Transcript of
Jumia Technologies AG
Jumia Q3 2024 Earnings Call
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Participants

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Analysts

Brad Erickson - RBC

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Jumia's Results Conference Call for the Third Quarter of 2024. There will be an opportunity to ask questions after today's presentation. [Operator Instructions].

With us today are Francis Dufay, CEO of Jumia; and Antoine Maillet-Mezeray, Executive Vice President, Finance and Operations.

We'll 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 annual report on Form 20-F as published on March 28, 2024, as well as others -- or other submissions with the SEC.

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 it over to Francis.

Francis Dufay - CEO, Jumia Technologies AG

Good morning, everyone. Thank you for joining us. I will start today's call with a brief overview of our Q3 performance. I will then focus our discussion on our plans for the use of proceeds from

our completed ATM offering before turning the call over to Antoine for a deeper dive into our financials.

The third quarter marked a continuation of our efforts to strengthen the underlying fundamentals of our business. We made tangible progress in advancing several structural updates to our operations, building on the progress we have made over the last several quarters. This includes significant improvements to our logistics network as well as the consolidation of several of our warehouses into larger, more tech-enabled locations across our footprint. While these improvements caused temporary disruptions to day-to-day operations in the quarter, we are confident that our efforts have positioned us well to scale and drive profitable growth.

Usage KPIs this quarter were mixed. While we saw improvements in active customer count and physical goods orders, we experienced softness in GMV and total orders due to currency devaluations, flat JumiaPay orders and the aforementioned warehouse consolidation.

Quarterly active customers grew year-over-year for the first time since the third quarter of 2022, improving 1% to $2 million. We also continue to attract and retain what we believe to be stickier and higher-quality customers. Our Q2 90-day repurchase rate increased 304 basis points year-over-year as the number of new customers who placed an order in Q2 '24 and then placed another order within 90 days grew to 39% from 36% in Q2 '23.

Attracting a higher-quality cohort has been an important proof point for our value proposition, showing we can drive repeat orders from returning customers without the use of promotions or discounts. Orders this quarter totaled 5.9 million, a 4% year-over-year improvement. This growth was driven by 5% year-over-year increase in physical goods orders, illustrating our success improving our supply price points and overall value proposition. GMV grew by 29% in constant currency and was down 1% in reported currency year-over-year.

Similar to last quarter, softness in GMV in reported currency was mainly the result of the ongoing effects of devaluations in Nigeria and Egypt in Q1 of 2024. Devaluations also put pressure on top line revenue which remained flat quarter-over-quarter but declined 13% year-over-year to $36.4 million. To support future growth and enhance efficiency, we are in the final steps of the process of relocating several fulfillment centers across four of our six largest markets including Ghana, Nigeria, Egypt and Cote d'Ivoire.

In each country, we consolidated several smaller fulfillment centers into one centrally located warehouse. These new fulfillment centers are now strategically located to enable upcountry expansion, while providing us with increased supply capacity, improvements in efficiency and reduced delivery times. The relocation and transition did, however, negatively impact operations and expenses in Q3 '24 as we temporarily shifted supply and resources to these new fulfillment centers. We do not anticipate any major additional impact to the business in Q4 '24 and beyond.

Operating loss was $20.1 million in Q3 '24 compared to $18.3 million in Q3 '23. Adjusted EBITDA loss increased to $17 million in Q3 '24 from a loss of $14.8 million in Q3 '23. This is mainly due to a one-time $6 million beneficial impact from provision release in Q3 '23 that did not recur in Q3 '24.

Loss before income tax improved to $17.8 million compared to a loss of $21.4 million a year ago, primarily driven by the evolution of operating loss and a shift from net foreign exchange losses in Q3 '23 to net foreign exchange gains in Q3 '24. As many of you know, we have completed an at-the-market offering in August which generated $94.7 million in net proceeds, which includes all relevant equity transactions costs. At the end of Q3 '24, our liquidity position was $164.6 million, which includes proceeds from the capital raise. We remain committed to a disciplined approach to allocated funds as we accelerate our current initiatives with a particular focus on streamlining operations and driving growth.

As a reminder, our strategic priorities are the following. First, focusing and committing to Africa and the African e-commerce market. Second, improving cash efficiency. And third, building a strong customer value proposition. In terms of investment, we are deliberately focusing on the consumer value proposition as the driving force behind our growth objectives. Specifically, we will be focusing on the following buckets. We're focusing on the company's most promising markets and opportunities, improving vendor technology, expanding customer acquisition, scaling the company's logistics network, and expanding our supplier base and overall assortment.

