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ICLK.OQ - Q2 2018 Iclick Interactive Asia Group Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Terence Li** *iClick Interactive - SVP of Finance*

**Sammy Hsieh** *iClick Interactive - Chief Executive Officer and Co-Founder*

**Jie Jiao** *iClick Interactive - Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Darren Aftahi** *ROTH Capital Partners - Managing Director, Senior Research Analyst*

## PRESENTATION

### Operator

Hello, ladies and gentlemen. Thank you for standing by for iClick Interactive Asia Group Limited's Second Quarter 2018 Earnings Conference Call.

(Operator Instructions).

Today's conference call is being recorded. I would now like to turn the call over to your host, Mr. Terence Li, SVP of Finance for the Company. Mr. Terence, please go ahead.

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### Terence Li - *iClick Interactive - SVP of Finance*

Hello, everyone, and welcome to the second quarter 2018 earning conference call for iClick Interactive Asia Group Limited. The Company's results were issued [via newswire] services earlier today and a post online.

You can download the earning press release and sign up for the Company's distribution list by visiting the IR section of our website at IR.i-click.com. Mr. Sammy Hsieh, our Chief Executive Officer and Co-Founder, and Ms. Jie Jiao, our Chief Financial Officer, will start the call with their prepared remarks.

Before we continue, please note that today's discussion will contain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995.

Forward-looking statements involve inherent risks and uncertainties. As such, the Company's results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in the Company's [prospectives] as filed with the U.S. Securities and Exchange Commission. The Company does not assume any obligation to update any forward-looking statements, except as required under applicable law.

Please also note that iClick's earnings press release and this conference call include discussions of unaudited GAAP financial information, as well as audited non-GAAP financial measures.

iClick's press release contain a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures. I will now turn the call over to our CEO and Co-Founder, Mr. Sammy Hsieh. Please go ahead.

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**Sammy Hsieh** - *iClick Interactive - Chief Executive Officer and Co-Founder*

Thank you, Terence. Hello, everyone, and thank you for joining our second quarter 2018 earnings conference call. We are pleased to report a strong second quarter of 2018 with historical record highs in many key financial and operational metrics.

Specifically, our total gross billing and revenue increased by 86.4 percent to \$105 million and 43 percent to \$42.7 million year-over-year respectively, both reaching new heights.

With the strong top line growth, we are also free to deliver the highest gross profit of U.S. dollar \$9.9 million during the quarter. Benefiting from the growth and economic upscale and proper operating expenses control, we see the operating loss margin considerably narrow from 7.5 percent in the second quarter of 2017 to 2.7 percent in the second quarter of 2018.

And as a result of the above, we achieved \$0.9 million in adjusted EBITDA, reaching a new historical high and we believe that our operational profitability will keep on building up in the future.

Overall, these results demonstrate the health of our business and we are very pleased with the continued strong growth momentum in our business. These strong results for the quarter were driven again by the outstanding performances of our mobile solution.

As our core business line continued to fight in this expanding market, compared with the second quarter of 2017, gross billing and revenue from mobile solution increased by 133.7 percent and 56.9 percent respectively.

The [robust] increased not only [respected the rewarding market trend from PC end to mobile end] marketing audience solutions, but will also reinforce our willingness efforts to strategically shift our business focus to align with the trend and capture the rising and tremendous demand in the mobile solution space.

Leveraging our early mover advantages, advanced data capabilities and strong brand reputation, we have maintained our number one position in this highly fragmented market.

On top of our robust growth, we successfully executed our new growth strategy of expanding our business application in the areas. [As this host] during the last quarter, we [trial] launch our Business Intelligence, the BI solution, offering [that precise] market insights and business strategy recommendations to clients based on our [extensive] consumer data sets and advanced data technology.

The continued development and introduction of new and advanced solutions, like BI, remains an integral part in our unparalleled data driven solution and services.

During the second quarter, we started to promote our BI solution to clients in more industries such as retail, online education and real estate. Most notably, we built up our solution by innovatively utilizing Tencent ecosystem including Tencent Cloud, [reshare payment, official account, midi S] and other resources to [profile] an integrated online to offline solution.

With our dynamic consumer database that has over 700 million profiled consumers, we can cross-analyze the clients' in-house data in connection with our proprietary data, thus [trading] the client's accumulated operational information into a systematic data model that enables insightful decision-making. In this way, we help our client develop customized business intelligence solutions that generates sales more efficiently and effectively.

Inspired by the encouraging feedback on the new retail spaces, we further expand our BI solution to the online education sector recently and aim to help our clients to include operational efficiency and capture new growth momentum through more sophisticated data mining and advanced analytics.

