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2019 Q2 Earnings Call

Aug 15, 2019

To build the largest integrated online and offline healthcare platform in China powered by technology

YI Nasdaq Listed



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This document contains forward-looking statements. These statements constitute "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "target," "confident" and similar statements. Among other things, the Business Outlook and quotations from management in this announcement, as well as 111's strategic and operational plans, contain forward-looking statements. 111 may also make written or oral forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission, in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Such statements are based upon management's current expectations and current market and operating conditions and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the Company's control. Forward-looking statements involve inherent risks, uncertainties and other factors that could cause actual results to differ materially from those contained in any such statements. Potential risks and uncertainties include, but are not limited to, uncertainties as to the Company's ability comply with extensive and evolving regulatory requirements, its ability to compete effectively in the evolving PRC general health and wellness market, its ability to manage the growth of its business and expansion plans, its ability to achieve or maintain profitability in the future, its ability to control the risks associated with its pharmaceutical retail and wholesale businesses, and the Company's ability to meet the standards necessary to maintain listing of its ADSs on the Nasdaq Global Market, including its ability to cure any non-compliance with Nasdaq's continued listing criteria. Further information regarding these and other risks, uncertainties or factors is included in the Company's filings with the U.S. Securities and Exchange Commission. All information provided in this press release is as of the date of this press release, and 111 does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under applicable law.

This document also contains non-GAAP financial measures, the presentation of which is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with accounting principles generally accepted in the United States of America. In addition, the Company's calculation of these non-GAAP financial measures may be different from the calculation used by other companies, and therefore comparability may be limited. The reconciliation of those measures to the most comparable GAAP measures is contained within this document or the earnings press release.

This document speaks as of June 30, 2019. Neither the delivery of this document nor any further discussions of the Company with any of the recipients shall, under and circumstances, create any implication that there has been no change in the affairs of the Company since that date.



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Section 1

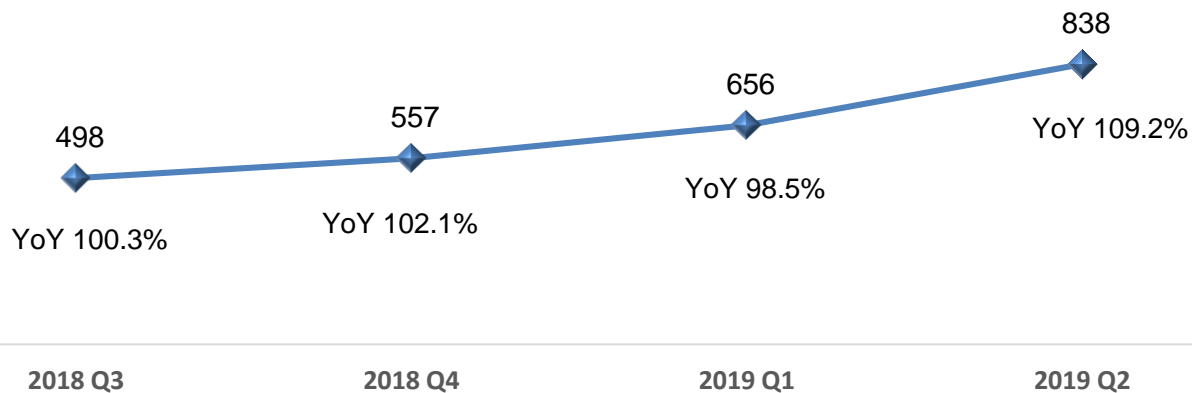
BUSINESS PERFORMANCE HIGHLIGHTS



We Have Consistently Exceeded the Quarterly Guidance

Net revenues were **RMB838.2 million**, representing **109.2%** and exceeding the high end of our guidance of RMB805 million.

