

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ICLK.OQ - Q2 2019 iClick Interactive Asia Group Ltd Earnings Call

EVENT DATE/TIME: AUGUST 26, 2019 / 12:00PM GMT



CORPORATE PARTICIPANTS

Lisa Li *iClick Interactive Asia Group Limited - Senior Manager of IR*

Terence Li *iClick Interactive Asia Group Limited - CFO & Director*

Sammy Wing Hong Hsieh *iClick Interactive Asia Group Limited - Chairman of the Board, CEO & Co-Founder*

CONFERENCE CALL PARTICIPANTS

Bo Pei *Oppenheimer & Co. Inc., Research Division - Research Analyst*

Darren Aftahi *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

Nelson Fuk Lung Cheung *Citigroup Inc, Research Division - Associate*

Fawne Jiang *The Benchmark Company, LLC, Research Division - Equity Research Analyst*

PRESENTATION

Operator

Hello, ladies and gentlemen. Thank you for standing by for iClick Interactive Asia Group Limited's Second Quarter 2019 Financial Results Conference Call. (Operator Instructions) Today's conference call is being recorded.

I will now turn the call over to your host, Ms. Lisa Li, Senior Manager of Investor Relations. Lisa, please go ahead.

Lisa Li - *iClick Interactive Asia Group Limited - Senior Manager of IR*

Hello, everyone, and welcome to iClick's Second Quarter 2019 Financial Results Conference Call. The company's results were issued earlier today and are posted online. You can download the earnings press release and sign up for our distribution list by visiting the IR section of our website at ir.i-click.com.

Sammy Hsieh, our Chief Executive Officer and Co-Founder; and Terence Li, our Chief Financial Officer, will provide an overview of the quarter, and then we will turn the call over to Q&A.

Before we continue, please know that today's discussions 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 the other risks and uncertainties is included in the company's 20-F 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 know that iClick's earnings press release and this conference call include discussion of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. iClick's press release contains a reconciliation of the unaudited non-GAAP measures to the most directly comparable unaudited GAAP measures.

I will now turn the call over to our Chief Executive Officer and Co-Founder, Sammy Hsieh.

Sammy Wing Hong Hsieh - *iClick Interactive Asia Group Limited - Chairman of the Board, CEO & Co-Founder*

Thank you, Lisa. Hello, everyone, and thank you for joining us today. I am happy to report that for the second quarter of 2019, our total revenue grew 16% year-on-year to a record \$49.3 million. Our revenue growth came despite a 7% depreciation of the renminbi against the US dollars



compared to the same period last year. In fact, on a constant currency basis, revenue increased 24% to \$52.8 million for the second quarter compared with the same period last year.

Also, in this quarter, our gross profit marked the third consecutive quarter of historical high, increasing by 37% year-on-year to \$13.6 million.

These results were achieved in light of the challenging factors and influence that currently exist outside the cause of our normal business operations. We think that these challenges may continue to affect our results in the near term. But I am optimistic about the long-term growth prospects of our business and in the strength and stability of our business model.

I want to note here that the "E-tailing" revolution in China remains strong as off-line business continue to go online, as the country's consumer activity is already among the most wired anywhere in the world.

Having said so, the off-line retail sales itself remains the bulk of retail sales in China. As companies see higher cost to acquire new traffic online, seeking more cost-effective ways to understand and manage consumers even better and improve the sales performance becomes an important topic for them and this is also fueling the digital transformation in smart retail.

iClick is already well positioned to provide the data and tools for companies to attract customers and increase sales performance, and we are poised to keep up with whatever demand the future holds.

In late 2018 we launched a strategic initiative to develop our Enterprise Solution business to provide our customers business intelligence capabilities to maximize the value of the proprietary data we provide. This was an important step for our company as we continue to move beyond our online marketing business.

