

THOMSON REUTERS STRETEVENTS

EDITED TRANSCRIPT

JMIA.N - Q3 2019 Jumia Technologies AG Earnings Call

EVENT DATE/TIME: NOVEMBER 12, 2019 / 1:30PM GMT



CORPORATE PARTICIPANTS

Antoine Maillet-Mezeray *Jumia Technologies AG - CFO*

Sacha Poignon *Jumia Technologies AG - Co-Founder, Co-CEO & Member of Management Board*

Safae Damir *Jumia Technologies AG - Head of IR*

CONFERENCE CALL PARTICIPANTS

Aaron Michael Kessler *Raymond James & Associates, Inc., Research Division - Senior Internet Analyst*

Brian Thomas Nowak *Morgan Stanley, Research Division - Research Analyst*

Mark Stephen F. Mahaney *RBC Capital Markets, Research Division - MD & Lead Internet Research Analyst*

Ralph Edward Schackart *William Blair & Company L.L.C., Research Division - Partner & Technology Analyst*

Sarah Simon *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Jumia's results conference call for the third quarter of 2019. (Operator Instructions)

I would now like to turn the call over to Safae Damir, Head of Investor Relations for Jumia. Please go ahead.

Safae Damir - Jumia Technologies AG - Head of IR

Thank you, Aileen, and good morning, everyone. Thank you for joining us today for our third quarter 2019 earnings call.

With us today are Sacha Poignon, Co-founder and Co-CEO of Jumia; and Antoine Maillet-Mezeray, CFO. This call is also being webcast on the IR section of our corporate website.

We will start by covering the safe harbor. We would like to remind you that our discussions today will include forward-looking statements. Actual results may differ materially from those indicated in the forward-looking statements. Moreover, these forward-looking statements may speak only to our expectations as of today. We undertake no obligation to publicly update or revise these statements.

For a discussion of some of the risk factors that could cause actual results to differ from the forward-looking statements expressed today, please see the Risk Factors section of our final prospectus filed in connection with our initial public offering on April 15, 2019.

In addition, on this call, we will refer to certain financial measures not reported in accordance with IFRS. You can find reconciliations of these non-IFRS financial measures to the corresponding IFRS financial measures in our earnings press release, which is available on our Investor Relations website.

With that, I'll hand over to Sacha.

Sacha Poignon - Jumia Technologies AG - Co-Founder, Co-CEO & Member of Management Board

Thank you, Safae, and welcome, everyone. Thanks for joining the call.



I'd like to kick off by stating our confidence and beliefs in the powerful secular shifts we're seeing in Africa today. Every day, there are more consumers online, and every day, there are more businesses looking for ways to leverage technology to improve their operations and growth. As the leading e-commerce platform in Africa, we are at the heart of this transformation. We have the vision, platform and talent to benefit from this tremendous opportunity.

Our strategy remains centered around the same 4 key pillars: driving the growth of Jumia usage, developing our strategic priority in the fintech space with JumiaPay, driving monetization and continuously improving cost efficiencies. And all this is geared towards taking the company forward on our road map to profitability. Let's take a look on Page 3 at where we stand on each of those pillars at the end of the third quarter of 2019.

On growth, we're making good progress on the usage and relevance of our platform, firmly positioning Jumia as the digital destination of choice for everyday needs in Africa. GMV increased by 39% year-over-year, and number of orders increased more than twice as fast by 95%. We reached 5.5 million annual active consumers, almost 2 million more than a year ago.

On payments, we're making great strides with JumiaPay, which is showing very strong growth momentum in both volume and transaction terms. The JumiaPay on-platform total payment volume increased by 95% year-over-year while the number of JumiaPay transactions accelerated by 262% over the same period. These are excellent results. We're very pleased with the development and traction of JumiaPay.

In parallel with this growth momentum of the marketplace and JumiaPay, we're able to effectively drive monetization of this usage and transactions. Our gross profit increased by 45%, and our Marketplace revenue grew by 52% year-over-year.

And finally, we want the growth and development of JumiaPay to happen in a cost-effective manner. Our adjusted EBITDA loss as a percentage of GMV decreased this quarter by 153 [basis] points on a yearly basis, and our operating loss as a percentage of GMV decreased by 62 basis points.

Let's now review the quarterly performance in further detail. And starting with growth on Page 5. Marketplace growth means for us increasing adoption and usage of our platform, which is clearly reflected in the evolution of our top line growth drivers this quarter. We aspire to be the most relevant e-commerce platform for African consumers and sellers to connect and transact, so we like to measure the usage of Jumia in terms of how many users are browsing; searching for products, information; how many of these users are buying; how many items they buy; how often; how many transactions they do; and, of course, how much they spend.

GMV increased by 39% during Q3 2019. And here, I'd like to point out that the comparison between Q3 '19 and Q3 '18 and between Q2 and Q3 '19 is affected by a change in the commercial calendar dates and, in particular, the Jumia anniversary campaign, which for us is what we call a Tier 1 event, took place entirely over the third quarter of 2018 while about half of it took place this year during the second quarter. And without this change in calendar, the growth rate would have been around 50%.

Annual active consumers grew by 56%, which is the strongest growth level of the past 5 quarters. Our net quarterly consumer adds reached 636,000 consumers this quarter, which is more than double the amount of net quarterly consumer adds over the same period last year.