(RMB Million)



Our Strong Growth in Both Net Revenue and Gross Profit



Net Revenue

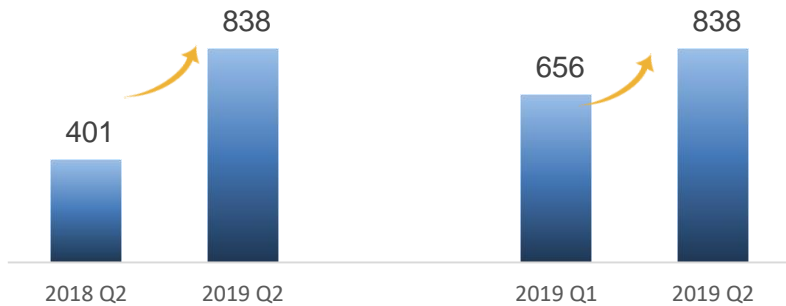
+109.2%

YoY

+27.8%

QoQ

(RMB Million)



Gross Profit

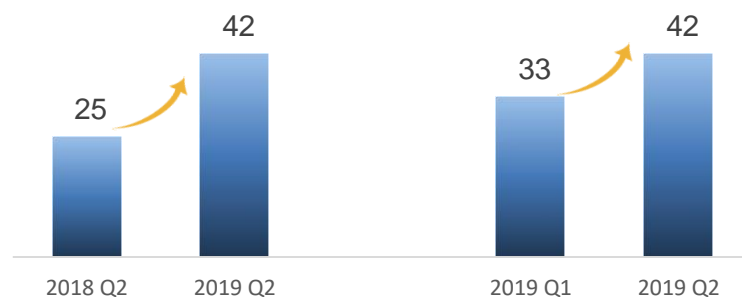
+72.0%

YoY

+26.5%

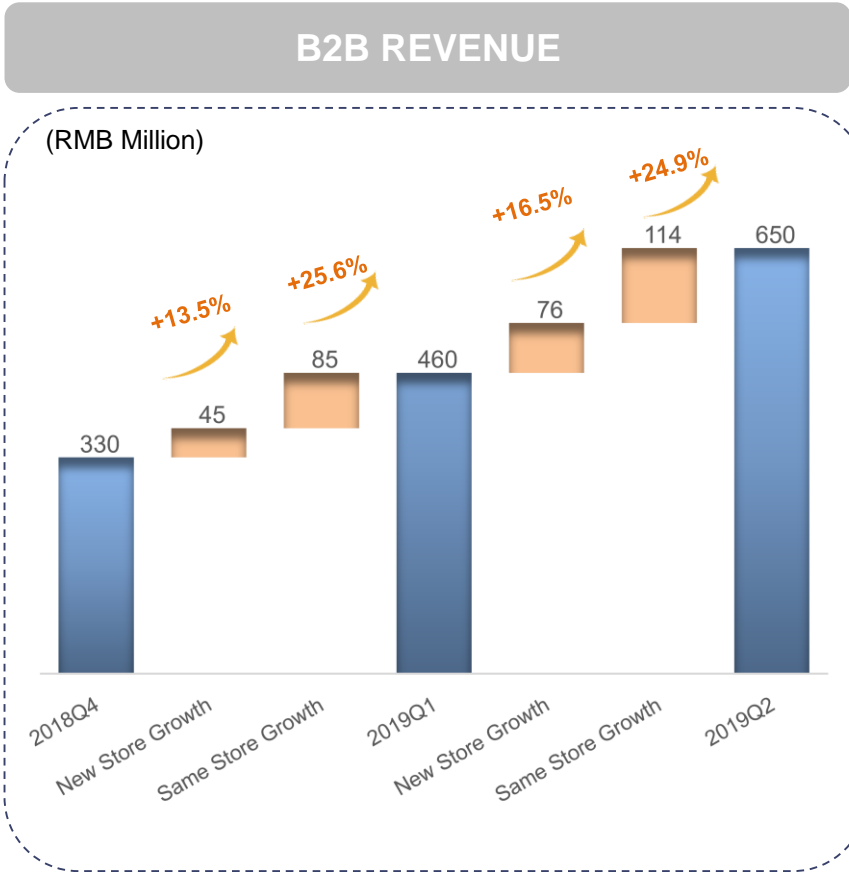