Furthermore, with our detailed and precise customer profile analysis, we are happy to help clients deliver more tailored learning experiences and tutorial materials to address the different and diverse learning needs of millions of students.

By way of dynamic collaboration, we also linked our data analytic technology with other advanced technologies such as blockchain. Our partnership with i-House connected our database business intelligence solution to the real estate sector and allow our partner to reach a more targeted audience in its range of blockchain-enabled real estate projects.

We view that the more personalized and better added solution brought by this collaboration have the potential to reshape the sector with more secure, efficient and transparent transactions as we combine our big data analytics and i-House blockchain application.

Additionally, we announced partnership with both Ctrip and Bilibili in June. This mutually beneficial collaboration will enable us to further enrich the breadth and depth of our [extensive] database and in return deliver more precise target and customized solutions for our partners.

Through the partnership with Ctrip, iClick will be enabled to access Ctrip's loyal 300 million user membership base and generate more detailed user profiles and data driven personalized marketing solution to reach the increasing numbers of outbound travelers from China.

And our collaboration with Bilibili allow us to better understand the social behavior of the highly desirable younger generations and [expanded their graphic profile] of the data sets. Therefore, better serve brands that are keen to target the China Generation Z and Millennial audiences.

We look forward to establish more partnerships in multiple sectors and believe this strategy will provide us with substantial growth potential.

As we discussed last quarter, we remain active in our international expansion and cooperated with an increasing number of international clients who seek to reach the lucrative Chinese audiences.

In the late June, we entered a partnership agreement with MezzoMedia, a leading digital marketing solution company in Korea, to help Korean brands target the huge consumer market audiences in China.

While we are actively looking for new opportunities to enhance our international coverage, we are pleased to have opened our first Korean office recently in August. In the meantime, we are also paving the way for more innovative products and business models.

For example, with our strategic position in the value chain, we are actively reviewing a few new and emerging apps in China and we are able to identify and [incubate] high potential mobile apps.

[Such as our first mover] advantage will grant us the opportunity to develop early stage, [in-depth] and strategic partnerships with these players that have the potential to grow in big names.

Ultimately, we may develop ourselves as a platform and a superconnector that creates [a large] bridge between the app owners, the users and business who want to gain access to the users.

In addition, we continue to expand our programmatic buying business in China to the highest [quarter T] marketers including the [full age] agencies and many international top ranks.

With more and more billings being captured in our platform, we look forward to bringing more innovative and better asset solutions to our clients and partners as a [designated China trading desk for them].

While these new business models are still in an initial stage, we believe that they will begin to take shape and contribute to our growth objectives in near future.

In summary, we are delighted to have delivered an across-the-board strong performances during the second quarter. The solid results have further strengthened our conviction in our growth strategy and are well on our way to reaching our goals.

Looking forward to the rest of the year, we will continue to introduce new and exciting business initiatives to further build out our portfolio, to diversify our business model and to increase the revenue contribution from growing partnerships.

We are truly excited by these opportunities and welcome all our investors, partners and friends to join us on this journey. With that, I will now turn the call over to CFO, Jiao, who will discuss our key operational matrix and financial results.

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**Jie Jiao** - *iClick Interactive - Chief Financial Officer*

Thank you, Sammy, and hello, everyone. First, I'd like to touch base on a couple financial highlights of the quarter. We are pleased to announce that for the second quarter of 2018 we achieved strong gross billings and revenue increases, as well as a record setting performance [in areas] such as gross profit and adjusted EBITDA.

These encouraging results was achieved through a combination of confident execution of our growth strategy and a prudent cost management practices with a keen focus on the bottom line. We are executing the right strategy for our corporate development and we are confident that we will continue our strong financial performance in future quarters.

Now, I'd like to walk you through our detailed financial results for the second quarter of 2018. Gross billing reached \$105.4 million during the second quarter of 2018, up 86.4 percent from the second quarter of 2017 primarily as a result of significant growth in mobile audience solutions.

Gross billing from mobile audience solutions was \$88.9 million during the second quarter of 2018, up 133.7 percent from the second quarter of 2017 as a result of clients generating larger mobile marketing spend.

Gross billing from other solutions was \$16.5 million during the second quarter of 2018, down 10.9 percent from the second quarter of 2017 primarily as a result of the Company's strategic focus shifting to mobile audience solutions.

Net revenues for the second quarter of 2018 increased by 43 percent to \$42.7 million from \$29.9 million in the second quarter of 2017 primarily as a result of an increase in net revenues from the Company's mobile audience solutions and partially offset by a decrease in net revenues from other solutions.

