



JUMIA TECHNOLOGIES AG



Memo To The Market

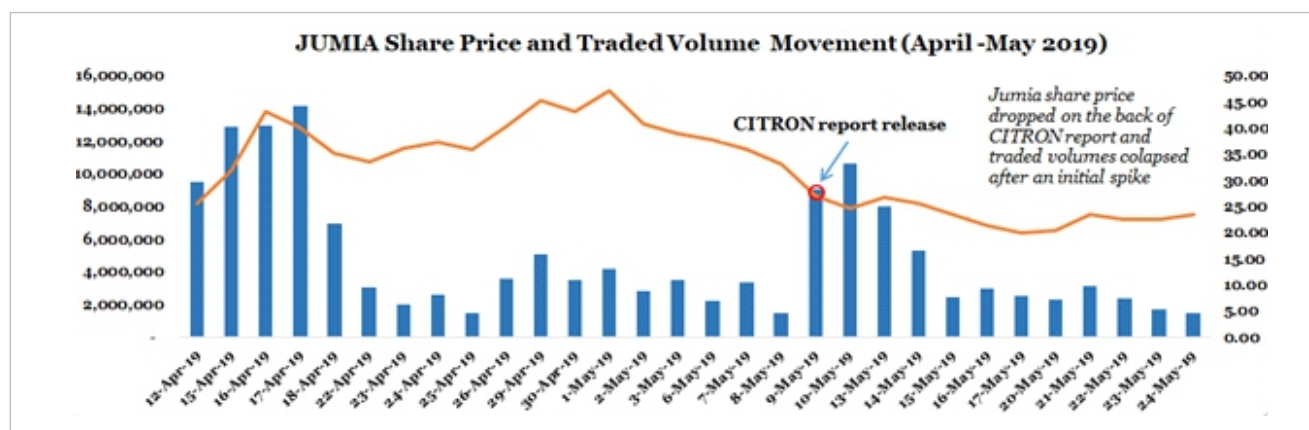
JUMIA's IPO and Q1 2019 Result; Understanding The Numbers and Ignoring the 'Noise'

May 2019

JUMIA's IPO and Q1 2019 Result; Understanding The Numbers and Ignoring the 'Noise'

Africa's largest digital retail platform, Jumia Plc, has over the last two weeks been in the eye of a contrived storm as short trader, CITRON, leading the charge with a research report claimed that JUMIA's recent Public listing on the New York Stock Exchange (NYSE) was a 'fraud'. The onslaught which was quick, decisive and deliberate has proved to be largely unfounded. Since the release of the CITRON report the share price of Jumia has tumbled on the NYSE from \$45 per share at the beginning of May 2019 to \$23 per share on 16th May 2019 three days after the company held its Conference Call meeting with analysts on its Q1 2019 results. The slide in Jumia's recent share price could have created a potential profit taking return of +49% (before adjustments for trading costs and tax) if the stock had been sold at the beginning of May when it traded at a price north of \$43 per share; this would have been equivalent to an annualized gross short selling yield of +297%.

Chart 1 Jumia Price and Volume Movement April –May 2019



Source: NYSE/ Proshare research

The premises for this brief are as follows:

- ❗ The report on JUMIA by CITRON Research that by omission or commission created a short sell opportunity for traders on the NYSE
- ❗ The report by Citi Bank that reviewed Jumia's performance in 2018 and Q1 2019 and explained the reasons for discrepancies between operating practices in emerging markets and the practices and cash flow patterns in more matured economies
- ❗ The need to situate analysis and research in the context of the weight of evidence rather than conjecture
- ❗ The professional imperative of creating a Chinese wall between market research and market trading

As a shorting gamble the move was brilliant (and perhaps borderline legal), but as a position taken for the protection of investor value it was mildly reckless. As much as analysts should intervene in market situations with relevant information that serves as guidance for fair pricing, it is dubious to raise issues of pricing without considerable body of verifiable evidence to substantiate technical market claims.

In the case of Jumia, for example, the discrepancy between data presented in a privately circulated roadshow memorandum in October 2018 would understandably be different from that contained in an IPO information memorandum containing figures from audited accounts as reflected in a public offer in April 2019. Restatement of accounts is an acceptable account practice that does not imply fraud but refers to adjustments made based on new treatment of available operating data and accounting principles such as IFRS16 that replaces IAS17 in respect of the treatment of leases, for example.