And our orders grew even faster. The number of orders placed on Jumia this quarter increased by 95% versus the year-ago period. We're very pleased with this momentum because it demonstrates the continuous enhancements we are making to the Marketplace are working. And here, I would like to give you a few illustrations of what we are doing to drive this consumer adoption and usage.

And the first one, if you go to Page 6, is the launch of Jumia Mall, which took place mid-September. We've been serving brands for many years, of course, and they've been using Jumia to engage with users across Africa for some time. Now with Jumia Mall, we have really enhanced the value proposition of our Marketplace for both the brands and the consumers.

We created a dedicated space within the Jumia platform for the brands to better engage and reach online users. The brands can now create a tailored online store with customized content, visual identity to tell the story of their brand with relevant content, words, images and videos. Brands also have multiple services available to them to build awareness and drive online sales performance such as marketing and visibility packages, access to business intelligence and data analytics.



And lastly, we provide a seamless, effortless fulfillment experience for Jumia Mall brands through Jumia Express. We collocate the relevant inventory of brands in our fulfillment centers, offering them an end-to-end fulfillment solution.

The Jumia Mall launch had a lot of traction with brands, and this traction has been broad-based with momentum across major product categories. We have on Jumia Mall beauty and personal care brands like L'Oréal, Johnson & Johnson, NIVEA. We also have fashion brands, electronic brands, the likes of Samsung, Microsoft, HP. In the fast-moving consumer goods, we have very strong household brand names like Unilever, Nestlé, Procter & Gamble, Coca-Cola. And we even have a dedicated e-shelf for Carrefour, where we undertake a core part of their e-commerce operations in Egypt and Kenya.

And less than 2 weeks after its launch as of September 30, Jumia Mall was home to 500 e-shops, representing about 50% of Forbes top 100 consumer brands and approximately 35,000 live products listings. So for us, this is a great success, and we really look forward to welcoming even more brands in the future.

And Jumia Mall is also great for the consumers. If you recall from our past earnings calls, we mentioned that some of the key barriers for e-commerce adoption in our markets are mental barriers as opposed to infrastructure barriers, right, and partly because we have already built the platform and processes to overcome the unique challenges of the physical infrastructure in our markets. And one of these main mental barriers that we continue to hear from our African consumers is the inability to check the product quality when making an online purchase, and Jumia Mall is very much about addressing this mental barrier as we give consumers direct access to the brand, and we provide more comfort around product quality.

We also offer our consumers opportunity for 15-day returns versus 7 days on the rest of the platform for most product categories. And they can also benefit from brand warranty on selected products. And of course, Jumia Express allows faster delivery times, which consumers love as well. So Jumia Mall is really one of the illustrations of our continuous efforts to drive consumer adoption and make Jumia an even more attractive destination for both the sellers and the consumers.

Now if you flip to Page 7, I would like to give you some color on how we drive usage, which is a core part of our Marketplace growth. We've indicated in the past that just less than 1% of retail sales in Africa are happening online. This compares to 10% in the U.S. and more than 20% in China. So growing the marketplace -- the Jumia Marketplace means capturing an increased share of the consumer wallet and shifting a larger proportion of their spend online. That's exactly what we are aiming for through the drive of everyday product categories on Jumia. We want to put Jumia at the heart of the consumption in Africa, catering to the everyday needs of our consumers.

On this Page 7, you can really see what consumers are buying in Jumia and how it's evolving. The size of the circle represents the number of items sold. The percentage on the right is the growth year-to-date in items sold, and the line below -- the bottom of the page is an indicative range of the average item money.

So you can see the following. If you start from the top right, the fastest growing category by far is what we call digital services. These are essentially everyday services that we make available to consumers via our JumiaPay application. They include, for example, airtime top-up, data plan recharge and utility bill payments.

The second fastest category -- fastest growing category, which is almost doubling in number of items sold, is FMCG, fast-moving consumer goods, which include groceries and staples which are typical high-frequency purchases. Both of these categories have an average item value below EUR 10, which make them affordable entry points into the Jumia ecosystem as well as strong drivers of relevance in purchasing frequency.

If you move to the left, we are also very pleased with the momentum we're seeing on our food delivery business, Jumia Food. It's growing by 83% in terms of items sold on a year-to-date basis, and we love food delivery because it's also a high-repeat purchase category. And here, we have an average value which is between EUR 10 and EUR 20.

If you go down, you can see that fashion, which is our largest product category in terms of items sold, and it accounts for almost 1/4 of items sold on our platform, more than the combination of mobile phones and consumer electronics, and it's a very strong category for us, growing 58% in volume year-to-date. And the average item value for fashion is around also between EUR 10 and EUR 20.

And then on the left side, we have categories which have a higher item value, like consumer electronics, phones and home and living. And they're also growing very well between 54%, 63% and 71%. So we are very pleased with these trends because we believe they are a validation by consumers of the relevance of Jumia across a broad spectrum of their needs and particularly everyday products and services.

And this relevance, if you now move to Page 8, translates into an acceleration in our annual active consumers who place more frequent, smaller-sized orders. Annual active consumers have accelerated its up trend this quarter to 56% yearly growth, which is the strongest growth level of the past 5 quarters. Our net quarterly consumer adds reached 636,000 consumers this quarter, which is more than double the amount of the same period last year.