Net revenues from mobile audience solutions for the second quarter of 2018 increased by 56.9 percent to \$37.8 million from \$24.1 million in the second quarter 2017 primarily as a result of the Company's strategic focus shifting to capture more market demand in mobile audience solutions.

Net revenues from other solutions for the second quarter of 2018 decreased by 15.3 percent to \$4.9 million from \$5.8 million in the second quarter of 2017 primarily as a result of the Company's strategic shift away from other solutions.

Gross profit increased by 42.6 percent to \$9.9 million from \$7 million in the second quarter of 2017 primarily as a result of an increase in gross profit from mobile audience solutions.

Total operating expenses increased by 20.5 percent to \$11.1 million for the second quarter of 2018 from \$9.2 million for the second quarter of 2017. The increase was primarily due to more marketing activity and professional services after IPO.

Operating loss for the second quarter of 2018 was \$1.2 million compared with \$2.2 million during the second quarter of 2017 as a result of the above.

Net loss totaled \$2.6 million for the second quarter of 2018, decreasing from \$10.2 million for the second quarter of 2017. Net loss attributable to the Company's shareholders for diluted ADS was \$0.05 compared with \$0.04 in the second quarter of 2017.

Adjusted EBITDA for the second quarter of 2018 was \$0.85 million compared with \$0.03 million during the second quarter of 2017 due to a substantial increase in gross profit.

Adjusted net loss attributable to the Company's shareholders, which excludes share-based compensation expenses, fair value loss on derivative liabilities and other gains and losses, decreased to \$1.1 million from \$2.1 million in the second quarter of 2017.

As of June the 20th, 2018, the Company's cash and cash equivalents amounted to \$26.1 million compared with \$19.4 million cash and cash equivalents and \$25 million time deposit as of December the 31st, 2017.

Now, I'd like to also quickly go over the financial results for the first of six months of 2018. Gross billing reached \$197.3 million during the first six months of 2018, an increase of 19.8 percent from the first six months of 2017.

Gross billing from mobile audience solutions was \$162.5 million during the first six months of 2018, an increase of 157.8 percent from the first 6 months of 2017. Gross billing from other solutions was \$34.8 million during the first six months of 2018, a decrease of 13.8 percent from the first six months of 2017.

Net revenues for the first six months of 2018 increased by 39.8 percent to \$77.9 million from \$55.7 million in the first six months of 2017. Net revenues from mobile audience solutions for the first six months of 2018 increased by 62.5 percent to \$68.7 million from \$42.3 million in the first six months of 2017.

Net revenues from other solutions for the first six months of 2018 decreased by 31.5 percent to \$9.2 million from \$13.5 million in the first six months of 2017. Gross profit for the first of six months of 2018 increased by 35.5 percent to \$18 million from \$13.3 million in the first six months of 2017.

Total operating expenses increased by 4.9 percent to \$20.9 million for the first of six months of 2018 from \$19.9 million for the first of six months of 2017. Operating loss for the first of six months of 2018 was \$2.9 million compared with \$6.6 million during the first six months or 2017 as a result of the above.

Net loss totaled \$2.7 million for the first six months of 2018, decreasing from \$22.2 million for the first of six months of 2017. Net loss attributable to the Company's shareholders per diluted ADS was \$0.05 compared with \$0.86 in the first six months of 2017.

Adjusted EBITDA for the first six months of 2018 was \$1.3 million compared with a loss of \$1.9 million during the first six months of 2017.

Adjusted net loss for the first six months of 2018 attributable to the Company's shareholders, which excludes share-based compensation expenses, fair value loss on derivative liabilities and other gains and losses, decreased to \$2.6 million from \$5.6 million in the first six months of 2017.

Looking forward, for the full-year 2018, we expect net revenues to be between \$175 million and \$180 million, representing 39.7 percent to 43.7 percent increase from the full-year 2017. For gross billing during full-year 2018, we expect this range to be between \$380 million and \$420 million, representing 53.1 percent to 69.2 percent increase from the full-year 2017.

This outlook is based on the current market conditions and reflects the Company's preliminary estimates of regulatory, market and operating conditions and customer demand. All of these are all subject to change. This concludes our prepared remarks. We will now open the call to questions. Operator, please go ahead.

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## QUESTIONS AND ANSWERS

### Operator

Thank you ma'am. (Operator Instructions).

Darren Aftahi.