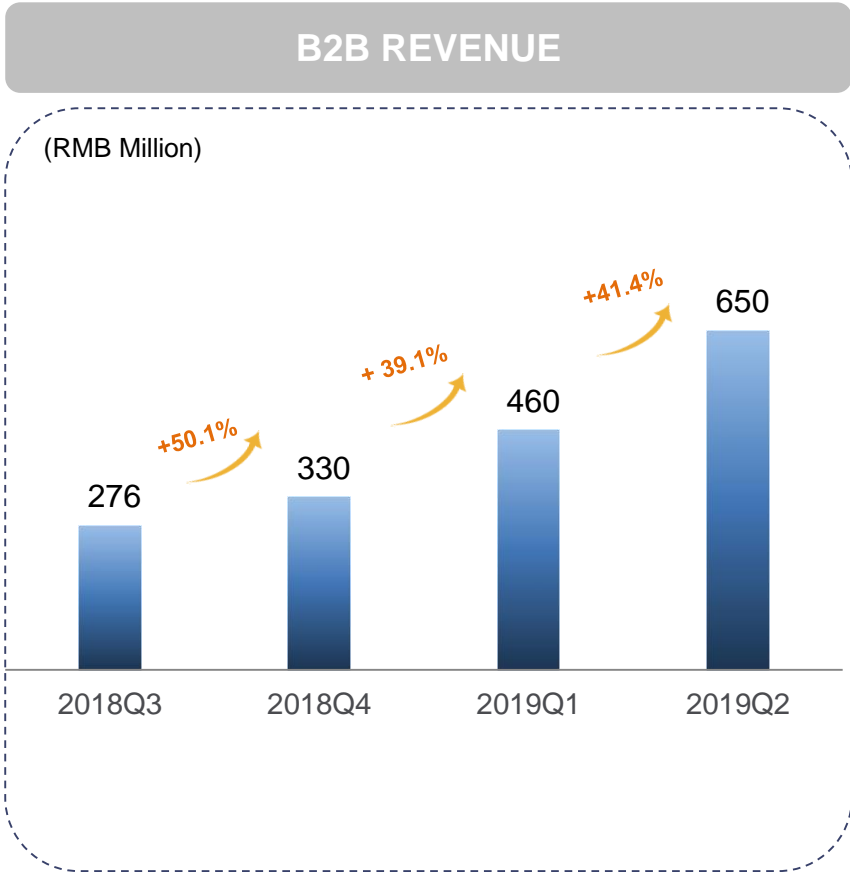
QoQ

(RMB Million)



Note: Gross Profit = Net Revenue - COGS

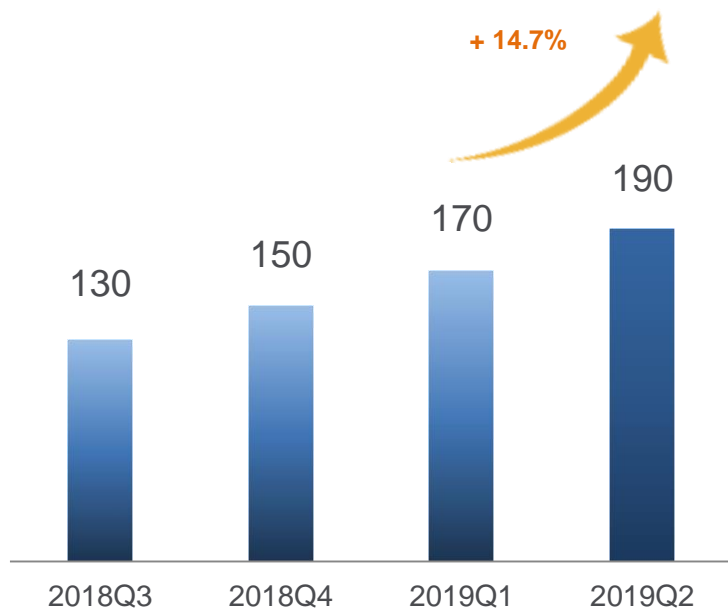
Accelerated B2B Revenue Growth in Both Existing and Newly Added Pharmacies



Fast Expanding Customer Base and Enhanced Stickiness...