The average order value has decreased from EUR 55 in Q3 of 2018 to EUR 39 this quarter. And at the same time, the average number of annual orders per consumer has increased by 27%, from 3.4 orders to 4.3 orders. And this means that we have more usage, and we also have more data to leverage.

Overall, to wrap up on the growth, we are very happy with the growth of the Jumia usage, and the trends which I have described gives us a lot of confidence that Jumia is at the heart of the secular shift in consumption habits in Africa. Sellers and high-profile international brands are embracing the transformation as evidenced by the successful launch of Jumia Mall.

Let's now move to our second priority, which is JumiaPay and the progress we've been making on this front, and we are now on Page 10. E-commerce marketplaces are very powerful engines to drive payments and build great fintech and payment businesses. Everywhere in the world, some of the leading payment companies were born out of and fueled by marketplaces: PayPal in the U.S., AliPay in China, Mercado Pago in Latin America. And we are following the same path, leveraging our e-commerce platform to drive adoption of JumiaPay wallet with a view to ultimately create the leading payment system in Africa.

If you flip to Page 11, we are currently focused on 3 priorities with JumiaPay. Number one is to drive the adoption and penetration of JumiaPay within our own ecosystem to develop on-platform payment processing. Two is to build our financial services marketplace so that our users, both consumers and sellers, will use JumiaPay to access financial services like loans, insurance and many more. And three is to start processing off-platform payments on behalf of third parties.

Let me give you more details on each, and we start with on-platform payments. JumiaPay is currently live in 6 of our countries of operations, and JumiaPay is designed very much like a PayPal account that can be linked by the consumer to many different payment methods. The JumiaPay wallet can be linked to a debit or a credit card, it can be linked to a bank account, to mobile money wallets. We are agnostic to the underlying payment method that the consumer links to the JumiaPay wallet.

We seek to integrate all the relevant local payment solution for the consumers. JumiaPay is really core to our Marketplace proposition because we want to ensure frictionless consumer experience at checkout, and JumiaPay is key for us because it drives operational efficiency and remove some of the complexity associated with cash on delivery.

We constantly enhance the JumiaPay proposition by adding new and relevant features for consumers. One illustration this quarter is the launch in Kenya of our JumiaPay app, which offer consumers a number of everyday services like airtime recharge and utility bills payment. This allows us to expand the range of services available to consumers, leveraging the convenience of paying with JumiaPay.

The second core component of JumiaPay is our financial services marketplace. Here, we connect financial institutions with our sellers and consumers, and this is a very natural extension of our Marketplace, our existing distribution platform and the multiple use case in our ecosystem. A good example to illustrate this is Jumia Lending, which is a lending service for sellers where we provide third-party financial institutions with data to improve their ability to score the sellers. This helps our sellers to access short-term loans provided by these financial institutions, and we make a commission on the sale of the loans. And we typically here do not take any credit risk on the balance sheet, and we make credit scoring, distribution and collection of loans more effective.



As of September 30, Jumia Lending is also available in 6 markets. And since we launched it in 2017, we facilitated the origination of almost EUR 5 million worth of loans to more than 700 sellers in our platform. The average loan amount is about EUR 3,000, and the average duration was 5 months. And of course, this is also very good for our sellers who can access better financing options thanks to Jumia.

And finally, we are preparing the launch of JumiaPay for off-platform payment processing. As we are driving the penetration of JumiaPay within our own platform, this paved the way for the future expansion off platform. We are building a strong user base. We are building the proof of concept, the case study of success that will serve to expand JumiaPay services off platform.

Today, JumiaPay powers the Jumia Marketplace ecosystem, and tomorrow, it will render the same services to third-party merchants. And those merchants can be either online merchants or off-line merchants, and -- some of which are already selling online through Jumia if you think about, for example, all the restaurants who already are listed on the Jumia Food platform.

The investment we received from Mastercard earlier this year is a great validation of the payment solution we have built but also a tremendous catalyst for further product development and innovation. We are working on a product development road map, which includes initiatives such as QR codes, mobile point-of-sale system, which will support our expansion off platform. The vision behind JumiaPay is powering commerce in Africa and building on payments to offer a relevant suite of financial services to both the merchants and the consumers.

Now to measure the progress, we have introduced 2 new KPIs on JumiaPay, the total payment volume and the number of transactions completed using JumiaPay. On Page 12, you can see that the JumiaPay TPV increased by 95% from EUR 16 million to EUR 32 million in Q3 2019. And this led to an increase in the penetration of JumiaPay with TPV as a percentage of GMV rising from 8% to almost 12% in Q3 2019.

And here, I would like to point out that the penetration is calculated using the total Jumia GMV when JumiaPay is currently only available in 6 markets, right, and some of which were recently launched. If you take the same penetration number in Nigeria or Egypt where JumiaPay was launched earlier in 2017, it is, of course, much higher.

And if you turn to Page 13, the JumiaPay growth trends are even stronger on a transaction basis. Transactions were up 3.5x from about 600,000 transactions last year to 2.1 million this year. And this leads to an increase in the penetration of JumiaPay transaction of our total orders from 16.5% to almost 31% in Q3 of 2019. And again, the same comment here. This penetration is even higher when looking at Nigeria and Egypt.

