Weyland Tech Inc.

Third Quarter 2019 Earnings Call

November 15, 2019

C O R P O R A T E P A R T I C I P A N T S

Brent Suen, *Chief Executive Officer, President, Secretary & Director*

Lionel Choong, *Acting Chief Financial Officer & Director*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Mike Kana, *Private Investor*

James Klein, *Private Investor*

P R E S E N T A T I O N

Operator:

Good morning, and thank you for joining us today to discuss Weyland Tech's third quarter and first nine months ended September 30, 2019. Joining us today is the Chief Executive Officer of Weyland Tech, Brent Suen; and the Company’s Chief Financial Officer, Lionel Choong. Following their remarks, we'll open the call to questions.

Before we conclude today's call, I'll provide some important cautions regarding the forward-looking statements made by the Management during the call. I'd also like to remind everyone that today's call is being recorded and it will be made available for telephone replay following the instructions provided in this morning's press release. Now I'd like to turn the call over to Weyland Tech's CEO, Brent Suen. Please go ahead.

Brent Suen:

Thanks, Leanne, and good morning to everyone. Thanks for joining us.

For the third quarter, our record top line performance was driven by continued growth in our core business under the brand name of CreateApp, and that was a result of subscription fees and recurring revenues from continued resign-ups. With this, due to greater adoption of our CreateApp Platform-as-a-Service by SMBs in the existing markets, new features and functionality have seen very good traction. The increased adoption included new customers as well as existing customers that subscribe to new features and modules that are actually generated by customer requests. So these results helped us turn positive in terms of Adjusted EBITDA in the last month of the quarter. The momentum has continued into the fourth quarter, which we have very good visibility on, and this is keeping us on track for another year of record growth and hopefully, shareholder value creation.

At this point, I'd like to turn the call over to our Chief Financial Officer Lionel Choong, who will take you through the financial results for the quarter. Afterwards, I'll come back and I'll talk a little bit more about operational performance. And the outlook for the remainder of the year. Lionel?

Lionel Choong:

Thank you, Brent, and good morning, everyone.

This morning, we issued a press release with the results for our third quarter, a copy of which is available on our Investor Relations section of our website.

Starting with our statement of operations, our revenue totaled a record $9 million in the third quarter of 2019, up 7% from a year ago quarter and 26% from the previous quarter. The increase was due to increased service revenue from our customers. The comparative year ago quarter was exceptionally strong due to the introduction of new CreateApp modules introduced in the quarter to which users subscribed.

Gross profit in the third quarter was $1.6 million or 17.7% of revenues as compared to $7.4 million or 87.7% of revenue in the year ago quarter. Our total operating expenses decreased to $2.7 million from $9.4 million in the same year ago period.

The decreases in gross profit and total operating expense were primarily due to a reclassification of certain R&D and sales and marketing expenses into cost of services starting in the first quarter of 2019. We believe the reclassification represents a more conservative approach given that our Platform-as-a-Service business model uses distribution partners to sell our services.

General and administrative expenses increased 52% to $1.6 million in the third quarter of 2019 from $1 million in the same year ago quarter. The G&A expenses in the third quarter of 2019 included $286,000 in stock-based compensation as compared to $257,000 in the same year ago quarter. Research and development expense decreased 75% to $1.1 million in the third quarter of 2019 as compared to $4.5 million in the same year ago period. Sales and marketing expenses in the third quarter of 2019 decreased to zero as compared to $3.8 million in the year ago quarter. These decreases were primarily due to the reclassification of certain expenses to be included in cost of services.

Net loss improved to $1.1 million or $0.01 per basic and diluted per share from a net loss of $2 million or $0.05 per basic and diluted share in the same year ago period.

Now turning to our nine month financial results. Revenue increased 43% to record $24.6 million as compared to $17.3 million in the first nine months of last year. The gross profit decreased 71% to $4.4 million or 17.7% of revenue compared to $15.2 million or 87.7% of revenue in the year ago quarter. Total operating expenses decreased 62% to $7.2 million from $18.7 million in the same year ago period. Like for Q3, the decrease in gross profit and operating expenses were primarily due to the above mentioned reclassification of service expenses.

G&A expenses increased 35% to $3.5 million in the third quarter 2019 from $2.6 million in the same year ago quarter. G&A expenses in the first nine months of 2019 included a $1.5 million in stock-based compensation as compared to $1.2 million in the first nine months of 2018. Research and development expense decreased 60% to $3.2 million in the third quarter of 2019 as compared to $8.1 million in the same year ago period.

Sales and marketing expenses for the nine months of 2019 were $390,000 as compared to $7.8 million in the same year ago period. The decreases were primarily due to the above mentioned reclassification of certain expenses.