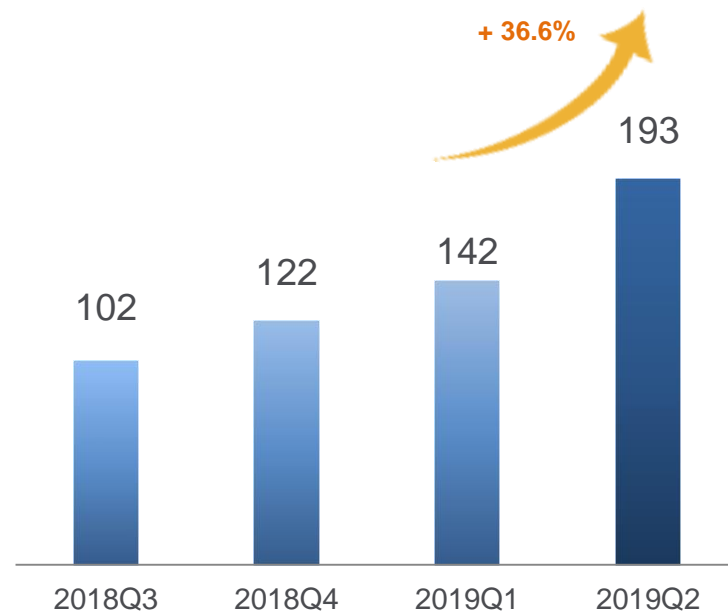
NO. OF PHARMACIES

(RMB 000s)



NO. OF ORDERS

(RMB 000s)



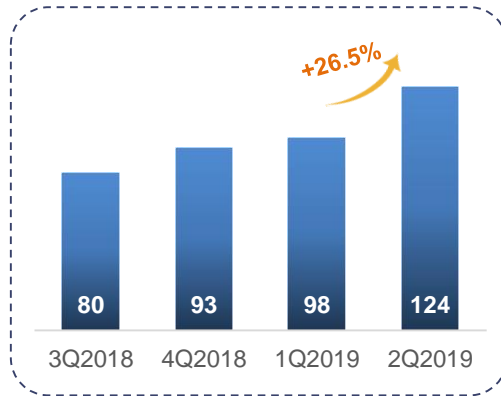
...With Fast Expanding Supplier Base

Values Brought to Our Suppliers

- ✓ Cover sales channels beyond the public hospital system
- ✓ Supply chain management services
- ✓ Precision marketing and branding service
- ✓ Data service
- ✓ Financial service
- ✓ CRM solutions



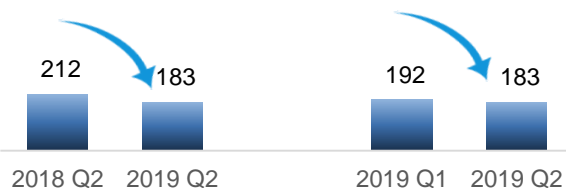
Number of Direct Sourcing Pharmaceutical Companies



Gross Margin of B2C Business Has Been Significantly Improved

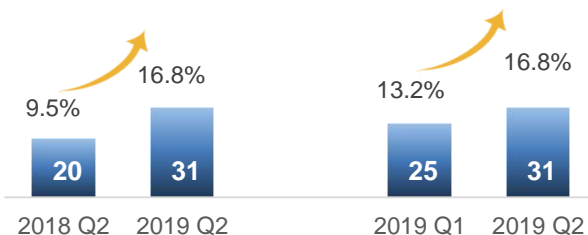
REVENUE

(RMB Million)



GROSS MARGIN

(RMB Million)



Restructured B2C business and achieved historical high gross margin in B2C business, representing **55%** YOY growth

➤ Focus on medical type users, instead of consumer type users

➤ Shifting money losing categories to marketplace and bringing in high margin selections