We now report these numbers separately in an effort to accurately reflect our progress. In the second quarter, we reported \$2.8 million in revenues from this unit versus \$1.5 million in the first quarter of 2019, for more than an 80% sequential increase, we are excited to report that the business currently accounts for about 4.8% of our total sales for the first half of 2019, which we believe is a significant contribution to overall sales in the early stage of this rollout.

I want to reiterate that by the end of 2019, we anticipate our Enterprise Solution may account for significant gross profit contribution of around low to mid-teens. We have a strong pipeline and continue to expect this business to emerge as a key driving force for the company's long-term revenue growth and margin expansion.

To review our progress in the Enterprise Solution area, earlier this year, we announced the acquisition of a controlling interest in Changyi, a leading independent software vendor with the capability of establishing WeChat mini-programs, and then consolidating online and off-line consumers' behavior data.

In May, we announced strategic partnership with the BTG WELINK, the online service arm of Beijing Tourism Group and Tencent Holdings, China's leading provider of Internet value-added systems. The partnerships represent significant opportunities for our Enterprise Solution business as we target to help BTG establish a new customer relationship management system across more than 100 brands.

In addition to these agreements, we recently announced a Memorandum of Understanding to form a business partnership with Vector Inc., the leading strategic Public Relation group in Japan, to provide integrated marketing and Enterprise Solutions to Japanese business targeting Chinese consumers traveling to Japan. We are excited to work with them as they are ranked as a top 15 PR agency and one of the fastest growing in the world, operating in more than 10 countries across Asia. The partnership will focus on the development of Enterprise Solutions, targeting Chinese consumers in Japan to utilize the potential of smart retail through off-line and online data integration. This partnership is a perfect illustration of iClick's integration of Marketing and Enterprise Solutions as it allows us to provide the Japanese market with the technology to effectively target Chinese customers traveling in Japan, while utilizing Vector's strength in content marketing and client generation locally.

The future outlook for this business is very positive as we're continuing our efforts to grow our domestic and global partnerships. We are experiencing solid demand from a growing number of our top-tier clients and to date, we have successfully deployed our Enterprise Solution with a number of well-known international brands, including a global oil and gas company, a leading snack food brand, a multinational consumer goods corporation and an international fashion and retail company, to name a few. Our strength here is our ability to cross-sell our enterprise services to the 2,000-plus top-tier marketers we currently represent.

Turning now to our Marketing Solutions business. We are still experiencing stable demand from marketers who want to leverage iClick's continually expanding list of Chinese consumers, which numbers now stand at approximately 825 million profiled active data sets.

In the second quarter, we reported record revenues of \$46.6 million, representing a 9% year-on-year growth. On a currency-neutral basis, the revenue would have increased 17% year-on-year to \$49.9 million for the second quarter of 2019.

Our priorities for our Marketing Solution business are to continue to focus on the Chinese markets to generate stable organic growth and enhance profitability within that market, while simultaneously expanding our geographic reach and to collaborate with complementary platforms.

As an example of our global expansion efforts, back in July, we announced official launch of our joint venture with VGI Global Media, Thailand's #1 online to off-line solution provider across advertising, payment and logistic platforms. VGI is a unique market leader in Thailand that has built the largest and most captive out-of-home media platform, covering a nationwide network. Our companies will work together to develop marketing SaaS solutions and AI-powered mobile applications, that make use of the data resources held by VGI.

In addition to our agreement, we were delighted that VGI chose to become strategic investors of iClick. We still demonstrate confidence in our companies working together to create synergies and many partnership opportunities in the future.

Before I conclude my opening comments, we understand that many of you may be concerned about what the impact of the current U.S. and China trade situation may be having on our business, so I think it's appropriate to take a moment to comment on our model and our corporate resiliency in light of these factors.

