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Q3 2020 Ecmoho Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Daniel Wang** *Ecmoho Ltd. - Cofounder and General Manager*

**Gary Xu** *Ecmoho Ltd. - Investor Relations*

**Zoe Wang** *Ecmoho Ltd. - Founder, CEO*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by and welcome to Ecmoho 2020 Third Quarter Earnings Conference Call.

At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions). Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Gary Xu. Thank you. Please go ahead.

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### **Daniel Wang** *Ecmoho Ltd. - Cofounder and General Manager*

Thank you, operator.

Hello everyone and thank you for joining us today for our third quarter 2020 earnings conference call. The company's results [were] released earlier today and are available on the company's IR website.

On the call today, we have Ms. Zoe Wang, Founder and Chief Executive Officer; Mr. Gary Xu, Finance Director; and me, Daniel Wang, Cofounder and General Manager.

Ms. Wang will review business and operations and the company highlights, followed by Mr. Xu, who will discuss financials.

Before we begin, I would like to remind you that this call may contain forward-looking statements made under the Safe Harbor Provision under the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current forecasts and the current market regulatory and [operating] conditions and [related] to events that [involve] knowing or unknowing risks, uncertainties, and other [factors], all of which are difficult to predict and many of which are beyond the company's control, which may cause the company's actual results, performance, or achievements to differ materially from [those] in the forward-looking statements.

Further information regarding these and other risks, uncertainties and the [factors is] included in the company's filings with the U.S. Securities and Exchange Commission. The company does not undertake any obligation to update any forward-looking statements as a result of new information, [further] events or otherwise, except as required under law.

I will now read Zoe's prepared remarks for her.

Hello, everyone. Thank you all for joining us today, despite [of the] continued microeconomic uncertainty. We continue to pursue high-quality growth and business optimization to deliver more sustainable business model and results with [steady] improvements and profitability. .

Today, we are pleased to share with you our financial and [operation] performance for the third quarter.

In third quarter, the total revenue was \$71.5 million. Thanks to our efforts on strict cost control and [project] portfolio optimization and actively strategy layout on health industries digitalization our profitability has been further improved on quarterly basis. With continuous optimization and [investment] in IT infrastructure. Our operational efficiency improved as well. The inventory turnover [days] was down to 77 days in third quarter 2020 from 89 days in the same quarter of last year. The cash turnover day also was down to 75 days in third quarter 2020 from 97 in the same period of last year.

As of the end of September, [the] accumulated paying users and the repurchase rate, reached 10.5 million and 37% respectively. In third quarter this year, we continued to optimize our cooperating brands and put more focus to introduce high-value [partners]. In this quarter, we introduced new brands covering medical care equipment, health care and cross-border OTC industry, such as Nordic Naturals, Arkray, Kanghong Pharmaceutical, Modilac, Beurer, and Vitenergy. We expect to see [these] and the potential new high-value partners to contribute to our future profitability and growth.

To continue to strengthen our core competitive [barrier], We're focused on a number of key areas such as an integrated solution provider in healthy and wellness market. First, we continue to strengthen brand engagement and expand category surrounding core business. We increased cross-border OTC category and [product] as we see a sustainable growth in verticals. Second, we put emphasis on improving the operating efficiency and [profitability] with steady improvement.

We ceased cooperation with brands which contribute low [profitability] as result, our product and category mix has optimized further, which will increase our [profitability sustainably].

At last, we intend to leverage strategy digitalization to expand our service scope with our brand partners as we support their [entire chain] from content marketing ,KOL,[live stream] to using high-level integrated solution with our data intelligence and insight solutions.

In this year's [Double 11 shopping festival], we made process in helping brands and partners to [accelerate] sales growth and [brought] more valuable service with our unique online marketing strategy in health and wellness market, which include store live streaming brand collaboration and decentralized [the] traffic layout.

[The] Harbin Pharmaceuticals has generated incredible growth during this festival. Our customer engagement is also a great example of our process where our total accumulated paying users are more than 10.47 million and repurchase rate has reached 37%.

Our [sequentially] improved performance during last couple of quarters show that our strategy is proved to be successful. Looking forward, [Ecmoho] will capture the growth opportunity of expanding brand strategy digitalization, [deepening] supply chain and social [commerce] and insist on driving sustainable results for shareholders.

As we look ahead to more process in the fourth quarter, we expect it will delivered sequential improvement in operating [profitability] and the [net loss] will be significantly narrow compared with last quarter or even breakeven.

That concludes those prepared remarks.

I will now turn the call over to Gary to go through financial results.

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### **Gary Xu Ecmoho Ltd. - Investor Relations**

[Thank you, Daniel]. Now, I would like to go over the third quarter 2020 financial results in more details.

[We believe] year over year comparison are the best way to review our performance. All percentage changes I'm going to give will be on that basis unless otherwise stated. Once again, please note that all figures mentioned will be in U.S. dollars.

Overall, our total net revenues decreased by approximately 5% to \$71.5 million with increase in our product sales offset by declines in other [revenues]. Among brand partners, although we ceased cooperation with AHC, Tongrentang, and Abbott, the company still saw revenue growth from existing partners Wyeth Nutrition, Harbin Pharmaceutical, Jiangzhong Shiliao, and the new partners, Bayer and Mediheal. Also, [we] introduced [around] (inaudible) new brand partner in the [third] quarter.