Badmouthing A Verdant Consumer Market

Badmouthing a vibrant African digital consumer retail market like Nigeria and characterizing it as corrupt and unfit for ecommerce interaction is naïve and Uncharitable. To prove the point, MTN, Africa's largest telecommunications conglomerate, has continuously recognized Nigeria as one of its most successful forays outside its home country, South Africa, and provides the Group with one of the highest average revenue per user (ARPU) on the continent. MTN today, May 16th 2019 listed 20.4bn units of its ordinary shares on the Nigerian Stock exchange (NSE) by way of introduction; it is difficult to see how a globally recognized and financially savvy, Telco company like MTN would list in a country that is tainted by commercial business malpractice and hobbled by stifling and widespread corruption. The narrative is both silly and clearly wrong.

As a respected continental financial information hub itself, **Proshare**, recognizes and understands at a very visceral level that finance and business analysts must protect the integrity of their reports by treating facts as sacred and opinion as free; analysts must avoid the temptation of diving into a self-serving interpretative pool that suits their wild fantasies or undisclosed commercial interests. Nigeria is no paradise but it is equally no hell, business or otherwise.

The Jumia Challenge

Jumia is not without operating challenges but these are understandable in an environment that is still predominantly cash-based and where digital retail business is just taking off. The journey is not the destination.

JUMIA's Q1 Jump

Ignoring the noise about its quality of business earnings and alleged fraud perpetuated by its JForce partnerships, Jumia has presented a Q1 2019 statement of financial position that highlights a number of operating facts:

Profitability

Ecommerce businesses by nature have long lags before they turn the profit corner. Amazon had a ten year profit lead time before investors started seeing positive earnings per share; the same was true of Ali

Baba and Google, Jumia is likely to follow a similar trend.

In Q1 2019 the loss for the period rose by **+34.3%** rising from a loss of Euros 34.1m in Q1 2018 to a loss of Euros 45.8m in the contemporary period of 2019. On the face of it this looks bad, but ecommerce corporate analysis differs from the typical company.

Understanding the Earnings and Cost numbers

What is important in the analysis of financial statements of ecommerce enterprises such as Amazon, Google, Ali Baba and Jumia are not their gross sales and cost of sold goods sold but their gross merchandising values (GMV) and their fulfillment expenses. Jumia's GMV or the sum of goods bought by active customers multiplied by the average price of goods sold rose from Euros 152m in Q1 2018 to Euros 240m in Q1 2019, a rise of **+58%**; over the period active customers rose from 3m in Q1 2018 to 4.3m in Q1 2019 representing a growth of **43.3%**. The company's gross profit as a proportion of GMV rose from **5.6%** in Q1 2018 to **6.5%** in Q1 2019 indicating stronger underlying profitability in its core business activities.

If Jumia is to ensure sustained business viability it will have to continue to grow both active customers and its GMV, active customers may have to grow by an average of **25%** per annum over the next six years while GMV may have to grow by between **30 and 35%** per annum. Another variable that will need to improve is the company's monetization rate. This refers to the ability of the company to generate money from its different bouquet of services. Analysts believe that one key area that would need to drum up larger revenues is advertising income on the platform, a trend that seems to be already underway.

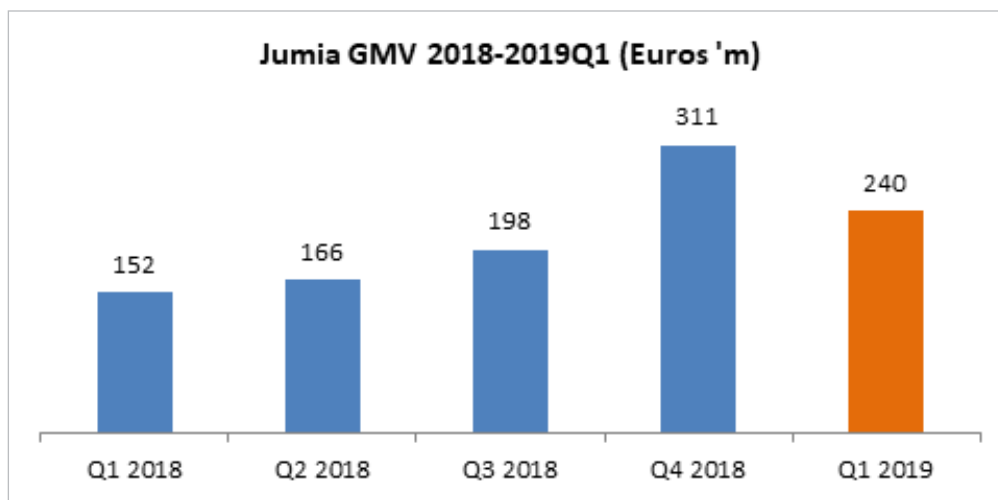
The platforms tech and content components appear fairly stable as a proportion of GMV while its administrative expenses (G&A) as a proportion of GMV appear flat and may likely decline if management can reel in as a proportion of GMV its logistics costs and the cost of warehousing and maintaining multiple hub locations for sales delivery.