The very strong growth in JumiaPay penetration is driven by a number of initiatives, of course, the continuous education efforts of consumers on our platform as they become more familiar and comfortable with the JumiaPay solution. It's also supported by incentives such as cashbacks that we offer to consumers for the usage of JumiaPay, the rollout of JumiaPay to more geographies and more Jumia portals. And we also continue to add relevant digital services to consumers on our JumiaPay app. Now in parallel with driving the growth of the usage of Jumia and the development of JumiaPay, we seek to increase monetization and cost efficiency as part of our path to profitability.

And I'll now hand over to Antoine to walk you through our updates this quarter on monetization and cost efficiency.

Antoine Maillet-Mezeray - *Jumia Technologies AG - CFO*

Thank you, Sacha. Hello, everyone. In parallel with driving adoption and usage of our platform, we seek to monetize this usage and transactional activity in a gradual and sustainable manner.

Let's please go to Page 15. As we have discussed in the past, we believe the most relevant monetization metrics for us are market-based revenue and gross profit. We don't see revenue as a meaningful metric to assess the monetization of our business as it is impacted by shifts in the revenue mix between first party and marketplace.

In the third quarter of '19, we continued to see a reduction in the proportion of first-party business in our GMV on a yearly basis. Our Marketplace revenue increased by 52% while our gross profit margin expanded by 28 bps from 6.3% to 6.6% of GMV. Here, I would like to point out the



reclassification of certain types of vouchers from sales and advertising expense to a deduction of revenue in accordance with IFRS 15. This reclassification was recorded in Q3 '19, and the prior periods shown in our financial statements have not been retrospectively adjusted.

You can see on this page the Q3 '19 numbers of Marketplace revenue and gross profit margin prior to the reclassification. Had we applied the same accounting treatment as prior quarters, Marketplace revenue in Q3 '19 would have been EUR 20 million, corresponding to a 60% yearly increase. Similarly, gross profit margin in Q3 '19 would have been 7%, corresponding to a 72 bps margin expansion. The full reconciliation of these figures has been included in appendix.

Moving on to Page 16. We continue to drive monetization from diversified marketplace revenue streams. Commissions, which are charged to our sellers, grew by 27%. Here, the reclassification mentioned earlier impacted this revenue line, and growth on a comparable basis is 52% year-over-year.

Fulfillment, which are delivery fees charged to consumers, grew by 82%. Value-added services, which include services provided to our sellers around logistics, packaging, content creation, grew by 33%. And marketing and advertising, which corresponds to the revenue generated from the sale of a broad range of ad solutions to sellers and advertisers, grew by 125%. The sustained momentum in this revenue stream show the appetite from both sellers and advertisers for compelling offer of digital advertising that can reach a broad base of users while driving measurable performance.

For the first few years of Jumia, we were mostly a commission business from a monetization standpoint. This was the time when sellers were new to our platform and e-commerce in general. We then introduced value-added services and started monetizing them, and we are currently focused on marketing and advertising services. For us, this is a highly attractive revenue stream as there are almost no variable cost associated with these services so it's almost pure incremental margin.

The development of this revenue stream can only happen at the right time in the learning curve of sellers, once they are sufficiently familiar with the platform and are used to its functionalities. We now feel this is the case and are ready to put more attention behind this initiative. For a better understanding of this revenue stream, let's please go to Page '17.

Jumia Advertising is set up as an in-house advertising agency with dedicated marketing and advertising professionals. The target clients for Jumia Advertising are brand advertisers and sellers, advertising agencies and other providers of relevant services and products to our ecosystem participants. Leveraging our unique data and multiple touch points with consumers, we offer advertisers a comprehensive suite of ad solutions, including sponsored ads or sponsored display banners. We also offer sponsored brands, which are ads in a slider format featuring the brand logo alongside a customized headline and a selection of products. CRM tools are also leveraged through the monetization of placement in the newsletter and notifications to app users. And last but not least, the stores within Jumia Mall are a venue of choice for marketing and advertising purposes as brands have the option to select different visibility and advertising packages.

The solutions offer compelling benefits to advertisers, including the ability to target their audience in a very granular manner, leveraging the consumer and purchasing data we have. We are also able to engage consumers at different stages of their journey, prior to the visit to the Jumia platform via our CRM tools or when they are browsing the platform with a purchase intent and even when they receive their package, as we also have the ability to include samples in the packages addressed to consumer and in purchase-specific products. Lastly, we offer advertisers measurable results they can track through specific campaign reporting tools.

Jumia Advertising is a very good illustration of how we think about monetization and how we can leverage our data and usage. It is compensation for service that enhances the performance of our sellers, helping them engage with the online users in a more effective way to ultimately improve their business online and offline.

Let's now move on to cost efficiencies, Page 19. We have 3 types of costs in our P&L. The first one is fulfillment expense. The cost is largely variable and influenced by a number of factors, such as the origin of package, for example, the cost of shipping a product from a cross-border seller based overseas is higher than shipping from a local seller; the destination of the package; as well as the type of goods and its size.