First, we have an exemplary track record of growth during our 10 year history. On an annual basis, we grew at a CAGR of approximately 30% in different economic cycles. As I said earlier, we believe that the business environment will remain challenging in the near term, but we are cautiously optimistic about our future success and have a very bright long-term outlook. Our company is prioritizing operational efficiencies to deliver products and services to our customers in the most cost-effective manner possible, while still ensuring the high quality of services and support we traditionally provide and we are laser-focused on achieving profitability, while making prudent use of cash on our balance sheet.

Second, it is worthwhile to remind everyone that we are not a manufacturing or a trading company. With less than 5% of our revenue coming from the U.S., our business rely primarily on domestic consumption in China, which remains a key priority for the country. As Chinese consumer become wealthier, a growing emphasis is placed on the quality rather than quantity of the product and services purchased. Marketers greatly benefit from the important information we provide.

Third, the program to build our Enterprise Solution in 2019 and beyond will be the key to our future. We already see the new business emerging as a central driving force for the company's long-term revenue growth and margin expansion.

Finally, we have built a strong company that is operational breakeven with positive adjusted EBITDA and increasing margin profile and a healthy balance sheet.

With that, I will now like to turn the call over to our CFO, Terence Li, to review the second quarter financials.



Terence Li - *iClick Interactive Asia Group Limited - CFO & Director*

Thank you, Sammy. Welcome to the call, everyone. In this quarter, I am pleased to report that we achieved record revenues, gross billings and gross profit, while our new Enterprise Solution business increased sequentially in a very challenging macro environment.

As Sammy touched on previously, along with new business initiatives, the key to our continuous success is achieving greater operational efficiency, across our business lines, including but not limited to periodically reviewing our overall business to recognize opportunities to control cost, expenses, manage our cash flow more efficiently and focus on higher-margin business products and clients. These initiatives are coupled with our plan to build enterprise business, and we are well on track to enhance what we have already achieved.

Now I will provide few key financial highlights for the second quarter. Please note that all figures given are in U.S. dollars, unless otherwise noted.

Our total revenue for the second quarter of 2019 grew 16% to a record \$49.3 million from \$42.7 million for the same period last year. The increase was partially offset by negative foreign exchange impact as the renminbi depreciated 7% against the U.S. dollar compared to the second quarter of 2018.

On a currency-neutral basis, the revenue would have increased 24% at \$52.8 million for the same quarter of 2019 compared with the same period last year.

Our revenue from the Marketing Solution business also grew to a record \$46.6 million for the second quarter of 2019, a 9% increase from the same quarter in 2018. This growth was driven by the increase in demand we are seeing from marketers.

As Sammy talked about earlier, the long-term market dynamics in this area remain strong. On a currency-neutral basis, the revenue increased 17% to \$49.9 million for the second quarter of 2019 compared with the same period last year.

As addressed in last quarter's earnings call, we start to report revenues from our Enterprise Solution business separately in order to track the progress of this divisions. We reported revenue of \$2.8 million, which was more than 80% sequential increase over the first quarter of 2019. Since this is a new business, there is no year-over-year comparisons.

Our gross profit has continued to hit record high for 3 consecutive quarters. We achieved an increase of 37% in gross profit to \$13.6 million for the second quarter of 2019 compared to \$9.9 million in the same period in 2018. The increase came as a result of margins stabilization from the company's Marketing Solutions and contribution from higher-margin Enterprise Solutions business.

Our total operating expenses increased 44% to \$16 million for the second quarter of 2019, up from \$11.1 million for the same time period last year, primarily as a result of the increase in expenses we incurred for our new business development efforts. These include an increase in headcount, marketing activities for the launch and support to continue on this growth trajectory.

And lastly, as of June 30, 2019, the company have cash and cash equivalents of \$41.9 million compared with \$39.8 million as of December 31, 2018. Our restricted cash and time deposit amount to \$9.8 million compared with 0 at December 31, 2018.

For the rest of my discussion, I will focus on our non-GAAP results. You can find reconciliations of these non-GAAP results in the press release we post earlier today, and which can be accessed at our Investor Relations website.