**Darren Aftahi** - *ROTH Capital Partners - Managing Director, Senior Research Analyst*

Yes. Thanks for taking my call and good evening. There's just a few if I may. Are you guys - have you seen any change in the advertiser landscape from brands just given what's going on in the backdrop of the tariff issue between the U.S. and China?

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**Sammy Hsieh** - *iClick Interactive - Chief Executive Officer and Co-Founder*

Darren, thanks for the question. So far we talked - I talked with the [operational team]. We didn't see that there's any significant change in terms of the momentum in the China market and we do see that a lot about the branding advertisers, they started to pick up the mobile advertising solution in China market instead.

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**Darren Aftahi** - *ROTH Capital Partners - Managing Director, Senior Research Analyst*

Okay. Yes. And then moving on to your Business Intelligence, can you talk about how much contribution that was in the current quarter? I know probably small.

And then kind of what your expectations are for contribution in the second half of the year, kind of as a percentage of revenue. And then where are you seeing kind of the most activity in terms of traction with your clients?

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**Terence Li** - *iClick Interactive - SVP of Finance*

Hello, Darren. This is Terence, SVP of Finance in the Company and I suppose you're asking the questions about our BI and our new [no media] related solutions. So we are currently building that and probably we may not be able to discuss exactly the sum in each transaction because we have some confidentiality requirements with our clients.

But I could tell you [is that you for a little bit, a tiny amount] contribution income statement and it's not significant, but we target and our target is still [at a full] percent contribution to the gross product.

And we may not be able to share the number at this moment, but we believe that [fairly to state] in the next couple of quarters, we'll see that numbers. And as probably Sammy also highlight, we are working on the new retail sector, education and also the real estate sector. So these would be the initiatives that we are building at the moment.

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**Darren Aftahi** - *ROTH Capital Partners - Managing Director, Senior Research Analyst*

Got it. And then just two more if I may. I saw that you opened a Korean office with the MezzoMedia partnership. I'm just kind of curious, high-level, strategically, what other parts of Asia PAC or perhaps outside of Asia PAC can we kind of think about you strategically pursuing in the future?

And then my last question is sort of two parts. One, there was a little bit of a sequential step-up in your G&A line. I'm curious what that was about and then if you have the cash flow from operations number in the quarter, it'd be helpful. Thank you.

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**Sammy Hsieh** - *iClick Interactive - Chief Executive Officer and Co-Founder*

Thanks, Darren, for the question. So this is Sammy. So let me answer the first part. So yes, we just opened up our Korean office and also due to the demand, the growing needs of the international customers and international brands. They want to target precisely the Chinese outbound travelers.

So I think that from the international expansion perspective, it's always our priority and we have seen that we have very successful cases in some of the sectors. For example, the duty-free industry and also the retail and also the travel industry. So I think that apart from the Korean office, we are also targeting to open up other offices.

Let's say in Japan and also in Southeast Asia because those countries are the top destinations for the Chinese travelers at the moment. Okay. So I will let Terence to answer the G&A questions, right?

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**Terence Li** - *iClick Interactive - SVP of Finance*

Sorry, Darren, can you repeat, again, the questions just so that I can fully understand that?

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**Darren Aftahi** - *ROTH Capital Partners - Managing Director, Senior Research Analyst*

Sure. So your G&A line in the second quarter looked like it went up a fair amount quarter-to-quarter from the first quarter. I'm curious what drove that. Was that the opening of the Korean office, expenses around that? And then what was the cash flow from operations in the quarter?

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**Terence Li** - *iClick Interactive - SVP of Finance*

Yes. I think the G&A was growing for few reasons. Of course, like what you said, we have been putting in more resources in some of the new studies in terms of how we work in certain countries and cities.

There will be some professional fees on that. And also being now a listed Company, we actually have incurred more like [Vigo], audit and also [compiling] professional fees.

And we also studying difference like initiatives. [That's what we say] and we are also building up some new - hiring some new talents in terms of how to build-out the strategy in terms of some particular verticals or areas that we are interested in.

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**Darren Aftahi** - *ROTH Capital Partners - Managing Director, Senior Research Analyst*

Okay. Great. And then your cash flow from operations in the quarter?

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**Terence Li** - *iClick Interactive - SVP of Finance*

Cash flow? Sorry. Cash flow? What's that? I can't - sorry. Can you repeat that?

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**Darren Aftahi** - *ROTH Capital Partners - Managing Director, Senior Research Analyst*

Yes. Your cash flow from operations on the cash flow statement. That wasn't on the press release. I'm just curious if you had that number with you.

