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LEJU - Q3 2018 Leju Holdings Ltd Earnings Call

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## CORPORATE PARTICIPANTS

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

**Michelle Yuan**

**Yinyu He** *Leju Holdings Limited - CEO*

## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

### Operator

Hello, and thank you for standing by for Leju's Third 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. Thank you. Please go ahead.

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### Michelle Yuan

Hello, everyone, and welcome to Leju's Third Quarter 2018 Earnings Conference Call. Today, we'll update you regarding our financial results for the third quarter ended September 30, 2018. If you would like a copy of the earnings press release or would like to sign up for our email distribution list, please go to our IR website at [ir.leju.com](http://ir.leju.com).

Leading the call today is Mr. Geoffrey He, our CEO, who will review operational highlights for third 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 under the safe harbor provision of Section 21-E 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. dollar.

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

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### Yinyu He - *Leju Holdings Limited - CEO*

Thanks, everyone, for joining us on today's call. In the third quarter, we continued our growth momentum while delivering solid operating profit, as we focus on implementing our New Media, New E-commerce and the New E-commerce business strategy.



In our media service business, benefiting from the steady enhancement of our media influence, we entered into branding framework contracts with many leading real estate developers; and in September, we successfully held the first annual Leju Finance forum, also called: Summit of Discovering Chinese Unit Homes for Better Life, laying a foundation for deeper industry and capital connections. We will continue to hold our annual selection activities for managers and the CEOs in the fourth quarter.

To help establish Leju's new ecosystem, we are further developing our intelligent mapping platform through our proprietary Cloud Eye big data system, mini-app open platform and intelligent online advertising delivery system. During this quarter, we launched [TouDing Plus], the upgraded version of our [TouDing] online advertising product, which provides accurate and targeted advertising exposure on WeChat Moments featured with many app products for developer clients and is -- and this product is expected to make incremental revenue contribution to our online advertising segment.

In our new e-commerce business, we are constantly upgrading our innovative e-commerce products in the areas of intelligent sales and marketing end channels. In addition, we cooperated with WeBank to provide developer clients with products for customers' deposit verification, which will further enhance our e-commerce service capability and become an incremental driver of our top line growth.

Looking to the fourth quarter, while the changing market conditions will present both challenges and opportunities for us, we will stay focused on executing our business strategy, improving operations and management and striving to sustain profitability for the long term.

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

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

Thank you Geoffrey. Good morning and good evening, everyone. For the third quarter of 2018, we recorded total revenues of \$133.6 million, a 40% increase from the same quarter of 2017.

Our e-commerce services revenues for this quarter increased by 57% to \$96.9 million as a result of an increase in the average price per discount coupon redeemed. E-commerce services contributed 72.5% of our total revenues this quarter.

Our online advertising services revenues for this quarter increased by 20% to \$36 million as a result of an increase in property developers demand for online advertising. Online advertising services contributed 26.9% of our total revenues this quarter.

Our listing services revenues for this quarter decreased by 77% to \$0.8 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 20% to \$16.9 million from the same quarter last year, primarily due to decreased staff cost as result of headcount change.

Our selling, general and administrative expenses increased by 3% to \$106.2 million from the same quarter last year. The increase was primarily due to increased marketing expenses related to our e-commerce business, partially offset by decreased staff cost as a result of headcount change and decreased office and other operating expenses.

Income from operations was \$11.3 million for the third quarter of 2018 compared to loss from operations of \$29.3 million for the second quarter of 2017.

Net income attributable to Leju shareholders was \$6.8 million for the third quarter of 2018 compared to net loss attributable to Leju shareholders of \$23.1 million for the same quarter 2017.

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Non-GAAP income from operations was \$15.6 million for the third quarter of 2018 compared to non-GAAP loss from operations of \$24.9 million for the same quarter of 2017. Non-GAAP net income attributable to Leju shareholders was \$10.3 million for the same -- for the third quarter of 2018 compared to a non-GAAP net loss attributable to Leju shareholders of \$19.2 million for the same quarter of 2017.