When we compare our mix of packages during Q3 '19 versus Q3 '18, we saw an increase in the proportion of cross-border packages shipped from overseas sellers as well as a higher proportion of packages delivered outside primary cities. This contributed to an increase in our fulfillment expenses

by 55% in the third quarter of '19. The evolution of the fulfillment expense as a percentage of GMV reflects the order and product mix trends we're seeing on our Marketplace. The increased proportion of everyday product in our mix leads to lower average order values which, in turn, drives the fulfillment expense as a percentage of GMV up.

Lastly, another important driver of fulfillment expense is volume. A proxy for looking at our fulfillment expense on a volume basis is the ratio of fulfillment expense per order, which decreased by 20% on a yearly basis. The more orders we have, the more packages we ship, the better the rate we can negotiate from third-party logistics partners on a per package basis for a given route. Similarly, the more volumes we have, the higher the operational leverage on our physical infrastructure.

Our sales and advertising expense is essentially discretionary and is focused towards performance marketing through a wide range of channels. You may recall from our prior earnings the illustrations we gave of the very strong level of Jumia brand awareness in all countries. For us right now, it's not so much about driving more wallet, it's about driving adoption in an effective manner and building customer lifetime value.

While our active consumers increased by 56% and our orders accelerated by 95%, our sales and advertising expense increased by 6% and decreased as a percentage of GMV by 143 bps on a yearly basis. Here, I would like to point out that the reclassification of vouchers as revenue deduction had a positive impact on our sales and advertising. For comparability purposes, we have also shown on this page the Q3 '19 figure of sales and advertising expense prior to the reclassification.

If we apply the same accounting treatment as prior quarters, sales and advertising expense in Q3 would have been EUR 14.1 million, corresponding to a 16% yearly increase. Sales and advertising expense as a percentage of GMV would have been 5.1%, corresponding to a 100 bps decrease on a yearly basis, which is still a very significant efficiency gain. We are very pleased with this performance. It reflects the strength of the Jumia brand, our ability to leverage our unique data, the relevance of our offering for consumers as well as our discipline in terms of sales and advertising investments.

And finally, our third major cost area is technology and G&A. These are mostly fixed and include, for instance, the cost of our tech platform, wages and benefits, fees for accounting and legal, G&A and share-based compensation. Our tech and G&A expense excluding share-based compensation increased by 38% on a year basis, mostly as a result of an increase in staff costs and professional fees.

Here, I would like to point out that '19 saw an overall uplift in our base of G&A as we set up the necessary infrastructure, functions and processes to operate as a listed company. Comparing the G&A costs, excluding share-based compensation from quarter-to-quarter this year shows modest increases in the range of 4% to 5% quarter-on-quarter. We remain focused on driving further efficiencies in our G&A base and are constantly optimizing our operating structure.

Let's move on to Page 20. As a result of increased usage, increased monetization and cost efficiency, we continue to make progress on our path to profitability. Our adjusted EBITDA loss as a percentage of GMV decreased by 153 bps from 18% in Q3 '18 to 16.5% in Q3 '19. Over the same period, our operating loss as a percentage of GMV decreased by 62 basis points from 20.5% in Q3 '18 to 19.8% in Q3 '19.

The key levers to take our business to profitability remain the same: focus on value and margin-accretive growth while continuously driving cost efficiencies. And cost efficiencies mean optimizing variable costs per volume unit through scale and driving operating leverage and fixed cost as well as periodic cost rationalization measures.

Moving on to Page 21. Our path to profitability is further supported by our asset-light business model and favorable working capital dynamics. CapEx during the third quarter of '19 was EUR 1.5 million, which is less than 1% of GMV. We operate Jumia Logistics as a platform with very limited CapEx requirements.

Net change in working capital resulted in an inflow of EUR 0.4 million this quarter, thanks to continuous improvements in inventory management in our retail business alongside a shorter receivables cycle. As a result of these features, our adjusted EBITDA is a close proxy for cash utilization, and the delta between operating cash flow and adjusted EBITDA is less than 6.5%.



Finally, at September 30, 2019, we had EUR 291 million of cash available, including EUR 227 million of cash and cash equivalents; and EUR 64 million of term deposits, which are cash balances locked under 9-month deposit basis.

With that, I'll hand the call back over to Sacha.

Sacha Poignon - *Jumia Technologies AG - Co-Founder, Co-CEO & Member of Management Board*

Thanks, Antoine. And let's wrap up on Q3 performance, and I'm now on Page 22.

If I assess the delivery against our strategic objectives, I'm very pleased with the growth of Jumia usage, especially active consumers and orders. I'm also very pleased with the progress on JumiaPay. And on the monetization front, the take-up of marketing and advertising is very encouraging. When it comes to cost efficiency, I think the sales and advertising performance is really good. We are very efficient on this item, especially considering the growth in platform usage and JumiaPay adoption.

What I am less pleased with this quarter is around the fulfillment expense. And here, it's not about the absolute amounts where we are actually making good progress and efficiency on a volume basis, but it's rather about how much of this amount we are passing through to our sellers and especially our cross-border sellers who are seeing very strong growth momentum at the moment. We are addressing this and fine-tuning our shipping matrix on our cross-border business to ensure more effective pass-through.

Overall, we are absolutely convinced that we have the right strategy to build the winning e-commerce platform in Africa and to take Jumia to profitability. The strong momentum we're seeing on our platform usage and the traction we have with consumers and sellers give us a lot of confidence in the great opportunity we have ahead of us.