➤ Create good customer experience via professional medical services

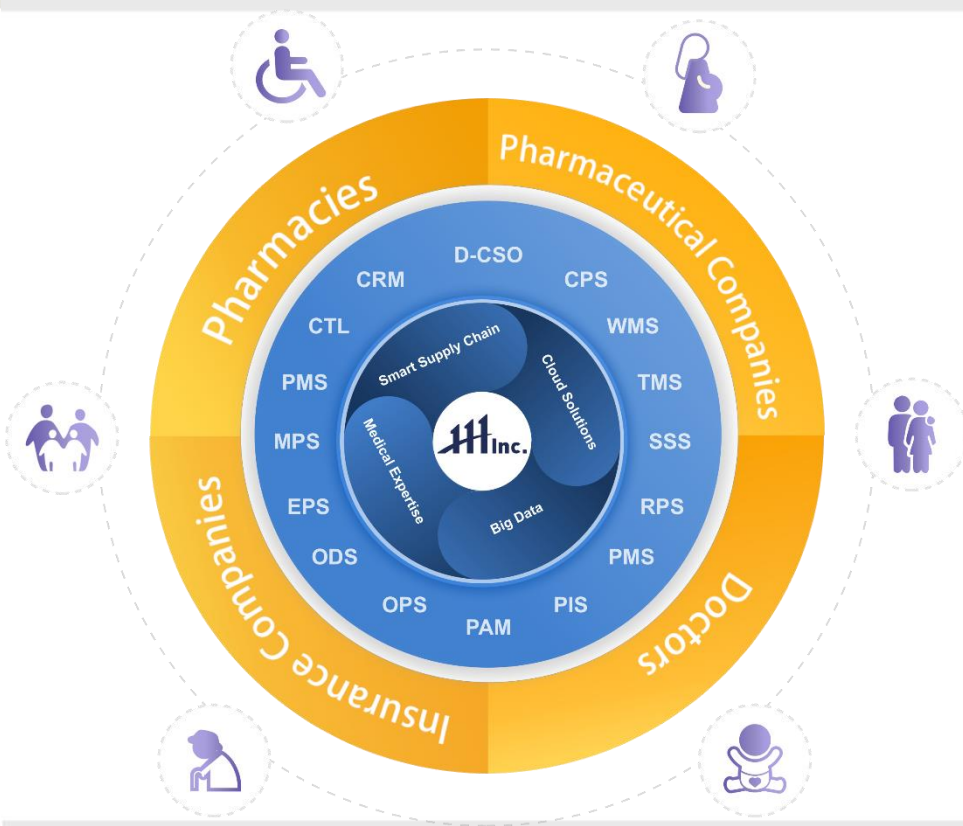
➤ More effective marketing

Section 2

STRATEGY EXECUTION



Committed to T2B2C Model



- Leverage Technology to Enable Businesses to Better Serve Consumers



T2B2C Model to Enable Pharmacies



T2B2C Model to Enable Pharmaceutical Companies



T2B2C Model to Enable Insurance Companies



T2B2C Model to Enable Doctors



To Build The Largest Integrated Online and Offline Healthcare Platform in China



124 direct-sourcing leading pharmaceutical companies



Virtual network with **190,000+** pharmacies



4 smart supply chain centers



2000+ in-house & contracted medical professionals



2 strategic insurance partners



30+ proprietary IT systems

Section 3

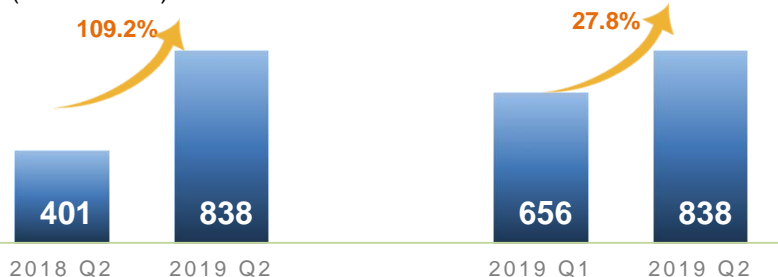
FINANCIAL REVIEW



Strong Top-line Performance Driven by B2B Segment...