Net loss was $2.8 million or $0.06 per basic and fully diluted share compared to a net loss of $3.6 million or $0.13 per basic and fully diluted share in the same year ago period.

Now moving to the balance sheet. As at September 30, 2019, cash, cash equivalents and macro-equity securities totaled $5.8 million compared to $5.3 million on June 30, 2019. The increase was primarily the result of proceeds from an equity offering. We believe our cash on hand and available funds provide the Company with sufficient liquidity to meet our cash requirements for the current operations.

Now I'd like to turn the call back over to Brent. Brent?

Brent Suen:

Great. Thanks, Lionel.

In addition to the strengthening of our operational performance in Q3, we welcomed Sim Farar and Andre Peschong to our advisory board. Sim has over 30 years of experience in both the public and private sectors, and Andre's more than 25 years of senior management and capital market experience, together, provide our Board and Management team very valuable insights and guidance as we pursue our plans for both organic and acquisition-based growth.

Subsequent to the end of the quarter, we exercised our option to acquire the 31% beneficial ownership of our Indonesian entity, which the long name is PT Weyland Indonesia Perkasa, we call it with WIP, W-I-P. WIP owns and operates the AtozPay and AtozGo platforms. And as some of you may know, we just launched AtozGo right at three months ago. It is what we call a very unique runner-based approach to very densely-populated urban centers. Currently, it's Jakarta, Indonesia only. We believe that as we branch out into other major cities, that type of growth is replicable in other urban centers as well in Southeast Asia.

The main focus of AtozGo is based upon Jakarta's population of 30 million. There's another 3.5 million people who commute in daily. You've got over 33 million people in the Greater Jakarta Area, so it makes it ideal for a launch of this delivery service. As some of you may know, numbers that we've reported in terms of daily deliveries, number of customers, incidentally, I was just looking at a press release that we put out on October 3, I believe the number for deliveries was 1,500 per day. The numbers that we look at on almost a daily basis seem to go up on a daily basis. So they become obsolete very quickly.

Currently, we've got over 38,000 customers, and we are handling about 13,000 deliveries per day. That was literally based on yesterday's numbers. Hopefully, it's even higher by the end of today. We expect this ramp-up to actually pave the way for both greater visibility with potential acquirers, which could be other major food delivery service providers who traditionally operate in areas that require motorized delivery; here in the U.S., I think most people are familiar with, say, Uber Eats or DoorDash or Blue Apron or obviously familiar with cars that deliver it. In the bulk of urban centers in Greater Asia and Southeast Asia, you'll see motorcycles and scooters. We took a different approach, and we've got foot-based. So what that's actually done is it's reduced the average time for food delivery down from 45 minutes, which you'll see across the board with competitors. We're at about 15 minutes, so about a third. Given the uptick in number of users, the number of orders and deliveries per day, and certainly, the greatly compressed time line for people to get a meal, we see this scaling very rapidly.

Valuations of app-based food delivery services. If you look at the landscape out there and you take, whether it's an Uber Eats or DoorDash, down to the local ones that we're seeing in Southeast Asia, such as GrabFood or Go Foods; the average value per user is $330. That would imply a stand-alone valuation of AtozGo right now of around $13 million. We literally just launched this three months ago. What I would point to is that it's not so much that it was a brilliant idea. It was more the case where the team in Indonesia identified an opportunity to do something differently. And just the sheer scale of the urban population there has enabled us to launch this and scale up very quickly. So we're extremely excited about that. I think as it relates to Weyland Tech's Management's ability to identify teams and product and service offerings that can quickly scale, I think this is certainly a testament to that.

We've partnered with Grab and we believe that this new ownership position through exercising our option substantially enhances our shareholder value and upside potential. We have the belief that Grab will either evaluate a strategic investment or a potential acquisition. So we are working with them to scale up and we're extremely excited about that.

For Weyland, we're currently seeing $32 million in recurring revenue on a trailing 12-month basis. The market valuations for other companies similar to ours with 100% subscription-based recurring revenue streams should garner a several times multiple in its price-to-revenue ratio rather than a fraction of it as we do today. In fact, publicly traded Platform-as-a-Service companies typically trade at an average of around 10 times revenues. Other microcap comparables trade at around four times to five times revenues on average. As probably all of you know, we're trading at a fraction of that. And our hope is to narrow that gap on the upside.

