

Xiaobai Maimai Inc.
1st Half Fiscal Year 2021 Earnings Call
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Executives

Zenabo Ma, Senior Investor Relations Director
Xiaobo An, Founder, Chairman, Chief Executive Officer
Kerrie Zhang, Chief Financial Officer

Analysts

Tom Hamilton, Park Hill Capital

Presentation

Operator: Hello, ladies and gentlemen, and thank you for standing by for the Xiaobai Maimai's first half of fiscal year 2021 earnings conference call. At this time, all participants are in a listen-only mode. After management's prepared remarks, there will be a question-and-answer session. As a reminder, today's conference call is being recorded.

I would now like to turn the meeting over to your host for today's call, Ms. Zenabo Ma, Senior Investor Relations Director. Please proceed, Zenabo.

Zenabo Ma: Thank you, operator. Hello, investors, analysts and colleagues, thank you for joining us today. Our earnings release was distributed earlier today and is available on our IR website at ir.xiaobaimaimai.com.

On the call today from Xiaobai Maimai are Mr. Xiaobo An, our Founder, Chairman and CEO, and Ms. Kerrie Zhang, our CFO. Mr. An will review business operations and company highlights, followed by Ms. Zhang, who will discuss financials. They will be available to answer your questions during the Q&A session that follows.

Before we begin, I'd like to remind you that this conference call may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "potential," "continue," "ongoing," "targets," "guidance" and similar statements.

The Company may also make written or oral forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission, the SEC, in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties.

Any statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements that involve factors, risks and uncertainties that could cause actual results to differ materially from those in forward-looking statements.

Further information regarding these and other risks, uncertainties or factors is included in the Company's filings with the SEC. All information provided in this call is current as of the date of this call, and the Company does not undertake any obligation to update such information, except as required under applicable law.

It is now my pleasure to introduce our Founder, Chairman and CEO, Mr. Xiaobo An. Please go ahead.

Xiaobo An: (Speaking foreign language).

(Translated). Thank you, everyone, for joining our call today. The first half of fiscal year 2021 has been a very successful transition period for us as we diversified our revenue stream. In May 2020, we launched our social e-commerce platform, Xiaobai Maimai, which offers a variety of high-quality products at competitive prices in apparel, entertainment, beauty, food and drinks, and household goods.

By shopping on our one-stop convenient platform, consumers can save big on daily necessities through discounts, coupons and rebates, and also enjoy an easy shopping experience by solving the problem of comparing prices between so many options in the online retail space. We have been very active in upgrading this platform to provide a wider range of value-for-money products to our users, in addition to small commissions for every purchase, share or product recommendation our users make to their social circles.

We believe social e-commerce has enormous growth potential among China's emerging middle class, and word-of-mouth is the most effective communication among communities, especially when every action facilitated is rewarded. To enhance our users' experience, Xiaobai Maimai has a dedicated operations team and a customer service team that offers concierge-level services to our users. By providing a more personalized shopping experience and excellent customer service, we believe this in-turn drives more sharing and encourages the recommendation of our products and services that will resonate better with our users' communities.

Another way we have used social e-commerce to our advantage is by partnering with elite influencers to leverage their extensive follower base. This has helped reduce our marketing expenses and is a win-win solution because it allows the influencers to enjoy higher commission rates without the risks of managing inventory, and at the same time, drives organic traffic to our platform.

Since the launch of Xiaobai Maimai, we have continued to optimize our algorithm to identify and introduce more cost-efficient products and up-cycle related products to our customers. As a result, Xiaobai Maimai continues to gain traction and market share in the social e-commerce sector, and our user base has increased rapidly over these short months, as we leveraged our expertise in customer acquisition, marketing strategy and partnerships with other e-commerce platforms and online marketplaces.

Xiaobai Maimai has proven to be a convenient, one-stop platform for consumers to save while shopping online, and they can easily compare quality products without having to change their shopping preferences or switch between different online merchants.

Recently, we promoted the annual “Double 11” global shopping festival on Xiaobai Maimai, from the 1st to 11th November, and generated a very encouraging revenue of RMB221 million in transaction volume. This solid result continues to prove our capabilities in merchandise turnover, powerful algorithm and operating systems and efficient management.

As China’s consumer trends continue to evolve and more consumers shop online, we are well positioned to develop new services in line with these growing trends, and engage with more scalable targeting to showcase the right products and improve our customers’ online shopping experience.

