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LEJU - Q2 2018 Leju Holdings Ltd Earnings Call

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CONFERENCE CALL PARTICIPANTS

Binbin Ding *JP Morgan Chase & Co, Research Division - Analyst*

PRESENTATION

Operator

Hello, and thank you for standing by for Leju's Second Quarter 2018 Earnings Conference Call. (Operator Instructions) Please note that today's conference call is being recorded. If you have any objections, you may disconnect at this time.

I would like to turn the meeting over to your host for today's conference, Ms. Michelle Yuan, Leju's Deputy CFO.

Michelle Yuan

Hello, everyone, and welcome to Leju's Second Quarter 2018 Earnings Conference Call. Today, we will update you regarding our financial results for the second quarter ended June 30, 2018. If you would like a copy of the earnings press release or would like to sign up for our e-mail distribution list, please go to our IR website at ir.leju.com.

Leading the call today is Mr. Geoffrey He, our CEO, who will review operational highlights for the second quarter 2018. Mr. Li-Lan Cheng, our acting CFO, will then discuss the financial results in more detail. We will then open the call to questions.

Before we continue, please allow me to review Leju's safe harbor statement. Some of the statements during this conference call are forward-looking statements made under the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from our current expectations. Potential risks and uncertainties include, but are not limited to, those outlined in our public filings with the SEC. You are encouraged to review the forward-looking statements section of our annual report filed with the SEC for additional information concerning factors that could cause those differences. Leju does not undertake any obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Our earnings press release and this call include discussions of unaudited GAAP financial information as well as some unaudited non-GAAP financial measures. Our press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures. Please note that unless otherwise stated, all figures mentioned during this conference call are in U.S. dollars.

I will now turn the call over to Leju's CEO, Geoffrey He. He-dong, please go ahead.

Yinyu He - Leju Holdings Limited - CEO

Thanks, everyone, for joining us on today's call. Our online advertising and e-commerce businesses both continued their growth momentum in the second quarter of 2018 with a 39% and a 37% year-on-year increase, respectively. We are encouraged by our second quarter performance, especially the return to the profitability as a result of both revenue growth and the effective cost control.



Despite continued policy tightening in China's real estate market, we continue to focus our product innovation. During this quarter, we launched a series of new marketing products, including [Sai Shen Ya Hao], a home purchase lottery system; and Qiang Gong Zhang platform, a transparent home purchase platform, to help us further strengthen our industry leadership and lay a solid foundation for our future growth.

Looking forward, our strategy will remain focused on deepening our penetration in lower-tier cities and then improving the operational efficiency and enhancing our media influence with the aim to drive top line growth and to maintain profitability in the second half of this year.

Now I will turn the call to our acting CFO, Mr. Li-Lan Cheng, who will review our financial highlights for the quarter.

Li-Lan Cheng - Leju Holdings Limited - Acting CFO

Thank you, Geoffrey. Good morning, good evening, everyone. For the second quarter of 2018, we recorded total revenues of \$122.7 million, a 32% increase from the second quarter of 2017.

Our e-commerce services revenues for this quarter increased by 37% to \$87.6 million as a result of an increase in the average price per discount coupon redeemed, partially offset by a decrease in the number of discount coupons redeemed. E-commerce services contributed 71% of our total revenues this quarter.

Our online advertising services revenues for this quarter increased by 39% to \$34.4 million as a result of an increase in property developers' demand for online advertising. Online advertising services contributed 28% of our total revenues this quarter.

Our listing services revenues for this quarter decreased by 82% to \$0.7 million from the same quarter last year as a result of a decrease in demand from secondary real estate brokers.

Our cost of sales for this quarter decreased by 4% to \$18.4 million from the second quarter last year, primarily due to decreased staff cost as a result of headcount change, partially offset by increased cost of advertising resources purchased from media platforms.