For the 9 months -- for the first 9 months of 2018, we recorded a total of \$337.8 million in revenues. That's a 32% increase from the same period of last year. Our e-commerce revenue increased by 45% to \$237.9 million for the first 9 months 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 \$70.4 million -- 70.4% of our total revenues for the first 9 months.

Our online advertising revenues, contributing 28.9% of our total revenues, increased by 21% to \$97.5 million for the first 9 months of 2018 due to an increase in property developers demand for online advertising, while our listing revenues decreased by 80% to \$2.4 million as a result of a decrease in secondary real estate brokers demand for the first 9 months.

Loss from operations was \$10.2 million, a decrease of 94% from the same period of 2017. Net loss attributable to Leju shareholders was \$14.9 million for the first 9 months of 2018, a decrease of 89% from the same period last year.

Non-GAAP income from operations was \$2.8 million for the first 9 months of 2018 compared to non-GAAP loss from operations of \$104.1 million for the same period last year. Non-GAAP net loss attributable to Leju shareholders was \$4.4 million for the first 9 months of 2018, a decrease of 95% from the same period last year.

As of September 30, 2018, our cash and cash equivalents balance was \$165.1 million. Our net cash flows used in operating activities for the third quarter of 2018 was \$4 million, mainly attributable to an increase in accounts receivable of \$10.1 million and a decrease in advance from customers and deferred revenue of \$5.7 million, partially offset by non-GAAP net income of \$10.8 million.

Looking ahead, we estimate that our fourth quarter 2018 total revenues will be approximately between \$120 million and \$130 million, which represents an increase of approximately 13% to 22% 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.

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## QUESTIONS AND ANSWERS

### Operator

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

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

My first question is on your e-commerce. So can you help me understand the drivers behind the 57% growth? And is this due more -- coming from the lower-tier cities? Second question is regarding the impact from economy slowdown. So we've heard quite a number of corporations indicating their cautious view regarding the 2019 outlook. So what is our current expectation on that? And on top of that, can you talk about the business outlook of both e-commerce and advertising segment in 4Q in 2019? My last question is, can you give us some color regarding the progress of Leju Finance in terms of traffic, monetization, outlook, et cetera? Any color would be helpful.



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### **Yinyu He - Leju Holdings Limited - CEO**

Thank you, Ding. And for your first question, for the third quarter actually, it is driven by -- because we have more projects in the lower-tier cities, that's the first one; and the second one is, actually, we see some opportunities in the first and second-tier cities because the market has some change and some projects begin to have some discount space, so this leaves us a space to sell the coupons. So it is a combination. But mostly, I think it's from the projects from the lower-tier cities. That's the contribution -- lower-tier city contribution for the third quarter. Looking ahead to the fourth quarter, we already see the market is getting cold. So for us, the positive side is that it's easier for us to have more e-commerce products because more products begin to -- they want to have discount, provide discount to the consumers, so it's opportunity for us to sell the coupons and do the marketings. The negative side is that because market is getting -- is going down, so the trading volume of each project is also getting down. So there's still a little bit uncertainty in the fourth quarter because it's a combination. Even if we can sell the coupons, if the trading volumes getting down, so it will also influence our e-commerce revenue. So from current point side, we tend to be cautious on the fourth quarter. But I think in general, for us, the e-commerce business, for us, the trend is, I think, is positive. As to the third question, that also -- I'll also answer the fourth quarter outlook question. For the third question, is that Leju Finance is only 1 year, but I think we already laid a quite solid foundation for our future business, because first is we focused on content contribution, in-depth industry contents and the spread of news to the mass media. So that helped us build up the influence. Second is we are gradually building up the new revenue source. First is from the branding market. I think we are getting some monthly fee charged from the big name developers. Second is, also, we are also trying to set up a platform to connect the developers with the capitals and with the markets. So we hope, in the near future, we will earn some new type of revenue from that. In general, I think we still need some time to -- gradually, to build up this platform. So from current time and point, I think Leju Finance, for us, its influence is more important than the revenue contribution.

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### **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.

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### **Michelle Yuan**

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

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### **Operator**

Ladies and gentlemen, that does conclude the conference for today. Thank you for participating.

You may all disconnect.

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