Let me now provide broader context into how we plan to leverage the funds to support our growth. First and foremost, we continue to focus on strengthening our business, primarily through stripping away non-strategic businesses and offering. We are convinced that e-commerce demand in our key markets is huge, growing, and largely underserved. We believe that we are in the early stages of capturing that latent demand and that we have only just scratched the surface of the customers we can ultimately serve. By exiting non-strategic business units and countries, we believe that we can better serve our customers and drive growth while expanding supply in key categories to improve our value proposition across remaining markets. Recall that in late 2023, we moved to exit businesses deemed non-strategic, including our food delivery operations while also reducing headcounts.

In October 2024, we announced that we will be seizing operations in South Africa and Tunisia to focus on markets where we currently see the greatest growth potential. In the first nine months of 2024, South Africa and Tunisia together accounted for just 2% of orders and 3% of GMV of Jumia. South Africa and Tunisia presented unique challenges due to their respective market dynamics. We believe that our decision to exit these countries allows us to streamline operations and concentrate resources on strengthening our overall business.

By doing so, we can focus on regions where we currently see the strongest potential for growth and profitability. We remain confident that this strategic alignment will not impact our near or medium-term growth prospects. We expect to incur costs associated with the closure of both of these markets. Short-term impacts include employee termination costs, lease termination costs, asset liquidation and impairments. While the decision to close this market is a difficult one when we think about our teams in these countries, I want to thank all of our team members for their hard work and commitment to the business. These teams have shown true resilience and dedication in the face of challenging market conditions, and we are grateful for their years of service to Jumia.

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Beyond our footprint, we are also enhancing tech across several areas to improve the customer experience and overall efficiency. We continue to invest strategically in technology by leveraging AI and cutting-edge tools to enhance efficiency across the group. Our initiatives focus on strengthening platform security, enhancing our marketing tools and improving warehouse and orders management systems.

We believe these efforts drive greater efficiency, enabling us to deliver higher quality service to both vendors and customers while keeping costs effectively managed. We believe we have refined our core value proposition for the African market and consumer and have a stronger understanding of the most effective marketing channels to reach our customers as well as how to keep them in funnel.

As we move forward, we will continue to focus on leveraging local channels like radio, local influencers and print, while also identifying additional pathways to expand our CRM and SEO marketing channels. Diversifying our marketing mix is a key part of our strategy and enables us to become more relevant to local consumers, which leads to more efficient consumer acquisition.

Broader upcountry expansion will be another focus area for us. Today, over 54% of orders come from outside of major capital cities, and these areas are key growth markets for us. For example, this past quarter in Nigeria, year-over-year gross orders outside of Lagos and Abuja grew by 22% as we extended upcountry. We plan to continue to extend our footprint outside of major urban areas in the coming years.

Over time, we would increase JForce activations in these markets to meet more potential consumers where they lack significant capital investments. We believe these initiatives are among the most efficient strategies for growth and do not expect them to require significant capital investments. We will continue to exercise discipline in allocating capital towards marketing and upcountry expansion.

Finally, we continue to prioritize expanding our supply, which we see as a key pillar to our value proposition. Not only have we made incremental improvements to our vendor platform to improve the vendor experience, but we continue to extend our Chinese vendor base to provide a diverse and affordable section of products to our growing customer base. We are also scaling our teams across countries for both local marketplace vendors and large global brands, which we believe is an important investment in medium-term growth.

We are optimistic about Jumia's future. We believe we have the right strategy and resources in place that will enable us to accelerate growth. Our results show that we can tap the massive demand in Africa while operating efficiently as we move towards profitability.

I will now turn the call over to Antoine.

Antoine Maillet-Mezeray - Executive Vice President Finance & Operations, Jumia Technologies AG

Thank you, Francis, and thank you everyone for joining us today. Starting with the top line, revenue was $36.4 million, down 13% year-over-year, up 9% on a constant currency basis. Marketplace revenue was $20.6 million, up 7% year-over-year, and up 37% on a constant currency basis, primarily driven by commissions from third-party corporate sales in Egypt, partially offset by the impact of foreign exchange devaluations. Revenue from first-party sales was $15.5 million, down 29% and down 14% on a constant currency basis, driven by lower first-party corporate sales in Egypt and the impact of foreign exchange.