Let's now look ahead and talk about initiatives and trends for the coming few quarters. First, growth. Here, our long-term objective is to drive adoption, engagement and the usage of Jumia. This usage is ultimately what drives sustainable revenue and margins as well as the engine for the adoption of JumiaPay. It is very simple. The more people use Jumia, the more data we have, the more we can monetize and the more we are able to drive the adoption of JumiaPay.

In the next few quarters, we're going to focus a lot on consumer adoption, leveraging our high-frequency product categories and services. This will continue to reduce the average order value and continue to make Jumia relevant and accessible to consumers. We're also going to put more emphasis on profitable growth, meaning even more focused on unique economics and long-term consumer lifetime value.

Overall, we expect this to translate into GMV growth of around 20% to 30% for the next 5 quarters, far outpaced by our orders growth which we expect to be above 50%. This is a choice, and here, we are deliberately choosing to drive volumes rather than value in the next few quarters. And of course, we also expect this focus alongside cost rationalization initiatives to support higher margins in 2020 and by higher margins and -- I mean higher gross profit margin and an overall reduction in our cash utilization and adjusted EBITDA loss in 2020.

Secondly, on JumiaPay, here, we are reallocating some of our existing resources, both sales and advertising budget and tech and G&A resources, towards the development of JumiaPay. It's a key priority for us, both payment processing and financial service marketplace, and we really see JumiaPay having huge value-creation potential in the long term.

In parallel, with growth in JumiaPay, we continue to monetize the usage of Jumia with 2 priorities in mind. One is to drive it gradually because as a marketplace, it's very important to keep a good balance between the growth you give to the sellers and how much revenue you extract; and two, to focus on services that enhance the performance of our ecosystem participants, like marketing and advertising, which is a key priority for us at the moment or logistics. Our mission is about serving consumers but also sellers and SMEs and powering their businesses through relevant tools and services.

And finally, in terms of costs, we want to see fulfillment efficiency as we gain scale and operational excellence. We also want to continue to see increased marketing efficiency as we drive adoption, and we want to keep our G&A under very tight control. Here, we regularly review our resources



and capital allocation, and we make adjustments to our portfolio to maximize return on investment and enhance our focus. A number of initiatives are currently underway. We don't expect these initiatives to have a material impact on our financial profile, but for us, this is all about being more efficient in terms of our resources allocation and business focus.

And if you join me now on Page 24, I'll conclude with our long-term vision. We believe we are building the winning platform in a hugely underpenetrated market. Today, we have barely scratched the surface of this huge opportunity. We have decades of growth ahead of us to drive the penetration of e-commerce and digital services in Africa.

We are operating a proven business model, which has been and is still hugely successful in other regions. We've been able to derisk a large part of the execution being so diversified in terms of regions, in terms of categories, being a marketplace with almost no inventory and an asset-light logistics platform. We're very focused on our path to profitability, and we are taking very concrete steps to that effect. Other business models across the world had proven e-commerce marketplaces are very powerful to expand into adjacent categories and new opportunities. For us right now, it's really all about disciplined growth, focusing on our core priorities.

Thank you very much for your attention, and we are now ready to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Aaron Kessler with Raymond James.

Aaron Michael Kessler - *Raymond James & Associates, Inc., Research Division - Senior Internet Analyst*

Maybe just first on the GMV growth. Can you just discuss that a little bit more in detail? Was there any seasonality in the quarter? Any specific kind of categories or regions that were softer as well? And then if we look at Page 7 of the presentation, it looks like some of the categories actually had pretty strong growth, I believe, in orders. Maybe you can just reconcile the strong growth that we see on Page 7 with the reported GMV growth.

Sacha Poignon - *Jumia Technologies AG - Co-Founder, Co-CEO & Member of Management Board*

Of course, Aaron, and thanks for the question. Regarding the calendar effect, to be very precise so you have the exact dates, last year, we organized the Jumia anniversary campaign experience in July. This was between July 16 of 2018 and July 29. And this year, it was organized between June 24 and July 7, right? So here, again, we sometimes move the dates based on the date of Ramadan, for example, or sometimes there's other criteria. So here, there's that.

And if you adjust for that, you have about 50% growth in Q3 '19, which is -- which would have been the growth rate if you apply this impact.

And then, yes, on Page 7, you can see the growth is really on -- the growth that you see in the square next to the circles is in items sold, and this growth is the growth on a year-to-date number, right? So here, we wanted to show what type of categories the consumers are buying and how is it changing over time. So here, you have really, on a year-to-date basis, the volume growth in items sold. And the GMV growth year-to-date, I don't have the number off the top of my head, but it's certainly above 39%, right? So those numbers are in items sold and year-to-date. And so that's maybe your explanation here.



Aaron Michael Kessler - *Raymond James & Associates, Inc., Research Division - Senior Internet Analyst*

Got it. Okay. Maybe just a quick follow-up. On the Jumia Mall, can you just maybe give us -- I know it just launched, but any updates on adoption there, maybe awareness among the Jumia customers thus far for Jumia Mall as well as maybe the monetization structure that can be fairly similar to your current platform?

