoken in Chinese).

Shayla Suen - *Wowo Group Limited - IR Director*

Okay. So we hope that we leverage on our merger. We can -- you know, we can enter, you know, a bigger market and so we can position us as a unique player and, you know, into a less competitive industry.

Victor Anthony - *Axiom Capital - Analyst*

Ok, that's fair enough. I'm good with the questions for now. Thank you.

Shayla Suen - *Wowo Group Limited - IR Director*

Thanks.

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

Thanks, Victor.

Operator

(Operator Instructions). There are no further questions at this time. I will now pass the call to Wowo management. Please continue.

Frank Zhao - *Wowo Group Limited - CFO*

This does conclude our first quarter 2015 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. Have a good night for those who are based in Hong Kong or mainland China. Thank you.

Maodong Xu - *Wowo Group Limited - Co-Chairman and CEO*

Thank you.

Operator

That does conclude our conference for today. Thank you for participating. You may all disconnect.

Editor

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