Our adjusted EBITDA for the second quarter of 2019 was stable at \$840,000 compared with \$851,000 for the second quarter of 2018. This was the result of our increase in gross profit, which was partially offset by more operating expenses in regards to new business development I mentioned previously.

Adjusted net loss attributable to the company's shareholders, which excludes share-based compensation expenses, fair value losses on convertible notes and other gains for the 2019 second quarter, remained stable at \$1.1 million, unchanged from the second quarter of 2018.

Please find additional financial results in the press release we issued earlier today.

I'll now end my prepared comments with our outlook for the third quarter and full year of 2019. Our revenue outlook is based on current market conditions and effects of preliminary estimates of market and operating conditions, expected foreign exchange rate and customer demand, all of which are subject to change.

For the third quarter of 2019, we estimate revenue to be in the range of \$50 to \$54 million, which should translate into a 17% to 27% year-on-year growth. On a currency-neutral basis, this would translate to an estimated growth rate between 22% and 31% based on the latest available U.S. dollar and Renminbi exchange rate. We estimate a gross profit margin to be between 26% and 28%.

Based on current market conditions and primarily due to renminbi depreciation assumptions, we are revising down our full year guidance. And now we expect the sales to range from \$190 million to \$210 million and gross profit margin between 26% and 28%, as we may see pricing pressure from our clients as a result of the macro environment.

I would like to take this opportunity to give everyone a brief update on the share repurchase program that we announced last November. Our Board of Directors authorized us to purchase up to \$10 million of our own ADS in a 12-month period. From November through the first half of 2019, we purchased an aggregate value of \$520,000. We will continue to purchase opportunistically as we think the shares represent an excellent value. We are very confident in iClick's growth prospects and believe the share repurchase program provides an excellent opportunity to invest in our company's future.

In closing, I am encouraged by the fact that we continue to be favorably positioning the marketplace, even under challenging macro environment. I am particularly excited about the early success we are having in building our Enterprise Solutions as we are proving a powerful tool to help capture significant opportunities with Chinese consumers. Ultimately, we expect our growth and operational discipline shall pay off.

With that, I will now turn the call back to Sammy for closing remarks.

Sammy Wing Hong Hsieh - *iClick Interactive Asia Group Limited - Chairman of the Board, CEO & Co-Founder*

Thank you, Terence. We are very proud of our accomplishments this quarter and so far in 2019. For the second half of this year, we remain cautiously optimistic about our outlook for growth, due to the current macro environment. Yet, we are well positioned for the long term to continue our progression in a rapidly growing addressable market. Combined with the strong financial metrics, we feel we have a stable business model that will continue to provide steady and consistent top line growth, while we build out our Enterprise Solutions business, that will provide increasingly revenue opportunities and further enhance our gross margins.

This concludes our prepared remarks. Thank you for joining us on today's call. We will now open the call to questions. Operator, please go ahead.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from the line of Fawne Jiang of Benchmark.

Fawne Jiang - *The Benchmark Company, LLC, Research Division - Equity Research Analyst*

Firstly, whilst you're focused on your Enterprise Solutions business, that second actually saw a very robust growth momentum right now. Just wonder whether you'd give us the update on the business right now, including the current projects and your client base as well as the potential projects in your pipeline.



In addition, in associated to that business, if we listen to the most recent earnings call for Tencent, for Baba for Baidu, the leading Internet companies in China, I think all of them have touched -- tell us actually the importance of the Enterprise Solutions business down the road. Just wonder how you position your, I guess, growth in regards to the potential competitive environment down the road, with the potential, I think, opportunities as well as the challenges you may see along the way?

Sammy Wing Hong Hsieh - *iClick Interactive Asia Group Limited - Chairman of the Board, CEO & Co-Founder*

Yes. Fawne, thanks for the questions. I think definitely, the Enterprise Solution is a hot topic in the market -- in China market right now. As you can see that from our earnings release, our Enterprise Solutions business grew more than 80% to \$2.8 million in the second quarter, which is very encouraging number for us as we are just beginning to expand into this area. We feel that this result demonstrates our ability to execute. Currently, we see the Enterprise Solution business on track to reach our new target given robust pipeline of 50 clients plus.