Sacha Poignon - *Jumia Technologies AG - Co-Founder, Co-CEO & Member of Management Board*

Yes, good question. And it's a bit early. We launched Jumia Mall on -- really on September 15, right? So this was part of our kind of back-to-school launch, and we -- it's a bit too early to tell. Certainly, you can see the success from a brand perspective, and this is a lot of the brands we have been working with over the years as well as a few of them which are new. So here, it's a little bit too early to tell.

Certainly, on the monetization front, right, really, we have a structure of monetization which includes the usual, which is the commission and some of the value-added services. But of course, the intention with Jumia Mall is to provide also quite a lot of advertising and visibility and data services. And we know that those sellers and typically those brands are very eager to get more data on their consumers and on their online business. They're also eager to build their brand and build their awareness with some consumers which don't necessarily know the brand. And of course, they are using Jumia Express, which is part of our monetization initiative. So definitely, here, this is how we see the monetization and feel pretty confident that the value position is extremely relevant to that effect.

Operator

Our next question comes from Ralph Schackart with William Blair.

Ralph Edward Schackart - *William Blair & Company L.L.C., Research Division - Partner & Technology Analyst*

Sacha, on the call, you talked about a few strategic initiatives for 2020, reducing losses, increasing marketing services, expanding JumiaPay, et cetera. Maybe you could just take a step back and summarize your top strategic priorities for 2020. And then after you sort of execute against some of these initiatives, how should we think about GMV growth sort of coming out of that? I think in the near term, you talked about 20%, 30%, but obviously, the platform has grown more than double that historically. Just sort of if you could summarize those thoughts and help us think about the long-term GMV opportunity would be helpful.

Sacha Poignon - *Jumia Technologies AG - Co-Founder, Co-CEO & Member of Management Board*

Of course, and thanks for the question. I think we are very much focused on the same key 4 pillars, right? And those are growing the usage, JumiaPay, monetization and cost efficiency, right? Then we manage this equation, if you will, because each of those objectives is somehow conflicting with each other on a dynamic basis. And when we look at 2020, we definitely want to push on those 4. We want to put special emphasis on cash discipline, cost efficiency, and this is why we are taking some of those measures I mentioned. We want to very much continue on monetization and JumiaPay. And in terms of growth, we want to be a bit more selective with our growth. We want to be focused on profitable growth, and we want to pursue faster growth of volumes and users rather than the GMV, right?

So I think that's how we really see 2020. Again, it's the same priority, but with different nuances. And ultimately, for us, again, it's really being -- focusing on the usage of Jumia. If I think even longer term than 2020, e-commerce today is less than 1%, and I think we all here realize that the opportunity is huge. And we have hundreds of millions of consumers to go after in the long term, and we have billions of GMV to go after, right? So for us, it's all about solving for the right equation at the right time and making sure that we build a very strong platform for the long term. And right now, we feel that this -- for the next 5 quarters, those are the real priorities for us to continue, to drive the usage and make good steps towards profitability together with JumiaPay.



Operator

Our next question comes from Mark Mahaney with RBC Capital Markets.

Mark Stephen F. Mahaney - *RBC Capital Markets, Research Division - MD & Lead Internet Research Analyst*

Can I throw 3 questions out? First, could you provide a little color on which countries seem to be performing better than others? Secondly, could you lay out some expectations for JumiaPay adoption? At what point do you think the JumiaPay could be -- reach 50% of GMV? And then third, maybe most importantly, could you talk about the path to profitability? Update us on your thoughts as to when and how you reach EBITDA breakeven.

Sacha Poignon - *Jumia Technologies AG - Co-Founder, Co-CEO & Member of Management Board*

Thanks, Mark. On the countries, we do not disclose this information, so I'll have to skip this one. And at some point, we may provide some geographical breakdown. What I can tell you is that we see a lot of momentum pretty much across the board, but we don't disclose that.

In terms of JumiaPay, that's something that we want to drive in a very effective and gradual manner. If you look at Nigeria and Egypt where we have launched JumiaPay in 2017, you know actually that the penetration is already above 50% because this is what we had published last year in Q4, right? So we have already achieved that milestone in 2 markets, and I can tell you that the penetration right now is even higher, right? It kept increasing in those markets.

So here, we want to continue to drive this increase. It's hard to tell when it will take place at the group level because we have launched recently a few more markets, and we try to balance, of course, the penetration of JumiaPay with the efficiency of our sales and advertising investments as well as the growth of the marketplace. So it's really a combination that I think it will happen sooner or later. And then given that it's already happened in Egypt and Nigeria, we think we can confidently say that it will happen in the future also at the group level.

Then when it comes to path to profitability, this is something that we have really been focusing. And we've been clearly explaining that our strategy is not just about growth but about reaching profitability, and this remains completely valid. We are very focused on that. And what matters for us right now is really to continue to execute on those 4 pillars because we really believe those are the key to drive profitability, right? So driving the usage, extracting more revenues and gross profits from that usage and -- with our monetization stream and working on our cost efficiency in order to make steps toward profitability.

And here, right now, we are really focused for the next 5 quarters to start reducing our adjusted EBITDA loss, right, and our cash utilization. So we want to start seeing a clear trend. And we've been reporting and measuring the progress rather as a percentage of GMV, and now we want to start seeing, over the next 5 quarters, the trend in absolute, right? And we want to see the cash burn going down, and we want to see the adjusted EBITDA [loss] going down. Again, over the next 5 quarters, this is really our priority to deliver, and we're going to do that by just doing what I have been saying, which is to grow the usage efficiently, focus on profitable growth, focus on very attractive categories and CLV, drive monetization effectively and cost efficiency. And you've heard some of the measures we're taking on cost efficiency.