Gross profit was $22.9 million, up 3% year-over-year, or 30% on a constant currency basis, largely in line with the evolution of third-party sales. Gross profit as a percentage of GMV remained flat at 14% when compared to Q3 '23. Looking at expenses, fulfillment expenses for the quarter were $10.3 million, up 5% year-over-year, and 22% on a constant currency basis. This increase was primarily driven by one-time costs associated with ongoing warehouse consolidations and growth in orders. The impact was partially offset by currency devaluations, primarily in Nigeria and Egypt. We expect these consolidation efforts to drive operational efficiencies and cost savings in the coming quarters.

Fulfillment expense per order excluding JumiaPay app orders, which do not incur logistics costs, remains flat year-over-year at $2.4 and increased 16% on a constant currency basis. Fulfillment expense as a percentage of GMV remained flat year-over-year at 6%.

Sales and advertising expenses remained flat year-over-year at $4.4 million and increased 34% on a constant-currency basis, driven by targeted investments in online marketing to drive usage growth. Going forward, we expect these expenses will increase as we focus on efficient inexpensive channels as part of our customer acquisition strategy. Advertising expense per order decreased to $0.7 from $0.8 in Q3 '23. As a percentage of GMV, sales, and advertising expense remained flat year-over-year at 3%.

Turning to technology. Technology and content expense remained flat year-over-year at $9.7 million and up 2% on a constant-currency basis. This was driven by savings from reduced staff cost offset by ongoing investments to improve our platform's quality and integrity.

G&A expense, excluding share-based compensation, was $17.6 million, up 14% year-over-year and up 26% on a constant-currency basis. This increase was due to the non-recurrence of a $6 million release of provision in Q3 '23, which did not recur in Q3 '24. The overall increase in G&A expense was partially offset by reductions in various cost components, including staff costs.

Now turning to profitability. Adjusted EBITDA loss was $17 million compared to a loss of $14.8 million in Q3 '23, reflecting the net impact of the revenue and expense dynamics described before, primarily driven by the absence of the prior year's non-recurring tax provision benefits recognized under G&A expense.

Loss before income tax from continuing operations was $17.8 million, a 17% improvement year-over-year or 2% on a constant-currency basis. This improvement was primarily driven by the evolution in operating loss and the shift from net foreign exchange losses in Q3 '23 to net foreign

exchange gains in Q3 '24, contributing to an increase in finance income and an increase in finance costs year-over-year.

Touching on balance sheet and cash flow. CapEx in Q3 '24 was $0.9 million and our liquidity position was $164.6 million, comprised of $85.8 million in cash and cash equivalents and $38.8 million in term deposits and other financial assets. This compares to total liquidity position of $147.4 million in Q3 2023 and of $92.8 million in Q2 '24. Our total liquidity position at the end of the third quarter of '24 included the net proceeds of the ATM completed in August. The net proceeds from the offering were $94.7 million after accounting for all equity transaction costs.

In the statement of cash flows for the third quarter, Jumia reported $96.7 million related to the ATM. The remaining transaction costs will be reflected in subsequent periods as they are paid. Net cash flow used in operating activities was $26.8 million, driven by negative working capital contribution, notably impacted by third-party sales cycles and a one-time provision settlement of $1.8 million. The cash flow was also impacted by technology subscription fees aimed at enhancing platform quality and integrity and the continued optimization of our warehouse network. We maintain our disciplined approach to cash management while supporting strategic growth initiatives.

I will now turn the call back over to Francis for guidance.

Francis Dufay - CEO, Jumia Technologies AG

Thanks, Antoine. Today, we are reaffirming guidance for the full year 2024. We aim to further reduce our cash utilization for the full year 2024 as compared to full year 2023. Additionally, based on the positive impact of our growth strategy, we project an increase in both orders and GMV in 2024, excluding the potential impact of foreign exchange.

As a reminder, our biggest shopping event of the year, our annual Black Friday sale is happening this November. The event kicked off on November 1st and runs until November 30th. The annual event continues to grow in popularity across countries and plays a pivotal role in promoting nationwide e-commerce adoption. It also reaffirms Jumia's commitment, providing a convenient and dependable online shopping experience. With the recent warehouse consolidations, supply enhancements, and inventory preparations, we believe we are well-positioned to capitalize on this year's event. We look forward to sharing more with you next quarter.

We believe to be on the right path and are confident in Jumia's future as we accelerate growth towards profitability. We are encouraged to see continued resilience in our usage and business fundamentals despite the first quarter currency devaluation headwinds that continue to impact GMV and top line revenue. We are confident that we have the right plan, the right team in place and look forward to updating you on our progress in the future.