In addition, as I indicated in my prepared remarks, we have announced a strategic partnership with Vector, the leading strategic PR agency in Japan, to help Japanese brands identify target and reach out to the Chinese consumers traveling to Japan, with the most effective advertising content for establishing WeChat mini-programs, integrating online and off-line data and integrating of data analytics. As of now, there are already a number of leading Japanese brands in the pipeline from this partnership, including a famous shopping mall, which features a wide variety of the consumer goods, ranging from the most well-known luxury brands to consumer staples.

Fawne Jiang - *The Benchmark Company, LLC, Research Division - Equity Research Analyst*

Got it, Sammy. I guess maybe it relates to that. On growth side that you guys made a substantial progress. And then what's the (inaudible) actually right now, like to potential a surge -- further surge in the growth right now?

Sammy Wing Hong Hsieh - *iClick Interactive Asia Group Limited - Chairman of the Board, CEO & Co-Founder*

Yes. I think the total addressable market of the smart retail or the new retail is enormous. Based on our research estimates, the total retail sales in China could exceed over USD 1 trillion by 2021. This is just the beginning for the smart retail. And all the players in different spaces are discovering their own business model, to take into the market and tackle the demand. When you look at our current pipeline, we see that we have a very strong pipeline in our book. So we think that it's just the beginning of untapping the opportunities in the market.

Fawne Jiang - *The Benchmark Company, LLC, Research Division - Equity Research Analyst*

Understood. Also just want a quick update of your resource allocation towards this business. Just wonder currently, how big is achieved on the price side? And is there any plans to increase your, I guess, headcount down the road?

Terence Li - *iClick Interactive Asia Group Limited - CFO & Director*

Fawne, this is Terence. I think on the resources side, let me give some insight as well. I think right now, our team on this Enterprise Solutions, including the teams that we acquired, working with Changyi, is basically now grow to around like 200 headcounts right now. In the quarters, we actually add on like around 50 people. So those including original 120-plus engineers and also some new sales force as well to help us to market these new solutions. So your questions would be what is the bottom net at the moment. I think on this scale on the targets that we actually set for the market at the beginning of the years to achieve the \$10 million top line revenue, right now, this scale is almost optimal for us to execute at. But in terms of whether we want to speed this up or not, I think we are trying to strike a speed and balance of our original solution, like the Marketing Solution as well and also the speed between this with the Enterprise Solutions. So we believe that we are still executing according to our plan to achieve the \$10 million and to make sure that we can execute it right and provide the right solutions to our existing customers first. So this is our top priority at the moment.

Fawne Jiang - *The Benchmark Company, LLC, Research Division - Equity Research Analyst*

Got it. That's very helpful. Second question is regarding your guidance. Terence, you mentioned that there is a potential headwind on exchange rate side. Just wonder, like number one, what's the implied apple-to-apple, basically in the constant currency basis, your growth for the full year? And secondly, again, I think Sammy talked on the macro, just wonder what you see in the second half, whether you are you potentially feeling more headwind on the advertising growth?

Sammy Wing Hong Hsieh - *iClick Interactive Asia Group Limited - Chairman of the Board, CEO & Co-Founder*

Fawne, let me address the macro environment first, and then Terence can come back to you for the guidance part. I think from what we can see in the market, I think many of the key players in the ad industry provide a more conservative outlook, I will say, as the macro environment and also the uncertainties surrounding the U.S. and China trade conflict will be a swing factor with regard to the advertising demand in the second half of the year. Recently, we started to feel some pressure from our clients with unfavorable shift in the industry sentiment. Despite there is outlook outside issues. The second half of the year has been historically the peak of our sales performances. And we see no reason to believe that the rest of the year will be an exception. We continue to expect 45% to 55% breakdown in revenue between first half and second half. This is the same message that we have been communicating with the market. And given several factors, including first, the share size of the advertising market in China; second, the shift from traditional marketing to digital marketing; and third, the ever increasing penetration rates of marketing automation, we believe that there should be a large runway for us to grow, given our leading position in the market and our demonstrated data and technology capability.