Perhaps, of equal importance are the company's fulfillment costs. This can be split into two, namely; variable and fixed costs. This refers to the direct costs related to the company's operations on meeting its service delivery mandate. Variable costs relate to costs involved in logistics and sales which would logically be expected to increase with marketplace revenue growth. Fixed costs, on the other hand, cover salaries and warehouse facilities and hubs. Between Q1 2018 and Q1 2019 Jumia's fulfillment costs went up by **+58.3%** from Euros 9.6m in Q1 2018 to Euros N15.2m in Q1 2019. This is not particularly bad as long as the fulfillment costs do not grow significantly as a proportion of the company's GMV.

Chart 2 JUMIA GMV 2018Q1-2019Q1 (Euros 'm)

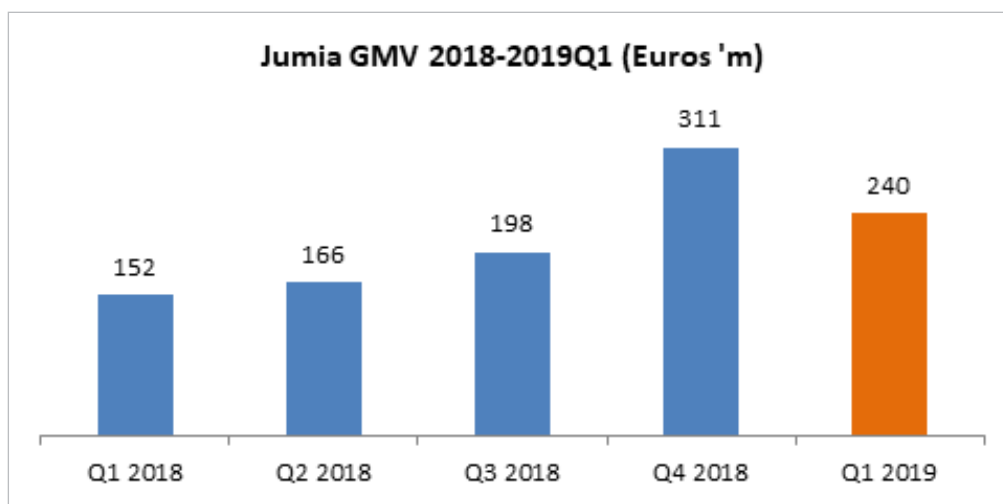


Chart 2 JUMIA GMV 2018Q1-2019Q1 (Euros 'm)



Source: JUMIA Q1 Conference Call Presentation

Chart 3 JUMIA Active Customers 2018Q1-2019Q1



Source: JUMIA Q1 Conference Call Presentation

Deconstructing Revenue


Despite recent concerns by analysts about the sustainability of the company's business model and its revenue, Jumia's Q1 2019 performance seems to suggest that its gross merchandise volume and revenues are on an incline and are likely to gradually pull down negative operating earnings (EBITDA) in the course of the year.