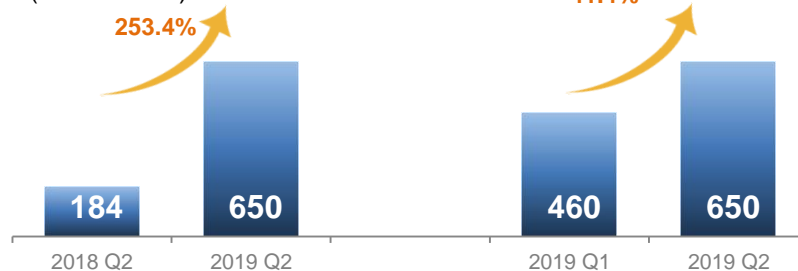
REVENUE – TOTAL

(RMB Million)



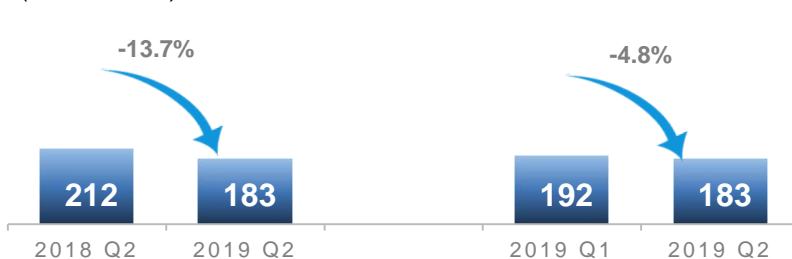
REVENUE – B2B

(RMB Million)



REVENUE – B2C

(RMB Million)



REVENUE – OTHERS

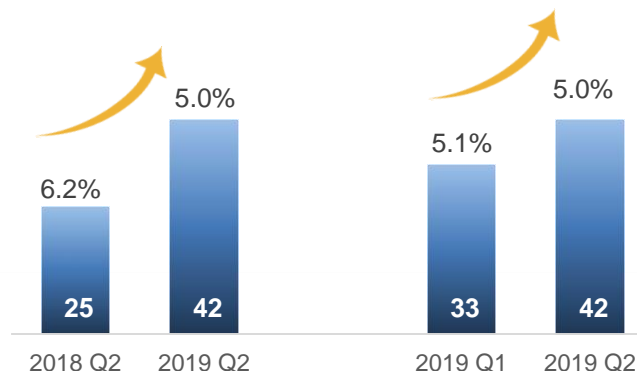
(RMB Million)



And Gross Margin Improved for Both B2B and B2C Segment

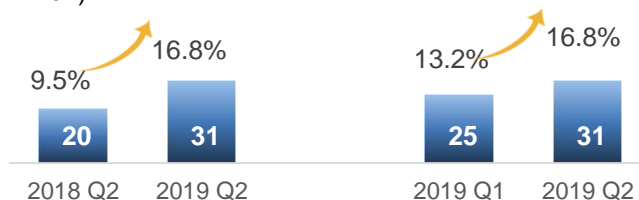
GROSS MARGIN – Total

(RMB Million)



GROSS MARGIN – B2C

(RMB Million)



GROSS MARGIN – B2B

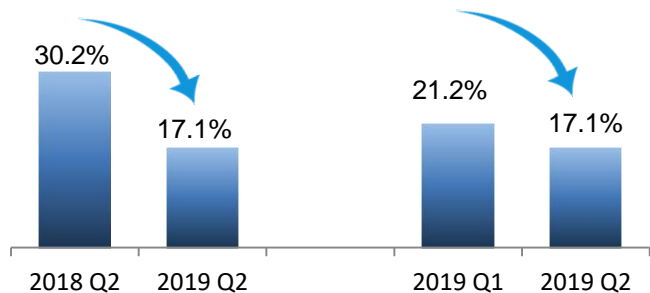
(RMB Million)



