

111, Inc. (NASDAQ: YI)

Reshaping the Value Chain of Healthcare Industry with Digital Technology

Third Quarter 2024 Earnings Call

November 27, 2024

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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 September, 2024. 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.

1 BUSINESS & OPERATIONAL PERFORMANCE HIGHLIGHTS

2 FINANCIAL REVIEW

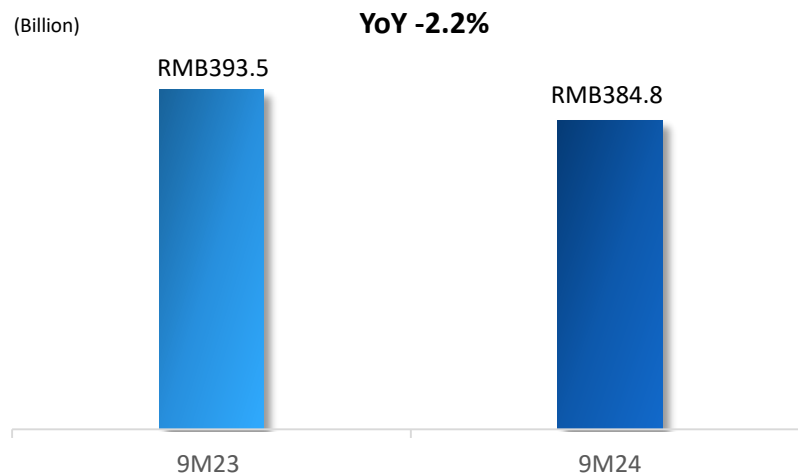
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Resilience in Action: Maintaining Operational Profit for Three Consecutive Quarters Amid Macroeconomic Challenges

Highlights & Macroenvironment

- Maintained **operational profit** for the third consecutive quarter.
- Operating expenses as a percentage of revenues **decreased 160 basis points** year over year.
- Held **positive operating cash flow** for three consecutive quarters.
- **Our performance remained solid despite challenges** posed by a weak consumer spending environment and significant pressures on our downstream pharmacies.
- In addition to a weak retail market, Chinese pharmacies face challenges from ongoing healthcare reforms, including adjustments to individual medical accounts and the phased implementation of coordinated outpatient benefits, along with heightened regulatory scrutiny.
- Under such circumstances, many large chain pharmacies are now grappling with significant declines in net profit. For example, YXT Health reported a 94% year-over-year [decline](#) in Q3 net income attributable to ordinary shareholders, followed by a [68%](#) drop at JZJ Chain Drugstore, [37%](#) at LBX Pharmacy Chain, and [22%](#) at DaShenLin Pharmaceutical Group.

China's Retail Pharmacy Sales



The total sales of the national retail pharmacy market reached RMB384.8 billion in the first nine months of 2024, representing a year-over-year decrease of 2.2%.

Resilient Revenue Performance and Gross Margin Growth Amid Macroeconomic Challenges

Revenue – Total

(Million)

YoY -1.8%

RMB3,665
USD502

2023 Q3

RMB3,601
USD513

2024 Q3

Gross Segment Margin – Total ¹

(Million)

YoY 10.5%

5.2%

RMB191
USD26

2023 Q3

5.8%

RMB211
USD30

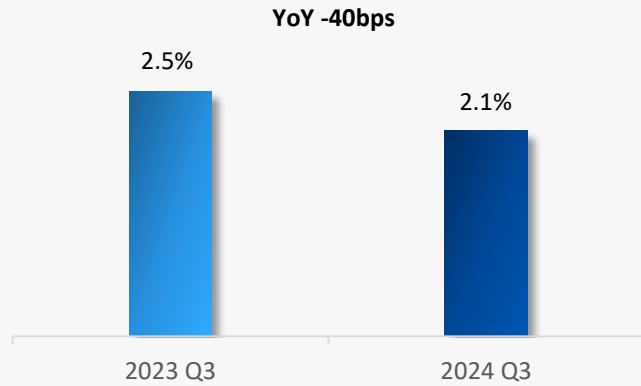
2024 Q3

Driving Operational Excellence

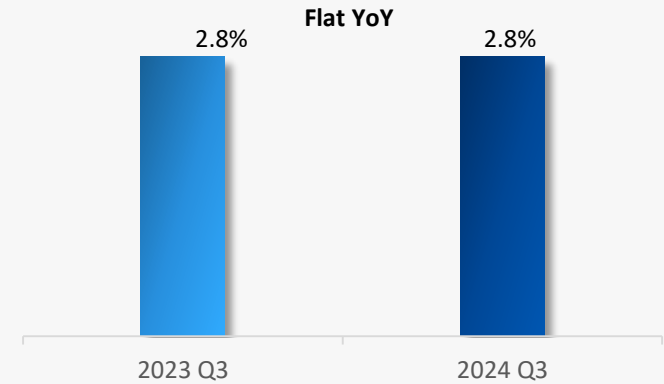
(Excluding Share-Based Compensation Expenses)

- Workforce Optimization
- Streamlined Management
- Improved Corporate Governance
- Technology Investment
- Fulfillment Upgrade
- In-House Advisory Department