The e-platform's market place revenue was up +102% between Q1 2018 and Q1 2019 showing that the active customer base and revenues per is on the rise. This does not confirm underlying profitability but it does suggest declining losses. This is underscored by the platforms gross profit which climbed from Euros 8.6m in Q1 2018 to Euros 15.7m in Q1 2019, representing an upward bump of 82.6%. Commissions Y-o-Y also grew +116% as more completed sales attracted larger commissions

Table1 Jumia's Q1 2019 revenue breakdown

For Three Months Ended March 31st (Euros M)			
Countries	2018	2019	Y-o-Y CHANGE (%)
Market place revenue	7.9	16	102.30%
Commissions	2.8	5.5	116.10%
Marketing	0.3	0.9	200.70%
Value Added Revenue	2.5	4.6	85.80%
First Party Revenue	19.8	15.6	-21.20%
Platform Revenue	27.7	31.7	14.10%
Non-Platform Revenue	0.6	0.2	-68.10%
Revenue	28.3	31.8	12.30%

Source: JUMIA Press Release Q1 2019



Jumia, Citron and Citi Bank

Jumia executives have responsibly remained brief about the report published by CITRON suggesting a prevalence of fraud in its operations and a lack of integrity of its Board members. Executives of the company, who met with Proshare and other local analysts on Wednesday 15th May 2019, said the company would prefer to focus on its business and its growth plans than respond to scurrilous allegations.

The company's management noted that with a 10,000 strong agency partnership team it was inevitable that some partners will go rogue and commit offences for which they will be punished and removed from the programme. But in the main, the agency programme, according to Jumia's management, has worked very well and will be refined and expanded to increase digital retail penetration.



CEO Jumia Nigeria, Juliet Anammah, pointed out that all successful ecommerce platforms across the globe had initial challenges similar to that which Jumia is facing and addressing. She noted that the discrepancy between figures in the company's 2018 investor presentation and the IPO memorandum in 2019 was a natural result of more data coming in overtime to modify the statement of financial position of the company and that such restatement of accounts was neither fraudulent nor strange to accounting best practices.

Anammah insisted that the business model of Jumia was strong with underlying ratios indicative of the company's statement of intent to be viable and profitable on a sustained basis. She pointed out that the company refused to be drawn in to the temptation of sacrificing long term stability for short term leaps in profitability to satisfy the transient whims of market short sellers.

Citi Bank report on Jumia reaffirms Anammah's confidence in the ecommerce giant as long as key markets such as Nigeria continue to grow at rates that sustain disposable incomes that can translate into active digital online purchases.

Beyond the noise of fraud and the distraction of short selling of Africa's premier online commerce site by hyperactive and over enthusiastic short traders, the long view of the company at least for now, is favourable.

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3. [Jumia: African E-Commerce Platform Files For An Estimated \\$500m US IPO, Plans To List On The NYSE – Mar 13, 2019](#)
4. [Seven Of The 10 Largest Technology IPOs By Proceeds Raised Were Listed On Nasdaq In 2018 – Dec 26, 2018](#)

Related News on Financial Performance

5. [JUMIA Q1 2019 Conference Call; Take Aways As Firm Responds to CITRON, Citi Bank Research Report – May 14, 2019](#)
6. [Jumia – Q1 2019 Result Presentation – May 14, 2019](#)
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Analyst(s) Comments Post Listing