We can now open the call for Q&A.

Operator

[Operator Instructions]. The first question today will be coming from Brad Erickson from RBC. Brad, your line is live.

Q: Great. Thanks, guys, and good afternoon. Thanks for taking the questions. So I had a few. First, there's a pretty big delta between the GMV growth, and kind of the order growth. I'm just curious, like, what's going on in terms of, like, mix or from an ALB perspective that's leading to that? Any drivers you want to call out? I think there's a 25 point gap between GMV and orders here. So just curious what's going on there?

Francis Dufay - CEO, Jumia Technologies AG

Hi, Brad. Thanks for asking. So let me take the question. So indeed, there's a pretty big gap between orders growth and physical goods at 5% and GMV growth in constant currencies of 29% this quarter. There are many, I mean, there are several different factors impacting that. One is definitely the mix, the evolution of the mix. Across countries, we have different trends of course, but we have refocused over the past two years our mix towards our key categories that are fashion, beauty, home and living, electronics and phones that typically have a higher average item value and average order value than what we saw in the past with a higher component of groceries and FMCG.

So this shift in the mix that we're still seeing happen, I mean, that you're still seeing year-over-year to date, is definitely impacting our average basket size, which you can see here in those numbers. And then there's a dimension of inflation happening in the countries, countries that had like significant devaluations, but not only, where it's just driving up the prices of products, especially those manufactured outside of the country. So it's a mix of both, but definitely the shift in the mix is driving higher value baskets that are helping us to breakeven at order level.

Q: Got it. That's great. And then just on the order growth, you're obviously lapping a period where you're kind of intentionally pulling back on marketing and everything. So you're kind of now back to a little bit of year-over-year growth. What would sort of theoretically be required to maybe see a bigger acceleration just on the order growth specifically?

Francis Dufay - CEO, Jumia Technologies AG

So I think one of the assumptions when we look at orders growth and usage growth in general in e-commerce across the world is marketing, right? And it's been assumed at Jumia for many years that orders growth is heavily correlated with marketing spend. And actually marketing spend had to increase exponentially. In the context of our African markets, we believe it's very different.

We believe that the greatest part of growth, and most of growth, I'm not going to say 90%, but overall growth is driven by the value proposition, which is heavily driven by supply and prices and the ability to distribute to the customers at very competitive prices with reliable service. So nothing fancy. It's not about more ads on Meta and Google, it's not about delivering same day, it's really, I mean, for heavily cost-conscious customers, it's really all about getting the best very proposition, so the right assortment at the best price.

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When we look at our growth today, I mean although the numbers are not very impressive yet, we're talking 1% in active consumers and 5% in orders, and we want to get to much better numbers in the future, these numbers are being delivered without increasing marketing budgets, and we believe we can still be more efficient in marketing. So the big drivers to accelerate on growth going forward in the coming quarters in 2025 will be basically consistent improved delivery on the fundamental topics. The biggest one being improving the supply, keeping and improving the supply.

We've discussed that in the previous quarters. One of them -- one of the easiest examples to explain here would be getting more supply from our Chinese supplier space that we were tapping through cross-border e-commerce and also local fulfillment for our Chinese vendors. We're expanding our teams in China, we're expanding our vendor base, we're looking to open new offices across new manufacturing regions in China so we can get more supply that's extremely well priced, very competitive for African consumers and that is expected to have a significant impact on top line growth. Additional projects would be better expansion, I mean accelerated expansion of country.

We've mentioned in the past that, well, there's a lot of latent demand that's fully served across Africa, in particular outside of the biggest cities, outside of the capital cities. We believe that we have the right business model to serve people in a very, very cost efficient way. And as we are able to open the right delivery network, very, very cheap, very low costs to serve populations in new areas, smaller cities, we're able to tap new markets, get new active consumers and grow our usage. On that front, we shared today one important number in a very important country, which is Nigeria.

So, in Nigeria, specifically and very importantly, our orders from outside of the two capital cities which are Lagos and Abuja, grew year-over-year by 22%, which is pretty significant, in particular in the context of Nigeria that's been pretty rough for business over the past year. And so we are really encouraged by those trends. So it's a long answer to a short question, but all in all, accelerated growth is going to come from consistent high quality delivery on those fundamental projects that will bring compounded impact over time and we're starting to see at country level, very, very positive signs.

Although, and I will say it again, the 1% active consumer growth is not the most impressive number. When we look more in detail, we see really positive evolutions and impact from fundamental actions and we believe it's going to pay off in the coming quarters.