Terence Li - *iClick Interactive Asia Group Limited - CFO & Director*

So Fawne, this is Terence. I think in terms of guidance and in terms of impact of the currency, I think that's definitely something (inaudible) the reason why we are adjusting our guidance right now. Because, as you know, the majority of sales are executed in renminbi and -- but our reporting currency is U.S. dollar. So the volatility in foreign exchange rate do have an impact to us to a certain extent. So as in the first half of 2019, and there was around a 7% impact as we also disclosed, the trade conflict gradually evolve into currency issues. And we believe it is reasonable to assume that it would have some continued kind of impact and unfavorable influence on our reporting performance. That's why we have revised our new guidance. And right now, the expectation is a 5% down because mainly of the renminbi depreciation. So our guidance also adjust on the gross profit margin, as you also noticed. I think that echoes on the comment from Sammy that we do see some oversupply of ad inventory in the market right now, and that maybe there will be some impact on the demand as well. So it probably will translate to certain pricing pressure of some of -- from some of our customers. So that's why the full year gross profit margin guidance has also been revised down for 2 percentage point, basically to reflect all these potential impact in our back estimation or kind of like expectation at the moment.

Operator

The next question is from the line of Darren Aftahi of Roth Capital.

Darren Aftahi - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

So if I could go back to guidance, I just want to be clear. So the revision down, I understand the currency impact. Is your revised guidance for both gross profit and revenue changing solely due to Marketing Solutions? Or have you tempered your view on Enterprise Solutions as well?

Terence Li - *iClick Interactive Asia Group Limited - CFO & Director*

Darren, this is Terence. So regarding the guidance question, let me give some more color on that. First, a part of the revision is really mainly because of the renminbi depreciation and mainly on the Marketing Solution part. And we feel that more of the impact would probably be on the Marketing

Solution and more than the Enterprise Solutions at the moment. And this is happening across, I think, different industry in China to feel some of the pricing pressure. But our Enterprise Solutions business, we are still expecting that to remain at a stable kind of like a gross profit margin around the 70% mark that we are still anticipating. So I think our adjustment is mainly coming from that end. So we believe that the Marketing Solutions will feel more pressure on that end. And that's why we adjusted down the margin profile.

Darren Aftahi - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

That's helpful. And then could you talk about -- I think I heard Sammy say that your pipeline of Enterprise Solutions clients is over 50. I'm curious of paying clients, how does that change from the first quarter to the second quarter in terms of absolute paying clients?

Sammy Wing Hong Hsieh - *iClick Interactive Asia Group Limited - Chairman of the Board, CEO & Co-Founder*

So thanks, Darren. So I'll go for this year's target and closed 50 key clients this year. As a reminder, we have already accumulated approximately 10 clients in the first quarter and also another 15 clients in the second quarter, which we enforced our believe that we are on track to reach this target. Our strategy is to acquire several leading clients in each of the vertical as to help us to accumulate industry knowledges and also the best practices. And also, we want to develop a standardized vertical solution, that can help us to launch all the solution much, much faster. This will help us to drive growth and also momentum, even faster within the 12 to 24 months.

Darren Aftahi - *Roth Capital Partners, LLC, Research Division - MD & Senior Research Analyst*

That's great. And then just last one for me. So I do know that you're partnering with a lot of players on Enterprise Solutions. I'm just curious about your thoughts with Salesforce partnering with Alibaba. Obviously, it's a U.S. player partnering with a China-based player. But in terms of scale, that's obviously a competitive threat. So I'm just kind of curious about, one, your thoughts there.