Companies with software subscription-based models attract higher multiples due to their stickier higher-margin customer engagements that provide greater transparency into revenue and profitability. So given these factors, it appears that the market price of our stock does not currently reflect our financial performance, the quality of our revenue and the strong prospects for our growth to accelerate over the coming quarters. However, as we believe that as we continue to execute on our growth plans and subsequently raise our profile in the U.S. investment community, our valuation will eventually follow suit. This conclusion supported my decision last month to personally acquire 99,000 shares of Weyland in the open market. And given its continued low multiple, I'm keeping an eye out to make additional purchases in the near future.

In terms of business growth and expansion, we continue to focus on supporting channel partners in enhancing our platform offerings. We expect margins to improve as we introduce more value-added services and increase our revenue base. And we're also continuing to evaluate a number of attractive merger and acquisition opportunities, including potential strategic entry points for bringing CreateApp into the U.S. market, which we have not done before. The U.S. market is obviously a very large market, primarily because it's becoming more mobile centric, migrating away from desktop and laptop computers. More into the mobile device area. Price points here are much higher, finding a way to reduce customer acquisition costs through either partnerships, M&A opportunities or licensing agreements is where we are and we are focused on eventually entering the market here. We plan to continue to raise investor awareness for the Company in the institutional investment community and look forward to presenting at the LD Micro Conference in early December.

So with that, we can open up the call to questions Leanne, please go ahead with the instructions.

Operator:

Thank you, sir. If you've a question please signal by pressing star, one on your telephone keypad. If you are using a speaker phone please make sure your mute function is turned off to allow your signal to reach our equipment. Once again please press star, one to ask a question. We will pause for a moment to allow everyone an opportunity to signal for questions.

And we'll take our first question from Mike Kana, who's a Private Investor.

Mike Kana:

Hello everyone. This is Mike Kana, and I'm also the President of a software company. And I just would like—it's kind of more of a comment and a question. I'd like to say I, firsthand, understand the challenges that the company like Weyland Tech can go through because I've been through it myself, and I just want to take my hat off to you guys. You've done a phenomenal job at continuing to put everything together and grow this company. So hats off to you guys.

Brent Suen:

Thank you, Mike.

Mike Kana:

Yes. And then what I'd like to ask is, what do you believe the growth will be for a AtozPay because I can't agree with you more about you guys sort of suffering the valuations that are fractional compared to what they should be. And I think that as you continue to grow and prove to the market that the CreateApp solution will grow further, that's going to help your valuation a lot. What type of growth do you see for that over the next couple of quarters?

Brent Suen:

Okay. So just to put it in context, AtozPay and AtozGo, we view as both separate opportunities that do have a combined, for lack of a better word, synergy. So AtozPay, of course, is the e-wallet. So the people who use that e-wallet, use it to top up their mobile phones. They walk in, they give cash to a merchant, they get credits that are issued by the phone company that are synonymous with cash there. So they can use those credits to either pay for things, whether they're buying them through their phone, pay bills and utilities, purchase train or bus tickets and just basically engage in mobile commerce.

AtozGo is our recently launched food delivery service. And as per the numbers I mentioned earlier, with a significant number of customers that's growing every day currently at about 38,000, what we're seeing with that is very similar to our peers, it's a land grab. It's more of an opportunity to engage with and acquire customers in a manner that is analogous to companies that their first years of life were not profitable. They carry huge valuations in order to raise funding to, in turn, propel the growth and so that's the landscape that we see.

The synergy between AtozGo and AtozPay is such that the person using AtozGo for the food delivery also uses the AtozPay e-wallet. So both can scale together in a way that AtozPay, as a standalone without the food service, was growing a little more slowly. As far as growth, in terms of percentages, that's difficult to say. Because last year, for the e-wallet AtozPay, the growth was modest, but what we're seeing with AtozGo is that the growth is actually exponential. Trying to tie those two together and put a number to it, we'd probably be better suited to do so in the next quarter. I hope I'm not-not answering your question, Mike. But what I want to point to and what we internally believe is important, is that the value that's being created through on the e-wallet side, gross transaction value, okay? And then on the food delivery business, number of users. We typically look at multiples of those.