8. [Not All IPOs are Created Equal. Jumia is a Fraud ... - Citron Research – May 09 2019](#)
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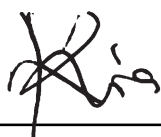
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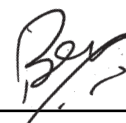
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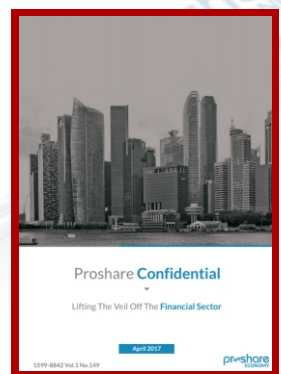
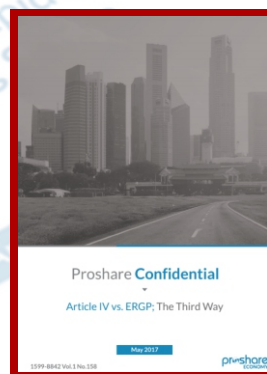
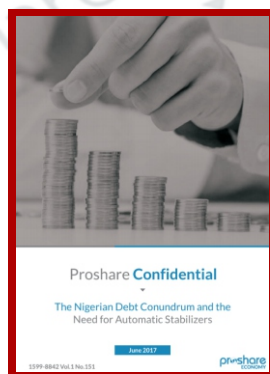
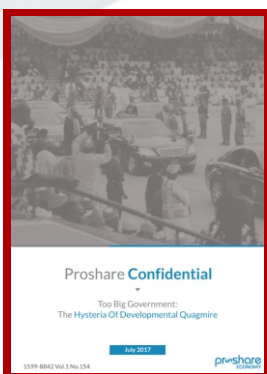
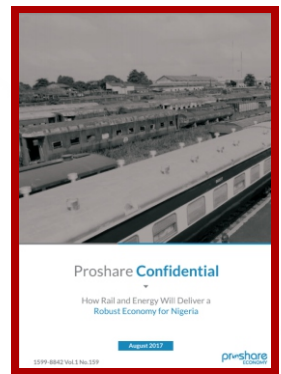
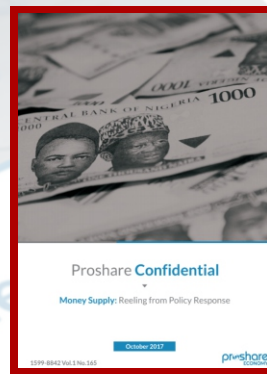
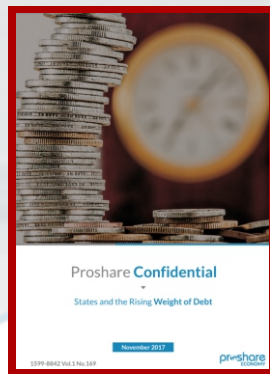
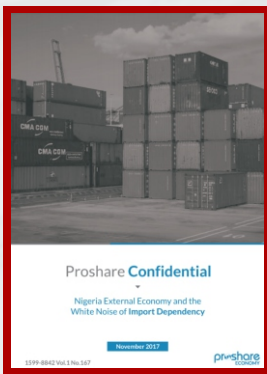