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**Terence Li** - *iClick Interactive - SVP of Finance*

I don't have the numbers right now, but our cash flow from operations, I think we are in a [lack] in terms of that. Yes.

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**Operator**

Pardon me, sir, would we like to move to the next question? Pardon me, sir, would you like to move to the next questioner?

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**Unidentified Company Representative**

Yes. Please, yes.

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**Unidentified Company Representative**

Yes.

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**Operator**

Thank you, sir. We have the next question from the line of [Jay Li]. Please ask your question.

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**Unidentified Participant**

Hello. Thank you. Hello. Thank you, management, for taking my question. This is [Jay Li] from Benchmark. Yes. First of all, congratulations on your strong quarter and this is my question. What is the take rate trend will be like in the second part of this year? Yes.

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**Jie Jiao** - *iClick Interactive - Chief Financial Officer*

We expect the take rate will remain stable and the average Q1 and Q2 take rate, I guess, is around just 7 percent. This is on a non-GAAP basis.

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**Unidentified Participant**

Okay. Thank you. Do you have any timeline to breakeven?

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**Terence Li** - *iClick Interactive - SVP of Finance*

Hey. This is Terence I think we imagine pretty much stable in terms of gross profits over the past like two, three quarters, as you probably noticed that. We expect that the margin will still be quite stable.

So on the basis that we see that our percentage of operating expense is actually dropping quite substantially from [3.8] percent in 2017 second quarters to right now to second quarter in 2018 to 25.9 percent.

And that we recorded [constant adjust] EBITDA in two [consecutive] quarters and assuming that I think this momentum [to assist and growth momentum] with a stable margin and we can show our operating expenses in this [similar lateral]. We expect that the operating loss will keep on decreasing.

So what I want to say is really on these basis and also on the basis that we have to invest on some new initiatives and some of the vertical solutions and [we will still singular like expenses]. So we expect that breakeven point will really coming hopefully in some time of next year, not really at the end of the second half.

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**Unidentified Participant**

Okay. Thank you. My third question is can management share some color about the partnership with Tencent on mini apps and what format does the Company want to monetize the mini app? What kind of growth potential and any opportunities does the Company see from mini app? Yes.

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**Sammy Hsieh** - *iClick Interactive - Chief Executive Officer and Co-Founder*

I think regarding the mini apps opportunity, I think they will be huge. So when we analyze this opportunity, it will be coming from three areas.

So the first one is right now [the infantry of the mini apps] have already been added to the overall pool of (inaudible) which is the mobile programmatic [ad exchange] in our Tencent, which allow a Company like us that technology platform. [We can fit]. There will be more available [infantry] available for a platform like us.

And also the second thing, the second area will be we have already started to implement the Tencent mini apps as an important part, like an entry-level for some of the users, for some of the client.

As we see that some of the clients, they have adopted the mini apps because it will be like a version of the traditional apps so that the users are more easy to get [at us] to their [store front].

And first, the [via] application of the mobile - the mini apps amount to consumer which helps to get the offline data from our clients and further enrich our data capability to realize the true Omni channel marketing in China market.

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**Unidentified Participant**

Okay. Thank you. Also, any color from your newly established partnership with Baidu on [new - on face app]? Yes.

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**Sammy Hsieh** - *iClick Interactive - Chief Executive Officer and Co-Founder*

Okay. So the partnership with Baidu on the Native [magnificent ad,] it was just started early this year. I think it takes time for the operational team to take shape. So I think it just - comparing to the overall revenue of iClick, it's just like picking up slowly as a small portion.

But the Native Ad market is big. It is estimated to be around \$36 million market this year. I think this is an important part of our product mix and also for every single advertiser that we believe that they will be moving up [from it, trends] in China market.

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**Unidentified Participant**

Okay. Thank you. My last question is about your overall advertising outlook in the second half. Yes. Do you see any impact on the client budget [post the worker] and from the recent slowdown [of mutual factors]? Yes.

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**Sammy Hsieh** - *iClick Interactive - Chief Executive Officer and Co-Founder*

I think, as I said earlier, from the download from my operational team, we didn't see that there's any slowdown in the advertising segment because I think what we are focusing are the top sectors.

For example, consumer products, travel, banking and finance. We didn't see that this kind of the services like our type of the advertisers being impacted by the current situation.

**Operator**

(Operator Instructions).

As there are no further questions at this time, I'd like to hand the call back to the speaker for any closing remarks.

**Jie Jiao - iClick Interactive - Chief Financial Officer**

Thank you once again for joining us today. If you have further questions, please feel free to contact iClick's investor relations department through the contact information provided on our website.

**Operator**

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

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