We are constantly looking for new opportunities to drive growth and stay competitive in the online platform, and one of the directions singled out was group-buying habits. To attract new customers, especially local communities that want to enjoy the convenience of shopping online with the advantage of group discounts on a variety of goods and services, we recently kicked off an initiative to tap into the emerging group-buying communities, which is expected to be the next billion-dollar market in China.

To attract this growing residential community, group-buying generally caters to consumers’ needs for daily necessities by ordering in bulk or for services that provide group discounts. The most important factor we have observed about group-buying is actually not pricing, but the convenience that customers can enjoy with their family and friends.

We will continue to explore new avenues for the group-buying mechanism to attract more customers looking for value and convenience from online group-buying programs. At the same time, we will continue to deepen our cooperation with major e-commerce platforms and online marketplaces to offer more high-quality and affordable products to our users. We will also continue to explore other opportunities, such as live broadcasting e-commerce, and harness this booming online economy.

In conclusion, I'm pleased with the progress we've made so far this year, and we have so much to be proud of thanks to the tremendous efforts of our dedicated teams who have gone over and beyond to ensure a successful transformation of our business. We are fully confident that we have the right combination of key experience and management to effectively run and further grow our expertise in digital transformation.

Moreover, we will continue to scale up this new social e-commerce business model and leverage our experience in the Internet industry, strong user acquisition capabilities and deep experiences in managing online and offline operations. With this new direction going forward, we are confident of our capabilities to execute our strategy and create long-term value for our users and shareholders.

With that, I will now turn the call over to Ms. Kerrie Zhang who will review the financials. Kerrie, please go ahead.

Kerrie Zhang: Thank you, Mr. An, and thank you, everyone, for joining our call today. In light of the increasing competition in the industry and the continuing impact from COVID-19, we still completed the transition from peer-to-peer business to social e-commerce business. In the new field, we are now to focus on refining our business model, accumulating users, and improving our operational efficiency. At present, we will pursue long-term development, rather than short-term gains.

Now I will go over the main items of our financials. And for a more detailed discussion, please refer to our earnings press release.

During the first half of the fiscal year ended September 30, 2020, total net revenue was US\$1.4 million, a decrease of 73.8% from US\$5.2 million in the first half of the fiscal year. The decrease was mainly due to a decrease in net revenues from our loan recommendation services and the interest income from our micro-lending business.

Revenue from loan facilitation, post-origination, and other services was nil, decreased from US\$3.2 million in the same period of last fiscal year, as the Company had ceased to issue new loans since November 2019.

Revenue from online marketplace services was US\$0.3 million, compared with nil in the same period last fiscal year. Such revenue was generated from our social e-commerce platform, which was launched in May 2020.

Interest income was US\$1.1 million, representing a decrease of 45.7% from US\$1.9 million in the same period of last fiscal year. The decrease was mainly due to a decrease in loan receivables.

Operating costs and expenses during the six months ended September 30, 2020, were US\$17.9 million, an increase of 216.4% from US\$5.8 million in the six months ended September 30, 2019. The increase was mainly due to an increase in provision for loans receivable.

Service and development expenses during the six months ended September 30, 2020, were US\$0.3 million, a decrease of 44.6% from US\$0.5 million during the same period of last fiscal year. The decrease was mainly due to a decrease in payroll cost.

Sales and marketing expenses during the six months ended September 30, 2020, were US\$0.6 million, a decrease of 42.3% from US\$1.0 million during the same period of last fiscal year. The decrease was mainly due to a decrease in advertising expenses for our peer-to-peer business, which had ceased to issue new loans since November 2019.

General and administrative expenses during the six months ended September 30, 2020, were US\$3.0 million, an increase of 26.2% from US\$2.4 million during the same period of last fiscal year. The increase was mainly due to an increase in professional fees.

Finance cost during the six months ended September 30, 2020, were US\$1.2 million, compared to US\$1.3 million during the same period of last fiscal year. The decrease was mainly due to the repayment of bank borrowings.

Share-based compensation during the six months ended September 30, 2020, was US\$0.06 million, compared to US\$0.3 million in the same period of last fiscal year. The decrease was due to a decrease in the number of stock options and restricted share units expensed in fiscal year 2021.

Net loss from continuing operation was US\$17.5 million during the six months ended September 30, 2020, compared to US\$0.5 million from the same period last fiscal year.

Net loss from discontinued operation was US\$6.1 million during the six months ended September 30, 2020, compared to US\$17.1 million from the same period of fiscal year 2020.