Gross margin was 17.7% compared with 24.6% in the same quarter last year. The decline in gross margin was caused by lower gross margin on products sold to some platforms, higher sales through online retailers with lower gross margin, and the lower sales of our B2C segments as well as the pandemic-[related inventory loss] (corrected by company after the call).

The total operating expenses were \$16.9 million compared with \$15.7 million in the same quarter last year. Total operating expenses as a percentage [of the] total revenue increased from 21% last year to 23.6% this year. In [particular], fulfillment expenses as a percentage of total revenue declined from 5.6% last year to 4.7% this year, primarily due to lower [unit expenses] (corrected by company after the call) we paid to third-party logistics providers.

Sales and marketing expenses as a percentage of total revenue increased from 12.3% last year to 14.3% this year, primarily due to higher increase in platform fees and promotional expenses.

G&A expenses as a percentage of total revenue increased from 2.5% last year to 4.3% of this year, primarily due to higher [professional] services fee post IPO, such as audit fee and legal fee and insurance fee. And other -- some other [reasons related] to the higher labor cost and insurance expense.

R&D expense as of -- a percentage of total revenue decreased from 0.6% last year to 0.4% this year primarily due to the reduced headcount.

Operating loss was \$4.2 million compared with [an] operating income of \$2.7 million last year. Non-GAAP operating loss was \$4 million compared with non-GAAP operating income of \$3.1 million last year. Non-GAAP net loss was \$3.9 million compared with non-GAAP net income of \$2.3 million during the same quarter in 2019.

As end of the third quarter, we have around \$54.4 million in cash, cash equivalents and the restricted cash compared with \$51.1 million at end of 2019.

Inventory declined from \$51.2 million in the second quarter to \$46.7 million in the third quarter, primarily due to our efforts to improve operational efficiency and proactively lower the inventory levels.

Turning to the guidance, based on current microeconomic and industry conditions, we will continue to focus on improving our working capital efficiency and improving our profitability, including [trimming] certain less profitable brands from our portfolio.

As a result, in the fourth quarter, we estimated the revenue will decrease year-over-year while we expect the net loss will be significantly narrowed compared with the last quarter or even breakeven.

The above outlook is based on current market conditions and reflects our preliminary estimates which are all subject to change.

This concludes our prepared remarks. Thank you.

Now, operator, we are now ready to begin the Q&A [section]. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator instructions).

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### Daniel Wang *Ecmoho Ltd. - Cofounder and General Manager*

Okay. While we are still waiting for the online questions, maybe I will go through some questions we received from [offline investor] during the last quarter.

[I will] read through the questions and Ms. Zoe Wang will answer those questions. The first question, how was the performance on [Double 11] festival this year?

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**Zoe Wang Ecmoho Ltd. - Founder, CEO**

Okay, let me answer. (Spoken in Chinese).

**Daniel Wang Ecmoho Ltd. - Cofounder and General Manager**

Different from the previous year's Double 11, this year's timeframe is [more] longer. ECMOHO has serious of special such as leverage livestream ,new media , social platform brand collaboration and we have -- other brands have very good growth.

As a result, our brand partners achieved incredible sales growth. The Harbin Pharmaceutical generated incredible growth during the festival is 112% growth. the category of health care industry is -- has highly [growth] in Double 11.

The other category is [not] so good we have growth [decreased since] Double 11 because it's influenced by coronavirus.

**Zoe Wang Ecmoho Ltd. - Founder, CEO**

Okay.

**Daniel Wang Ecmoho Ltd. - Cofounder and General Manager**

Okay. Next question to Zoe, please explain the company's growth strategy and the earnings driver.

**Zoe Wang Ecmoho Ltd. - Founder, CEO**

Okay. (Spoken in Chinese).

**Daniel Wang Ecmoho Ltd. - Cofounder and General Manager**

Okay. As an integrated solution provider in health care and the wellness market, we enhanced our revenue scale by more engagement of brands and categories, developing new traffic channels and increase more consumers.

**Zoe Wang Ecmoho Ltd. - Founder, CEO**

Okay.

**Daniel Wang Ecmoho Ltd. - Cofounder and General Manager**

Okay. The next question. What factors [do you think ] to drive the health industry and the (inaudible) in the long term?

**Zoe Wang Ecmoho Ltd. - Founder, CEO**

Okay. (Spoken in Chinese).

**Daniel Wang Ecmoho Ltd. - Cofounder and General Manager**

Okay. We believe China's health and wellness market have huge room to growth, first according to the market data. The market size of China health and wellness market has reached [RMB] 8.8 trillion [from] -- compared to -- compared to [21 trillion] (corrected by company after the call) in U.S.

And China's health industry have -- has been [adopt as] China's natural development strategy in 2030. So, China has a huge population base with a [raised] health and wellness [requirements] of the aged, middle class family, and newborn, we see a huge growth opportunity in this market.

Okay. Operator, is there any online question from the investors?

**Operator**

There are no questions from the line yet. (Operator instructions). Thank you.

**Daniel Wang Ecmoho Ltd. - Cofounder and General Manager**

Okay. Operator, if there is no further questions, maybe we can conclude the call and thank you all (inaudible) our third quarter conference call and if you have any further questions (inaudible) the management, please feel free to email us. Our email address is ir@ecmoho.com. Thank you all and have a -- [wish you] have a good night.

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**Gary Xu Ecmoho Ltd. - Investor Relations**

Thank you.

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**Zoe Wang Ecmoho Ltd. - Founder, CEO**

Thank you.

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**Operator**

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

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