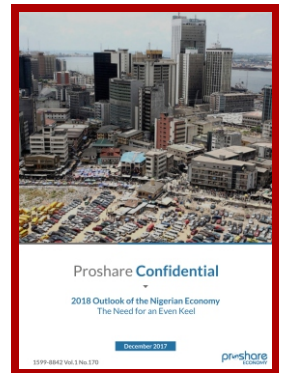
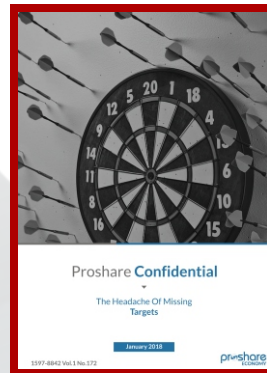
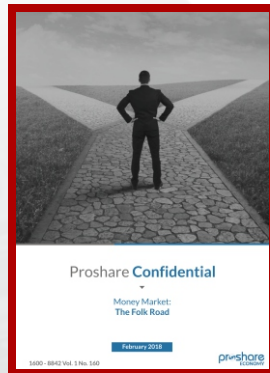
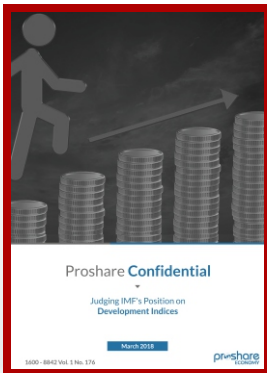
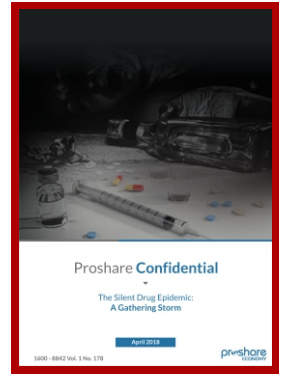
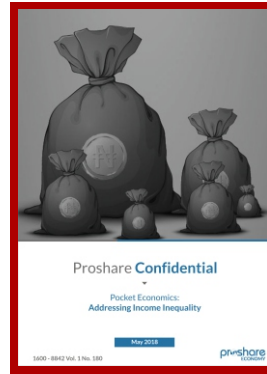
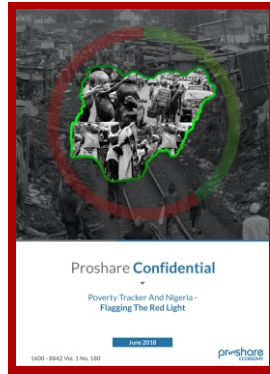
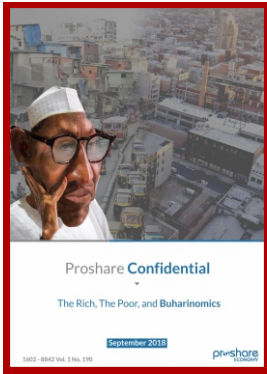
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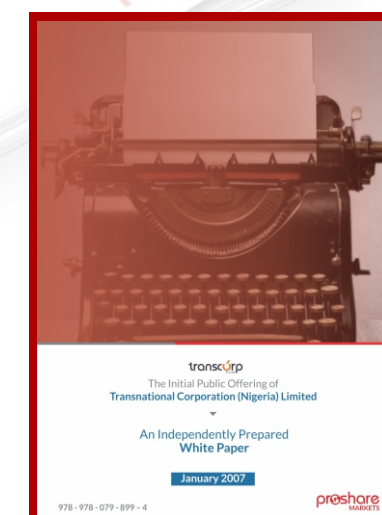
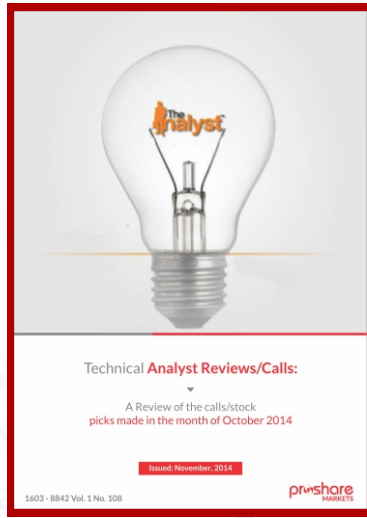
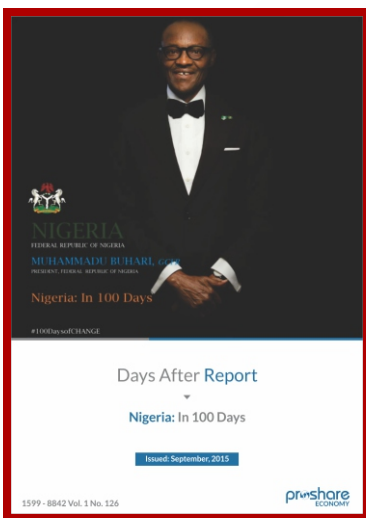
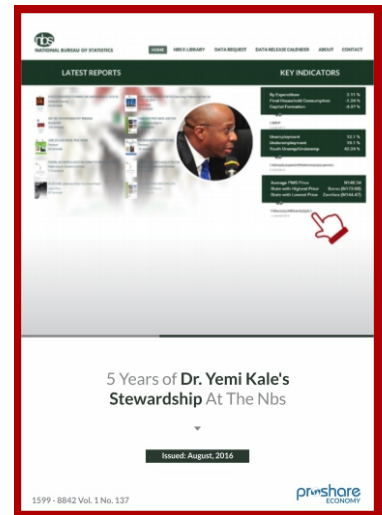
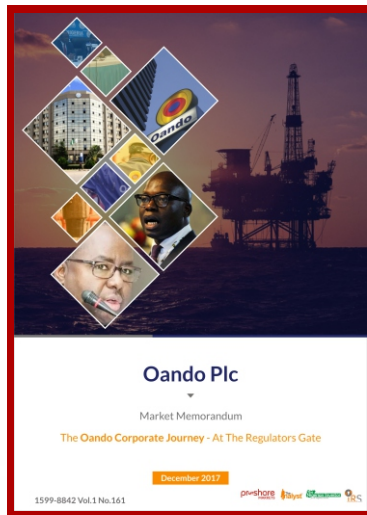
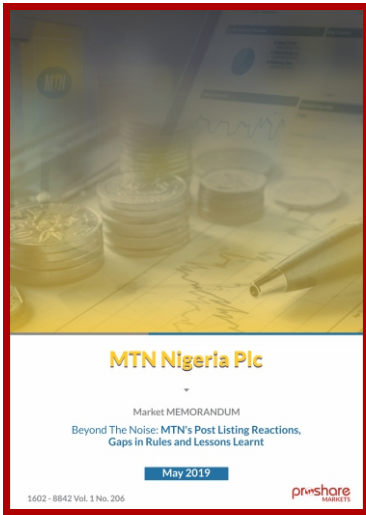
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