Our selling, general and administrative expenses decreased by 20% to \$94.7 million from the same quarter last year. The decrease was primarily due to a decreased staff cost as a result of headcount change and decreased marketing expenses related to our e-commerce business.

Income from operations was \$10 million for the second quarter 2018 compared to a loss from operations of \$83 million from the same quarter 2017.

Net loss attributable to Leju shareholders was \$0.9 million for the second quarter of 2018, a decrease of 99% from \$87.3 million for the same quarter 2017.

Non-GAAP income from operations was \$14.3 million for the second quarter of 2018 compared to a non-GAAP loss from operations of \$37.4 million for the second quarter of 2017.

Non-GAAP net income attributable to Leju shareholders was \$2.5 million for the second quarter of 2018 compared to a non-GAAP net loss attributable to Leju shareholders of \$42.3 million for the second quarter 2017.

For the first half of 2018, we recorded \$204.2 million in total revenue, a 27% increase from the same period last year. Our e-commerce revenues increased by 39% to \$141 million for the first half of 2018 as a result of an increase in the average price per discount coupon redeemed, partially offset by a decrease in the number of discount coupons redeemed. E-commerce services contributed to 69% of total revenues for the first half of 2018.

Our online advertising revenues contributing 39% -- 30% of our total revenues increased by 22% to \$61.5 million for the first half of 2018 due to an increase in property developers' demand for online advertising, while our listing revenues decreased by 81% to \$1.7 million as a result of a decrease in secondary real estate brokers' demand for the first half of 2018.

Loss from operations was \$21.5 million, a decrease of 83% from the same period of 2017. Net loss attributable to Leju shareholders was \$21.7 million for the first half of 2018, a decrease of 81% from the same period last year.

Non-GAAP loss from operations was \$12.8 million for the first half of 2018, a decrease of 84% from the same period last year. Non-GAAP net loss attributable to Leju shareholders was \$14.7 million for the first half of 2018, a decrease of 78% from the same period last year.

As of June 30, 2018, our cash and cash equivalents balance was \$174.3 million. Our net cash flows generated from operating activities for the second quarter 2018 were \$25.1 million, mainly attributable to non-GAAP net income of \$2.4 million and an increase in advance from customers and deferred revenue of \$22.4 million.

Looking ahead, we estimate that our third quarter 2018 total revenues will be approximately between \$120 million to \$130 million, which represents an increase of approximately 26% to 37% from the same quarter of last year. Please note that this forecast reflects our current and preliminary view, which is subject to change.

This concludes our prepared remarks. We're now ready to take your questions. Operator, please go ahead. Operator, we're ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from the line of Binbin Ding from JPMorgan.

Binbin Ding - JP Morgan Chase & Co, Research Division - Analyst

My first question is on top line. So both your e-commerce and advertising revenue have seen a nice recovery since this year. So based on your third quarter guidance, most likely, the recovery will continue into the third quarter. So given the policy tightening remains and -- what kind of fundamental changes you have seen in the past few quarters that have driven your coverage? Or do you expect these positive factors to continue in 4Q and 2019? That's my first question. My second question is on your 1- to 2-year strategic focus. In terms of the current regulatory environment and market conditions, what is our key focus in the next 1 to 2 years? And third question is on the ARPU trend of the e-commerce services, which have more than doubled as compared to last year. So can you give us any color regarding the drivers behind the doubling ARPU of e-commerce services?