So what we're seeing in the market is essentially 4 times gross transaction volume, okay? That would put AtozPay e-wallet at a value currently of roughly, call it, $30 million. Okay? AtozGo, if you use the comparables in the food delivery industry of $330 per user times 38,000, it gives you a number of around, call it, $14,000 to $15,000, okay?—Sorry, $14 million to $15 million. So you combine those two, you can see that you've got an implied valuation, which is significant. It's a funny thing, when you tell people that that's the implied value of your business in Indonesia, and then they look at the market cap, which is currently about, call it, $50 million, there appears to be a huge disparity. The fact is, is that on these valuations, these are benchmarked by private round fundings on unicorn-valued companies in Southeast Asia. They're benchmarked by mergers and acquisitions of privately held companies, and they're benchmarked by publicly traded Software-as-a-Service and Platform-as-a-Service companies here in the U.S. And so those benchmarks imply a value that I just described. I hope I didn't really (cross talking)—

Mike Kana:

If you don't mind me making a comment, I just want to say that I love the—I continue to really love the investment in your company. And now that I see where you're going with this, is that the new efforts in Jakarta and the growth for Atoz is exponential, and you're leveraging that to gain more customers for the CreateApp, which is the recurring revenue also stream looks like the future seems very, very bright. So I'm still very excited to being with you guys and really appreciate the update. This is awesome. Exactly what I wanted to hear from you.

Brent Suen:

Thank you. Thank you so much.

Operator:

And as a reminder that is star, one if you would like to ask a question.

We'll take our next question from James Klein, who is a Private Investor. Sir, you may have your phone on mute.

James Klein:

Okay. This is Jimmy Klein. I'm retired investment senior investor broker since 1990, I guess. I don't know, I have a suggestion for consideration about that reverse split. Usually, after reverse split, stock goes down. My suggestion, as your company, gets the earnings per share in the black and those earnings increase profits, consider maybe a little dividend, and then the stock should start moving up to where it should be. And then you can go down to your NASDAQ or New York Stock Exchange. I'd look into the chart, 20-year chart, 2008, the chart shows that the Weyland's stock was $600 million. Three years ago, it was, say, $12 million. So with all these reverted splits, stock keeps going down. Anyway, this is a suggestion for consideration. You guys are the experts, but I'm just passing on information that I learned over the last, what, 29 years, I guess.

Brent Suen:

Yes, sir. Much appreciated. That's very helpful. I just want to point out, the current business that we have CreateApp and then AtozPay and AtozGo have only been around since September of 2015. I took over the previous business in November of 2014, and we jettisoned that in the middle of 2015 and started the new business. So 2008, I believe, was a significantly different business than when I joined.

James Klein:

Okay. Consider you guys are doing a good job. Good luck in the future, and nice chat. Cheers.

Brent Suen:

Thanks so much, Jimmy. You too. Have a great day.

Operator:

And as a reminder it is star, one if you would like to ask a question.

And at this time, this concludes our question-and-answer session. I'd now like to turn the call back to Mr. Suen. Please go ahead.

Brent Suen:

Thanks, Leanne. Firstly, I'd like to thank everyone for joining the call today. Before we end the call, I'd like to say that if you have one takeaway from today's call, I hope that it's the understanding that we have a tremendous market opportunity currently and ahead of us. We've enjoyed strong industry tailwinds at our back and have the support of a world-class operational team and an enabling technology for emerging markets. I personally believe that all of this translates into an excellent opportunity for all of our shareholders in the months and quarters ahead. And we sincerely look forward to speaking with you again in March for our 2019 year-end call, if not sooner. Leanne, please go ahead and wrap up the call.

Operator:

Before we conclude today's call, I would like to provide the Company’s Safe Harbor statement that includes important cautions regarding forward-looking statements during today's call. Statements made by Management during today's call may have contained forward-looking statements within the definition of Section 27A in the Securities Act of 1933 as amended, and Section 21E at the Securities Act of 1934, as amended. These forward-looking statements should not be used to make an investment decision.

All statements other than statements of historical fact included herein are forward-looking statements including: statements regarding the continued growth of the e-commerce segment and the ability of the Company to continue its expansion into that segment; the ability of the Company to attract customers and partners and generate revenues; the ability of the Company to successfully execute its business plan; the business strategy, plans and objectives of the Company; and any other statements of nonhistorical information. These forward-looking statements are often identified by the use of forward-looking terminologies such as beliefs, expects or similar expressions and involve known and unknown risks and uncertainties. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, they do involve assumptions, risks and uncertainties, and these expectations may prove to be incorrect. Investors should not place undue reliance on these forward-looking statements, which speak only as of the date of this news release. The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of a variety of factors, including those discussed in the Company’s periodic reports that are filed with the Securities and Exchange Commission and are available on its website, www.sec.gov.

All forward-looking statements attributable to the Company or persons acting on behalf—on its behalf are expressly qualified in their entirety of these factors. Other than as required under the securities laws, the Company does not assume any duty to update these forward-looking statements. Before we end today's conference, I would like to remind everyone that this call will be available for replay starting later this evening and running through November 29. Please refer to today's press release for dial-in replay instructions available via Company's website at www.weyland-tech.com. Thank you for joining us today. This concludes today's conference call. You may now disconnect.