Operator

Our next question comes from Brian Nowak with Morgan Stanley.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I have 2. Just, Sacha, the first one is on sort of the comments around more profitable and disciplined growth. Just so we could sort of understand from an external perspective, could you sort of give us a couple of tangible examples of areas in which you see yourself changing the strategy,



where you were previously acquiring unprofitable growth, now you kind of want to focus more on profitable growth? What's changing sort of mechanically? A couple of examples there.

And then the second one, just to kind of go back to the last question. So it sounds like the next 5 quarters are a focus on profitability. So the way to think about it, you see a path toward breakeven 5 quarters from now or is it still further out from a breakeven perspective?

Sacha Poignonnec - *Jumia Technologies AG - Co-Founder, Co-CEO & Member of Management Board*

Thanks, Brian. And I'll start with the second question. No, it's still further out, right? And we are really building for the long term, and I think what we want is that -- we are clear on what we are steering the business for in the next 5 quarters, right? So we want to really go after the same 4 priorities because we want to clearly see a reduction in cash burn, right? It's not going to take us to profitability within those 5 quarters, but we want to start seeing some steps. And I think we've made a lot of great steps over the last quarters, but we now want to add one, which is to reduce our adjusted EBITDA [loss] in absolute number and the cash utilization in absolute, but we will need more time than those 5 quarters to get there.

On the first one, it's a very good question, and it's very much around very granular decisions that we make in terms of marketing efficiency, in terms of the category mix, in terms of how we drive the CLV of consumers, right? So again, to take a very, very simple example, right, when you do a promotion and when you do a voucher or a coupon for certain consumers, you can decide to give a 2% reduction or you can decide to give 3% reduction. If you give 3% reduction, you'll get more people coming but you will spend more money. And inevitably, there's a certain level which is the right level, and you can adjust this level with time. And overall, if you put a little bit more stringent criteria with your investments in terms of marketing intensity in terms of the discounts, in terms of commissions or reductions that you give to the sellers, you will have some of that. And this is something that we feel very comfortable doing now because you can see the dynamics that you see in the Marketplace.

I mean if you look at Q3 and you look at the increase in sales and advertising year-over-year, we are at 6% reported and 12% if you adjust for the reclassification. So we increased sales and advertising by about 12%, and we doubled the number of orders. We had the fastest growth over the last 5 quarters of consumers, still 39% GMV. We doubled the penetration of JumiaPay, and we drove almost 1 point of increase of gross profit. So it's really about creating the tension in the equation -- in the commercial equation to make sure that you see a lot of growth while a very tight discipline on sales and advertising and monetization.

Operator

(Operator Instructions) Our next question comes from Sarah Simon with Berenberg.

Sarah Simon - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

I've got 2 questions, if I may. First of all, first one is around cash flow breakeven. You said before you thought you had enough resources to get to breakeven. Do you still think that's the case? And then the second one, obviously, you said that if you adjusted for the phasing of Jumia anniversary, the growth's kind of 50% in terms of GMV and the new guidance is for, let's say, in the middle of the range, about half of that. Is it reasonable to assume that the categories you're going to be less focused on are those over EUR 20 ones that you were showing on Page 7? Or are we talking -- because obviously it's quite a big step down. Or is it something else?

Sacha Poignonnec - *Jumia Technologies AG - Co-Founder, Co-CEO & Member of Management Board*

Yes. Thanks, Sarah. On the cash, we currently have roughly EUR 300 million of cash and -- cash on bank and short-term deposits, and our Q3 cash utilization was around EUR 44 million. Now obviously, as part of our path to profitability, we are working on reducing the cash utilization in the next few quarters, as I was saying. And the path to profitability is going to be gradual, and a key milestone obviously is to reduce the cash utilization and adjusted EBITDA [loss] in absolute value, right? So here, this is our focus, and this is really what we want to do over the next 5 quarters, and as we do that, we can talk again about this question.

Then in terms of the growth of the GMV, again, for us, it's really about where do we see the most attractive traction in terms of usage. And you are right that certain of those categories, when we look at the CLV, in particular, right, those are sometimes categories where you have less frequent purchase and which require more investment, either in marketing or discounts. So it's really in the commercial equation that we're going to play, and right now, we have those amazing food delivery, digital services, FMCG and beauty, which are growing so well. So we're going to ride this wave, right?

So I think you can see that the mobile phones are still growing very well, but the other ones are growing even better, right? So I think it's really growing where there's opportunity, that we have a great and powerful engine with those categories and we want to really leverage that. It's not that we want to go away necessarily from the other ones. And I think you see that they are still growing very, very well. And consumer electronics is growing 71% in volume this year, but we want to be selective in the commercial equation and the commercial intensity. And it's that the other ones are growing so fast, right? So as they do that, the mix is going to evolve but not because the other ones are growing so slow, it's because they are growing very fast.

Operator

As we have no further questions, this will conclude our question-and-answer session and also our conference call for today. Thank you for attending today's presentation. You may now disconnect.

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.