Note: Total Margin% = (Net Revenue – COGS)/Net Revenue, B2B Gross Margin% = (B2B Product Revenue – B2B COGS)/ B2B Revenue, B2C Gross Margin% = (B2C Product Revenue – B2C COGS)/B2C Revenue

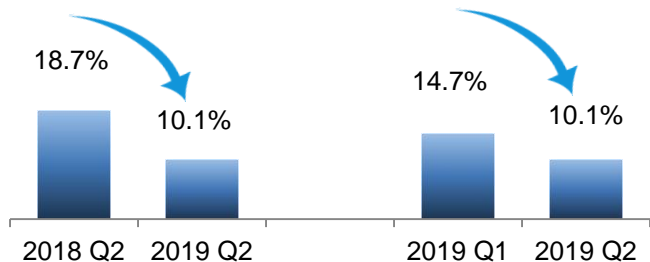
Operating Expense And Non-GAAP Net Loss Decreased as % of Net Revenue

OPERATING EXPENSE AS % of NET REVENUE



	2018 Q2	2019 Q2	2019 Q1	2019 Q2
Total	30.1%	17.0%	21.5%	17.0%
Selling and Marketing	15.5%	9.0%	11.6%	9.0%
G&A	6.0%	3.3%	4.3%	3.3%
Technology	4.4%	1.4%	2.4%	1.4%
Fulfillment	4.2%	3.3%	3.2%	3.3%

NON-GAAP NET LOSS ATTRIBUTABLE TO ORDINARY SHAREHOLDERS



Down
860 BPS
YoY

Down
460 BPS
QoQ

Section 4

2019 Q3 GUIDANCE



2019 Q3 Guidance

For the third quarter of 2019, the Company expects total net revenues to be between **RMB1 billion** and **RMB1.05 billion**, representing year-over-year growth of approximately **101.0%** to **111.0%**.

Section 5

Appendix



Selected Balance Sheet Summary

RMB '000	As of	
	December 31, 2018	June 30, 2019
Cash and cash equivalents, restrict cash and short-term investment	1,106,545	987,243
Total current assets	1,507,097	1,644,696
Total assets	1,546,418	1,734,089
Total current liabilities	314,519	697,862
Total liabilities	322,654	697,862
111 Inc's equity	1,224,276	1,037,621
Non-controlling interests	(512)	(1,395)
Total liabilities and shareholders' equity	1,546,418	1,734,849

Selected Income Statement Summary

RMB '000	For the three months		For the six months	
	Ended June 30,		Ended June 30,	
	2018	2019	2018	2019
Net Revenues	400,740	838,161	730,945	1,493,762
Cost of product sold	376,270	796,066	665,349	1,418,401
Fulfillment expenses	16,865	27,421	31,184	48,674
Selling and marketing expenses	62,478	75,038	104,474	150,499
General and administrative expenses	24,030	28,510	38,255	56,044
Technology expenses	17,466	12,299	30,648	27,329
Loss from operations	(96,089)	(100,839)	(138,264)	(207,346)
Interest expense (net) and other loss (net)	(9,079)	(143)	(8,810)	12,253
Net Loss attributable to ordinary shareholders	(86,372)	(100,226)	(128,326)	(218,716)
Non-GAAP net loss attributable to ordinary shareholders	(74,752)	(84,650)	(108,040)	(180,913)

Non-GAAP Financial Measures Reconciliation

Non-GAAP Net Loss,

RMB '000	For the three months		For the Six months	
	Ended June 30,		Ended June 30,	
	2018	2019	2018	2019
Net loss attributable to 111 Inc	(86,370)	(100,226)	(128,326)	(218,717)
Add:				
Share-based compensation				
Selling and marketing expenses	5,500	6,518	10,151	12,190
General and administrative expenses	4,831	7,424	7,929	11,403
Technology expenses	1,288	1,634	2,206	3,211
Long-term investment impairment	-	-	-	11,000
Non-GAAP net loss	(74,751)	(84,650)	(108,040)	(180,913)