Q: Got it. That's great color. No worries on the length of the answer. We appreciate the color.

Francis Dufay - CEO, Jumia Technologies AG

And just adding to that again, we believe it's not about increasing marketing budgets and we believe we can become even more efficient on marketing. The dynamics in our markets are very different from, let's say, the US, Europe, Dubai, and other countries where there's a more direct correlation with online marketing, which is mostly not the case for our customer base.

Q: Just a few more, if I could. On the exit of South Africa and Tunisia, I guess, just talk about that if you could. Kind of, what were the main characteristics of those countries that led you to exit or maybe to put it a little differently, what was sort of different about those countries as compared to your other current incumbent market?

Francis Dufay - CEO, Jumia Technologies AG

Sure, I will start with South Africa. So, I mean, first of all, it's a tough decision, and it was tough decision particularly thinking of the teams, but we had to do it. It's all about resource allocation and we're a business, so that's the kind of resources -- of decisions we have to take at some point. And the recent fundraising gave us the flexibility to make those decisions and take the short-term cost impact. South Africa is quite a unique market in Africa for e-commerce because it's a lot more mature than any other market when it comes to retail and logistics.

So quite different, very different dynamics, also a very competitive market with well-established players. And Jumia had been operating in South Africa under a different brand, a different business model, mostly in retail and only focused in fashion. So we had been clear in the past that it was non-core and that it was not built along the same lines and based on the same assets than as in the other countries. So it was relatively straightforward decision, unfortunately.

And then when we look at Tunisia, it's been a market where local dynamics have been rougher than in other countries. Market potential is definitely lower if you look at population and GDP, obviously. Country dynamics have been tough over the past couple of years. And in the end, it's a choice in resource allocation. We could have turned around the country, we could certainly have delivered better impact and so on, but we believe it's a better allocation of our resources, money, people, management time and focus to dedicate our attention to other countries with bigger potential.

Q: Got it. And then last one just on the EBITDA. You called out some of the one-time stuff that occurred, I guess, from just a free cash flow perspective. Loss was kind of flat on EBITDA Q-over-Q. I guess, besides just kind of the higher unit volumes, maybe just speak to the algorithm of sort of driving those losses down over time, which is obviously what you're guiding to. Thanks.

Francis Dufay - CEO, Jumia Technologies AG

Yeah. So the higher level here, the idea is the following. We've done a lot of the work on the cost base over the past 1.5 years, right. I mean, we -- for example, we divided workforce by half. We're not going to do that again in the coming weeks, as you can imagine. Going forward, it's obvious that profitability is going to be the result of both of mostly an improvement in top line revenue. So that's usage growth and strong management of our margins and further improvement of efficiency. We believe we can deliver on both. We have the first signs of our ability to grow usage at the end of this year, I mean this quarter, and we believe there's still more efficiency to be captured from across the cost base.

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I mentioned marketing. You saw this quarter that we moved warehouses to better fulfillment centers that will be more efficient. That will have an impact on fulfillment costs. So it could be a long list. But we believe we can still improve efficiency through innovation, scale, and new processes and ways of working. And definitely, we will -- I mean, top line revenue growth will be a decisive contribution to breakeven.

Q: Got it. That's a great color. Thank you.

Operator

Thank you. And there were no other questions in queue at this time. I would now like to hand the call back to Francis Dufay for closing remarks.

Francis Dufay - CEO, Jumia Technologies AG

Thank you very much. So, as we said during the call, this is a mixed quarter in terms of results. We, of course, want to deliver better results, but looking at the bright side here, I think in this tough quarter, we see positive impact and continued progress on our key growth projects. We see active customers growing. We see repurchase rates improving. We see continued success in key projects like upcountry expansion. I mentioned Nigeria, which is a very important country for us. In the very short run, we're also seeing strong preparation and a strong buildup towards Black Friday, which is an important event to step up our volumes towards '25.

And most importantly, we have achieved this quarter significant impact and progress on big fundamentals that drive medium-term impact. We have done decisive action in refocusing and simplifying the business. I mentioned South Africa and Tunisia. We've moved to better fulfillment -- bigger, better fulfillment centers in four of our most important markets. And we believe, ultimately, the work done this quarter confirms our growth levels for the coming years, which is an important data point as it will be a key component to our path to profitability. And this quarter delivered significant improvement on fundamentals that will help us to deliver a strong '25. Thank you very much.

Operator

Thank you. This does conclude today's conference. You may disconnect your lines at this time. Thank you for your participation.

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