And then two, do you feel like you need to partner with someone larger in order to scale this faster or is it just too early in the lifecycle of this industry (inaudible) at this point?

Sammy Wing Hong Hsieh - *iClick Interactive Asia Group Limited - Chairman of the Board, CEO & Co-Founder*

Okay. So I believe that what you're talking about is a recent partnership with Vector and also the BTG. So we have been progressing smoothly with BTG, including building up consumer data platform, the CDP and also establishing the WeChat mini-programs for a number of business unit for them. So the consumer data platform plays a very key role in that, a centralized processing and also analyze data from marketers' touch points.

Aside from this, we have also begun to establish the WeChat mini-programs to help integrate the online and also off-line data for a number of business units for the BTG. In addition to the business opportunities we see, there remains a huge upside potential for the partnership with the BTG itself, given the number of the significant brands and also business unit, it has under its umbrella.

As a reminder, BTG owns more than 100 brands across more than 6 industry, including restaurants, hotel and lodging accommodations and travel, to name a few. With time, this could eventually become a multimillion dollar contract. Currently, the financial contributions here are limited because there's a requirement to allocate and recognize revenue over time. Given the circumstances we continue to believe the contribution from BTG is more imminent other significant partnership we currently have. This is from the client side. On the publisher side, I hear that your question is regarding the salesforce.com partnering with Alibaba. You think that the partnership of Alibaba and salesforce.com makes sense where each leveraging their respective strength. Alibaba, the largest e-commerce platform in China, has a huge consumer base. And they know the online purchase behaviors of Chinese consumer extremely well, while salesforce.com has been an expert in providing CRM SaaS products for very long time. The teaming up of Alibaba and salesforce.com also highlighted the importance and the potential of the smart retail and definitely raised market awareness in the China market. I think this alliance may force other big players such as Tencent to be more proactive in this area and may benefit us in long term by helping to accelerate the ramp-up of our Enterprise Solution because of the following factors. First, we see that our



Enterprise Solution has a unique offering in the marketplaces, riding on Tencent powerful WeChat platform, which has more than 1.1 billion monthly active users. This platform is easily and convenient for any brand or consumer to adopt in this ecosystem. Second, based on our data analytics capability and deep understanding of the consumer behavior developed in our Marketing Solution unit over the past 10 years, we can help clients centralize and analyze the consumer data, helping them enhance consumer loyalty through the customer relationship management platform and inbound targeted marketing system we establish.

Furthermore, with our experiences, serving top-tier clients, we know how to better fulfill special requests and customize the solution. We believe that our platform will be one of the top choices for both domestic and foreign brands, as we said. We are acquiring a number of leading brands worldwide, including a global oil and gas company and also several luxury brands.

Operator

Next we have is Bo Pei of Oppenheimer.

Bo Pei - *Oppenheimer & Co. Inc., Research Division - Research Analyst*

So I really have 2 quick ones on the Marketing Solutions. So can you first talk about top verticals for the business line? And then, which one of the top verticals are you seeing is the most challenging under current environment? And then, my second question is, if we look at the 2Q gross billing, it actually grew pretty well sequentially, but if we look at revenue pick, it was down a little bit. Could you just explain a little bit on dynamics here?

Terence Li - *iClick Interactive Asia Group Limited - CFO & Director*

Bo, this is Terence. So I think your first part of question is about our growth or driver of the gross billing in this quarter. I think we're growing significantly in terms of gross billing in this quarter. And I think a lot of verticals that we are serving basically show significant uptick in this quarter and including some outperforming vertical like the e-commerce sector and some personal care beauty, food and beverage and also some -- show some uptick. Also some of the slowing or relatively sluggish vertical in the first quarter like automobiles and petroleum because with the size of an enterprise kind in that particular sector as we announced before. So basically it's picking up quite well. And some of the factors [do affect] -- underperforming at the moment, like gaming, entertainment and media, but we also expect that maybe have some comeback as well when all the regulatory issues become more clear. So in terms of the growth on different verticals, that's our understanding at the moment. So your second part of the question is -- can you repeat that, sorry?