Net loss was US\$23.6 million during the six months ended September 30, 2020, compared to US\$17.6 million from the same period of fiscal year 2020.

Basic and diluted net loss per share attributable to ordinary shareholders was US\$0.48, compared with US\$0.36 in the same period of fiscal year 2020.

As of September 30, 2020, our cash position stood at US\$21.9 million during the first half of fiscal year 2021, compared to US\$6.7 million as of March 31, 2020.

Going forward, we will continue to drive the development of social e-commerce marketplace and enhance the cooperation with other mainstream e-commerce platforms. We are confident in the huge consumer market and the giant value in the field of the social network. All these advantages will enable us to achieve steady growth and profitability in the future.

I'd now like to turn the call back over to the operator to begin the Q&A session.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Tom Hamilton with Park Hill Capital.

Tom Hamilton: I give you a lot of credit for making such a big pivot in a very tough environment. I've got a couple of questions. First, can you give us some color on the competitive landscape of social e-commerce?

Kerrie Zhang: Thanks. This is Kerrie. Let me answer your question. Social e-commerce is based on the interpersonal networks of special interest groups and community, and use internet social tools to engage in social marketing and e-commerce. With the extensive penetration of Internet social application in China, we have seen social e-commerce rapidly evolve with the emergence of new and more dynamic social e-commerce platforms compared to the original WeChat merchants' model.

According to a report issued by the China Association of Trading in Service in August this year, the transaction volume of social e-commerce is expected to exceed RMB4 trillion in 2020, an increase of 80% on a yearly basis, and the market attracts about 83.5 million practitioners, greatly driving up employment by increasing jobs in this sector. Currently, the social e-commerce market is still relatively fragmented, and the user penetration rate is relatively low. We believe there is still a lot of room for growth in the market.

You may know that social e-commerce covers various models, like membership e-commerce, live streaming e-commerce and the group-buying communities. A big difference from traditional membership e-commerce, Xiaobai Maimai's membership is totally free of charge with no entry threshold for users.

Users can find all their daily necessities on our platform, and they don't need to spend much time comparing between many options with different prices like they do on other e-commerce platforms. That's why they can easily search for the most value-for-money products and enjoy great discounts on Xiaobai Maimai every day. Leveraging our powerful algorithm and operating system, we can help users save a lot of money and time via our one-stop shopping platform.

In addition, users are rewarded with a small commission for every purchase, share or product recommendation to their friends and families. All this benefits have been well received by our users and accelerated our platform to continue its growth momentum in recent months.

Tom Hamilton: Okay. And you collaborate with domestic e-commerce platforms and online marketplaces to offer users value-for-money products. Will you continue to expand cooperation with emerging platforms to cater to users' needs for daily necessities?

Kerrie Zhang: Currently, we cooperate with e-commerce platforms and online service marketplace, including Taobao, JD.com, Pinduoduo, Meituan and Ele.me. Going forward, we will extend cooperation with more domestic platforms to offer more value-for-money products to our users. We are confident of our capabilities to expand our products and services that will continue to evolve with customers' needs in mind, and improve our user experience of shopping online.

Recently, we kicked off initiatives tapping into the emerging group-buying communities, and are also looking at other growth opportunities like live streaming e-commerce. We are confident of our capability to continue to execute our growth strategy going forward.

Tom Hamilton: Okay. And last question for me -- what have you seen regarding user growth in the current quarter, and also transaction volume growth? Can you talk a little bit about what you're seeing right now?

Kerrie Zhang: Okay. Actually, Q4 hasn't ended yet, but we can see that we continued our strong growth momentum in recent months. As of November 11, the cumulative number of active mobile buyers of Xiaobai Maimai reached to 295,000 and the transaction volume exceeded RMB250 million, a significant increase compared with the end of September. We will continue our efforts to attract more users and gain traffic to Xiaobai Maimai. Thank you.

Tom Hamilton: All right. Thank you very much.

Operator: This concludes our question-and-answer session. I would now like to turn the conference back over to Zenabo for any closing remarks.

Zenabo Ma: Thank you, operator. In closing, on behalf of the entire Xiaobai Maimai management team, we'd like to thank you for your interest and participation in today's call. If you require any further information, or have any interest in visiting us in China, please let us know. Thank you for joining us today. This concludes the call.

Operator: This conference has now concluded. Thank you for attending today's presentation. You may now disconnect.