

## UPDATE NOTE

### HEALTHCARE SPECIAL SITUATIONS

#### 111, Inc.

#### YI: Continuing to Build Up a Robust and Nimble Warehousing & Distribution Network

October 11, 2024

Robert Sassoon

[robert.sassoon@watertowerresearch.com](mailto:robert.sassoon@watertowerresearch.com)

516-668-3632

#### KEY POINTS

- Two fulfillment centers added.** In line with its goal to establish a national pharmaceutical logistics network (Kunpeng), 111 announced that it has added two new fulfillment centers. This brings its network up from 11 to 13 centers across China. One of the new additions is in Guangzhou, Guangdong province in the South, with the other in Wuhan, in the central province of Hubei. The two new centers expand the scale and capabilities of the company's existing fulfillment operations in each of those populous regions.
- Scaling up and improving efficiency.** Not only does this expansion help to scale up its revenue-generating and income-earning distribution capabilities, but it also goes a long way toward supporting efficient last-mile delivery in supply-dense locales, such as the South and Central China markets, while maintaining full control of the supply chain. The new centers improve the efficiency of operations and deliveries in the South and Central China markets, where most deliveries are now being fulfilled within 24 hours. Just as important, the latest expansion of the network comes with an upgrade of product assortment. The new Guangdong center adds 5,000 new stock keeping units (SKUs).
- Driving down costs.** 111's expanding nationwide logistics network, supported by continuous technological innovation, continues to streamline connections between fulfillment centers through its digitalized long-haul and last-mile distribution models. As a result, delivery costs have been slashed by 15%, and delivery damage rates have been cut by 55%, contributing to 111's ability to provide higher-quality and more cost-effective services across the supply chain. Moreover, instead of investing in and building its own warehouses, which typically takes at least two years to break even, the company has been focusing its fulfillment center expansion strategy more recently through 111-controlled JVs with strategic warehouse owners to achieve growth and reduce intensive capital expenditure by leveraging partners' existing assets and combining them with 111's proprietary digital assets. The new Guangdong center is the first example of yet another innovative approach adopted by 111, a franchise model, whereby 111 enables independent distributors to use its systems to service their customers. In this model, 111 receives a percentage of the gross merchandise value, which translates into a pure profit at the gross margin level. This model represents a particularly cost-effective approach to penetrate the more remote regions of China.
- More to come.** 111 plans to further expand its fulfillment center footprint by adding five more additional centers by the end of the year across various regions in the coming months.
- Heads up.** We are planning to host a fireside chat on the company's critical fulfillment strategy with Dr. Gang Yu, 111's Co-Founder and Executive Chairman, later this month. Watch for details to be provided soon.

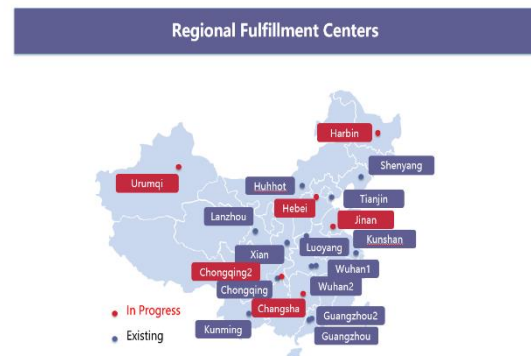
#### KEY STATISTICS

<b>Ticker:Exchange</b>	YI:NASDAQ
<b>Current Price</b>	\$0.93
<b>52-Week Range</b>	\$0.55-\$2.61
<b>Average Volume (30-Day)</b>	512,148
<b>Shares Outstanding (MM)</b>	85.7
<b>Market Cap (\$MM)</b>	\$79.7
<b>Enterprise Value (\$MM)</b>	\$23.8
<b>Fiscal Year-End</b>	December

#### PRICE PERFORMANCE



#### 111's Expanding Network of Fulfillment Centers



Source: Company reports

#### ABOUT THE ANALYST



**Robert Sassoon**

Senior Research Analyst

Robert Sassoon has been an equity analyst for more than three decades, focusing primarily on global special situations. During his career, Robert has worked for several sell-side institutions in London, Hong Kong, and New York, including Credit Suisse, NatWest Capital Markets, and Societe Generale. In 2017, Robert founded AlphaSituations, an independent idea-generating event driven/special situations investment research service, which produced comprehensive research on early stage/emerging publicly traded and privately owned companies with the goal of telling an underappreciated or unknown story to relevant investors.

Robert has developed a uniquely broad and deep knowledge base in multiple industries from a global perspective and has achieved top five rankings in various analyst surveys, including the Extel and Greenwich surveys. Robert holds an MSc in Economics from the London School of Economics and Political Science, and has held FINRA licenses Series 7, 63, 86, 87, and 24.

## DISCLOSURES

Water Tower Research ("WTR") is a professional publisher of investment research reports on public companies and, to a lesser extent, private firms ("the Companies"). WTR provides investor-focused content and digital distribution strategies designed to help companies communicate with investors.

WTR is not a registered investment adviser or a broker/dealer nor does WTR provide investment banking services. WTR operates as an exempt investment adviser under the so called "publishers' exemption" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940. WTR does not provide investment ratings / recommendations or price targets on the companies it reports on. Readers are advised that the research reports are published and provided solely for informational purposes and should not be construed as an offer to sell or the solicitation of an offer to buy securities or the rendering of investment advice. The information provided in this report should not be construed in any manner whatsoever as personalized advice. All users and readers of WTR's reports are cautioned to consult their own independent financial, tax and legal advisors prior to purchasing or selling securities.

The analyst who is principally responsible for the content of this report has represented that neither he/she nor members of his/her household have personal or business-related relationships to the subject company other than providing digital content and any ancillary services that WTR may offer.

Unless otherwise indicated, WTR intends to provide continuing coverage of the covered companies. WTR will notify its readers through website postings or other appropriate means if WTR determines to terminate coverage of any of the companies covered.

WTR is being compensated for its research by the company which is the subject of this report. WTR may receive up to \$14,000 per month [for research and potentially other services] from a given client and is required to have at least a 1-year commitment. None of the earned fees are contingent on, and WTR's client agreements are not cancellable for the content of its reports. WTR does not accept any compensation in the form of warrants or stock options or other equity instruments that could increase in value based on positive coverage in its reports.

WTR or an affiliate may seek to receive compensation for non-research services to covered companies, such as charges for presenting at sponsored investor conferences, distributing press releases, advising on investor relations and broader corporate communications and public relations strategies as well as performing certain other related services ("Ancillary Services"). The companies that WTR covers in our research are not required to purchase or use Ancillary Services that WTR or an affiliate might offer to clients.

The manner of WTR's potential research compensation and Ancillary Services to covered companies raise actual and perceived conflicts of interest. WTR is committed to manage those conflicts to protect its reputation and the objectivity of employees/analysts by adhering to strictly-written compliance guidelines.

The views and analyses included in our research reports are based on current public information that we consider to be reliable, but no representation or warranty, expressed or implied, is made as to their accuracy, completeness, timeliness, or correctness. Neither we nor our analysts, directors, officers, employees, representatives, independent contractors, agents or affiliate shall be liable for any omissions, errors or inaccuracies, regardless of cause, foreseeability or the lack of timeliness of, or any delay or interruptions in the transmission of our reports to content users. This lack of liability extends to direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, losses, lost income, lost profit or opportunity costs.

All investment information contained herein should be independently verified by the reader or user of this report. For additional information, all readers of this report are encouraged to visit WTR's website [www.watertowerresearch.com](http://www.watertowerresearch.com).