Bo Pei - *Oppenheimer & Co. Inc., Research Division - Research Analyst*

Actually it was related one like the gross billing growth was factored in the revenue growth in the second quarter for the Marketing Solutions. Could you explain the dynamics here?

Terence Li - *iClick Interactive Asia Group Limited - CFO & Director*

Okay. Understood. I think if you look at our Q1 and Q2 performance, you can see one difference is basically that our margin profile has a bit difference. So this is attributable to our -- in the first quarter I think we have explained that, we're trying to focus more on some high-margin products and also clients. And then, we can produce a much better profile margins and profit margins. So in this quarter, I think where we have more visibility in the market after the first quarter then we starting to uptick some bigger budget or bigger kinds and kind of managing -- or releasing some of the cash flow to the market then we've been able to attract and get some bigger spending clients. But then, in this regard then we sacrificed a little bit in terms of gross profit margin. So that's why you would see the difference in terms of takeaway and also the growth rate and also the margin profile. But in most of the case or in the current situation, we do like to strike the balance between both the growth and the margin of our clients. So that's our strategy at the moment.



Operator

Next we have is Nelson Cheung of Citi.

Nelson Fuk Lung Cheung - *Citigroup Inc, Research Division - Associate*

I have a question on company investment. With the rise of selling and marketing expense this year or operating expense in general, can management share with respect to what's the sales incentive rate this quarter? And what's your incentive policies for the next few quarters? And in general, can management rank your investment opportunities or priorities in 2019 and in the coming years like is it global expansion or is it your reinvestment in your Enterprise Solution or enhancement in your internal infrastructure?

Sammy Wing Hong Hsieh - *iClick Interactive Asia Group Limited - Chairman of the Board, CEO & Co-Founder*

So I think that I can address the second part, the investment strategy. So when we look at our Marketing Solution business, I think we are still having very steady growth, while we are maintaining the growth on the Marketing Solution, but we'll keep investment into the Enterprise Solution. When you look at our numbers, we have pretty good demand in our pipeline. And also when we look at our Q2 numbers, actually we have over 80% of the revenue growth in our Enterprise Solution. And also, we see that the macro environment, more and more customers, they're looking for the marketing automation to improve their internal efficiency. And also, we have another investment area, will be our international business. So for example, we have a partnership with the VGI, the BTS Group and also we are actively expanding into our Japan and also the Korean market.

Terence Li - *iClick Interactive Asia Group Limited - CFO & Director*

Yes. So for the first part of the questions, I think you talk about or you asked about the operating expenses. I think comparing to the first quarter, we have been growing this likely on a cash (inaudible) basis, around 5%. Sales and marketing is still our largest part of our operating structure and is still taking a major part.

And in terms of commissions basis or the incentive basis, I think in order to push our new Enterprise Solutions and also the sale of some high-margin products such as some of [MCM] products, some of our like (inaudible) products as well, we have been raising some of the sales incentives to these our sales and also we -- also incur extra marketing U.S. globally right now because we're trying to also sell these solutions to different customer. And you can see that we have the initial success with companies like Vector, Thailand VGI or because of these marketing efforts, then we'll be able to secure some of the local partnership and some big resellers agreements or contracts we reach in different regions as well. So I think these investment up front will be paid off in a relative long term. And right now, these structures is relatively stable right now, I would say. Going into the second half and also into the 2020, I think that would be relatively stable. But we do incur the bit more in terms of the sales and marketing at this moment.

Operator

As there are no further questions, I'd like to turn the call back over to the company for the closing remarks.

Lisa Li - *iClick Interactive Asia Group Limited - Senior Manager of IR*

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



Operator

Thank you. This concludes this conference call. You may now disconnect your line. Thank you.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.