Yinyu He - Leju Holdings Limited - CEO

Okay, thank you. As I said, because in this year, we adopted a new strategy is that, first, is that we penetrate to lower-tier cities, which actually is the main driver to our e-commerce business. Actually, our coupons sold in lower-tier cities actually increased quite substantially. That's the first one. The second one is that because we adopted a new advertising strategy, actually, we cooperate with several big international players like Tencent that we jointly launched some new advertising products. We call it new media products. And all these digital products, advertising end products received welcome from our developers. This is also the main driver to our advertising business. For example, we cooperate with Tencent on a new advertising product called [Tu Dink], which in English maybe called some tax. This actually is a combination of Tencent's pay-neutral advertising and our use of big data engine. And this helped the developers to target more precisely to their targeted consumers. This product actually helped us get a lot of market share from the developers. Also, in the first-tier and the second-tier cities, because of the some policy restrictions, some developers shifted their strategy, clearly, as they cooperate with us on e-commerce. Now they say because of the policy, they cooperate with us on advertising. So this is also another driver to our advertising business. Looking ahead, I think we actually released a strategy.

We call it new media, new advertising and the new trading service. That's -- I think that this strategy, we will also carry out in the next 1 to 2 years. We aim to provide more deep industry information. We have bigger media influence. We have more accurate advertising products. And also, we help, using the Internet technologies, to help developers when they trade, they can improve their efficiency. So that's why I said I -- in the second quarter, we also launched a lot of new products like [Fang Jin Suo Hao] and also the Qiang Gong Zhang. In time, all these products will also help us close the trade more efficiently. So that's our strategy. I think in the next 1 or 2 years, we will still carry out this strategy. And for your third question, it's a question to the first one. As I said that because of China's real estate industry development, we can see more big-brand developers. They are also penetrate to lower-tier cities. And so we will follow their steps. So to -- for our e-commerce, I think when we go into the lower-tier cities and then we actually see that the market is still huge.

Operator

(Operator Instructions) You have a follow-up question from Binbin Ding from JPMorgan.

Binbin Ding - *JP Morgan Chase & Co, Research Division - Analyst*

And I have a quick follow-up regarding the reason -- the competition within our real estate space. So we've seen some leading mobile app information platform like Toutiao. They have been actively expanding into a number of verticals, including auto, including real estate. So how do you view their competition on capturing the developers' budget? And what is our countermeasures to response to such competition?

Yinyu He - *Leju Holdings Limited - CEO*

Okay. Thank you for the question, Ding. Actually, some big players like Toutiao, we also see that they are going to play in this industry. However, we don't think that developers only have one need to display their app. Actually, the need from developers are quite complicated and quite professional. What they need actually is from how -- where their target audience, how we can capture them. And also, they need a big data engine to drive the efficiency. So I think for us, because we own [Lianjia], we call it Lianjia, that's our big data engine that can screen a lot of traffic to be more precise traffic. The second one is that we have to connect our engine with these big players -- these big platforms to make the final lead more accurate. So I think all of these expertise are owned by Leju exclusively. So we see that they are getting some ads, but most of their ads, the market is actually from the display needs. However, we don't think the display needs is the only need from the developers. We welcome this competition. And as said, this will help us grow stronger.

Li-Lan Cheng - *Leju Holdings Limited - Acting CFO*

I mean -- this is Li-Lan. If I just may add to what Geoffrey just said. Yes, I mean, a big media or news platform like Toutiao with the kind of traffic they get, I mean, it's natural that there will be some demand for simple, short display ads by anyone who wants to advertise. So for them to capture a portion of growth and related ads is natural. But I think Toutiao's nature is probably much more suited for fast-moving consumer products ahead of advertising. For someone who's interested in considering real estate purchase, the time and user need to study, to find more information, to get more details, consumer needs to spend a lot of time doing research before making one purchase decision. So that type of research, that type of information need is not something that Toutiao naturally provides. It's a quick eyeball glance. That's fine. But for consumers or potential real estate buyers to get this detailed information to help them make a decision, a platform -- a dedicated real estate platform like Leju is much more suitable. It's not something that can be easily competed away by a general media platform.

Operator

(Operator Instructions) There are no further questions at this time. I would like to hand the conference back to today's presenters. Please continue.



Michelle Yuan

This concludes today's call. If you have any follow-up questions, please contact us at the numbers or e-mails provided on our earnings release and on our website. Thank you.

Operator

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

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