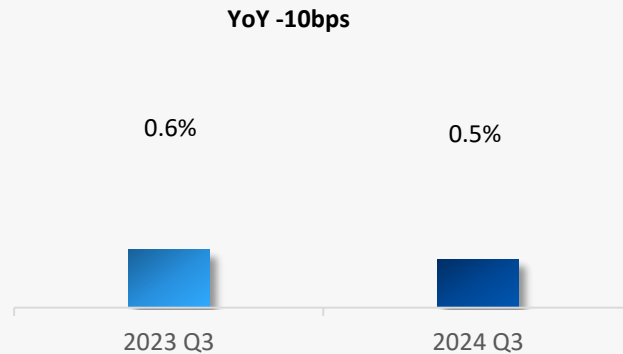
Selling and Marketing Expense as % of Net Revenue



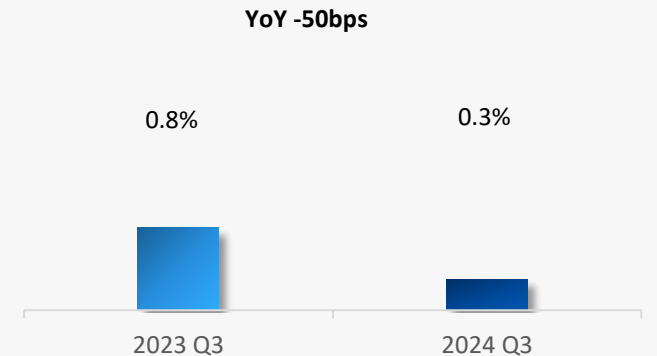
Fulfillment Expense as % of Net Revenue



Technology Expense as % of Net Revenue

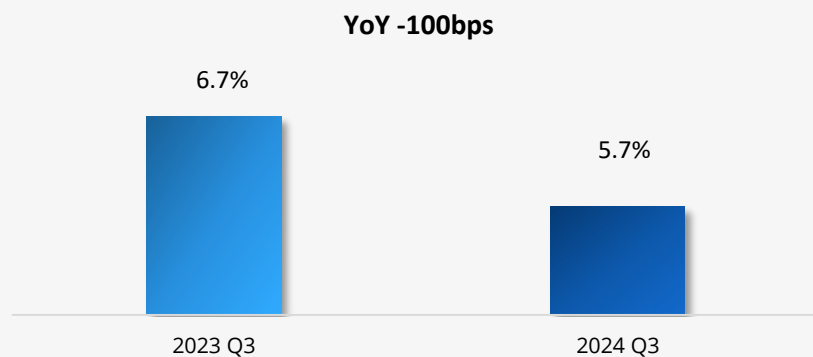


G&A Expense as % of Net Revenue



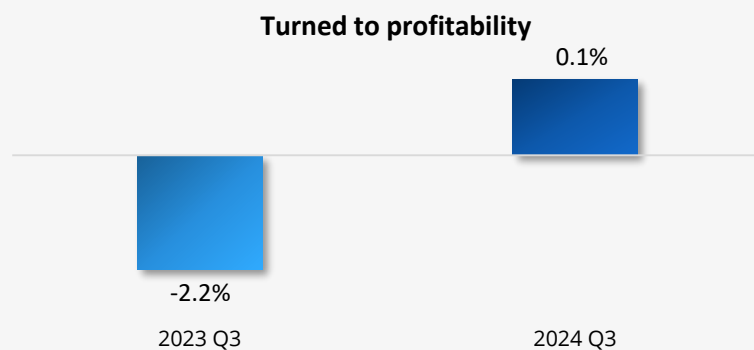
Sustaining Operational Profitability for Three Consecutive Quarters Through Enhanced Efficiency

Operating Expense as % of Net Revenue (Excluding Share-Based Compensation Expenses)

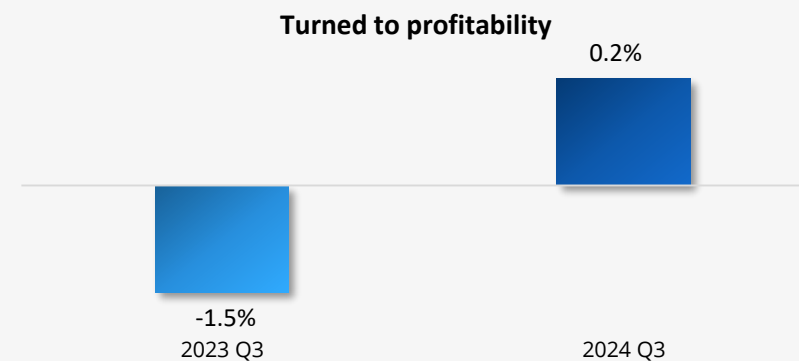


	Excluding Share-Based Compensation Expenses	
	2023 Q3	2024 Q3
Total	6.7%	5.7%
Selling and Marketing	2.5%	2.1%
G&A	0.8%	0.3%
Technology	0.6%	0.5%
Fulfillment	2.8%	2.8%

Income (Loss) from Operations as % of Net Revenue



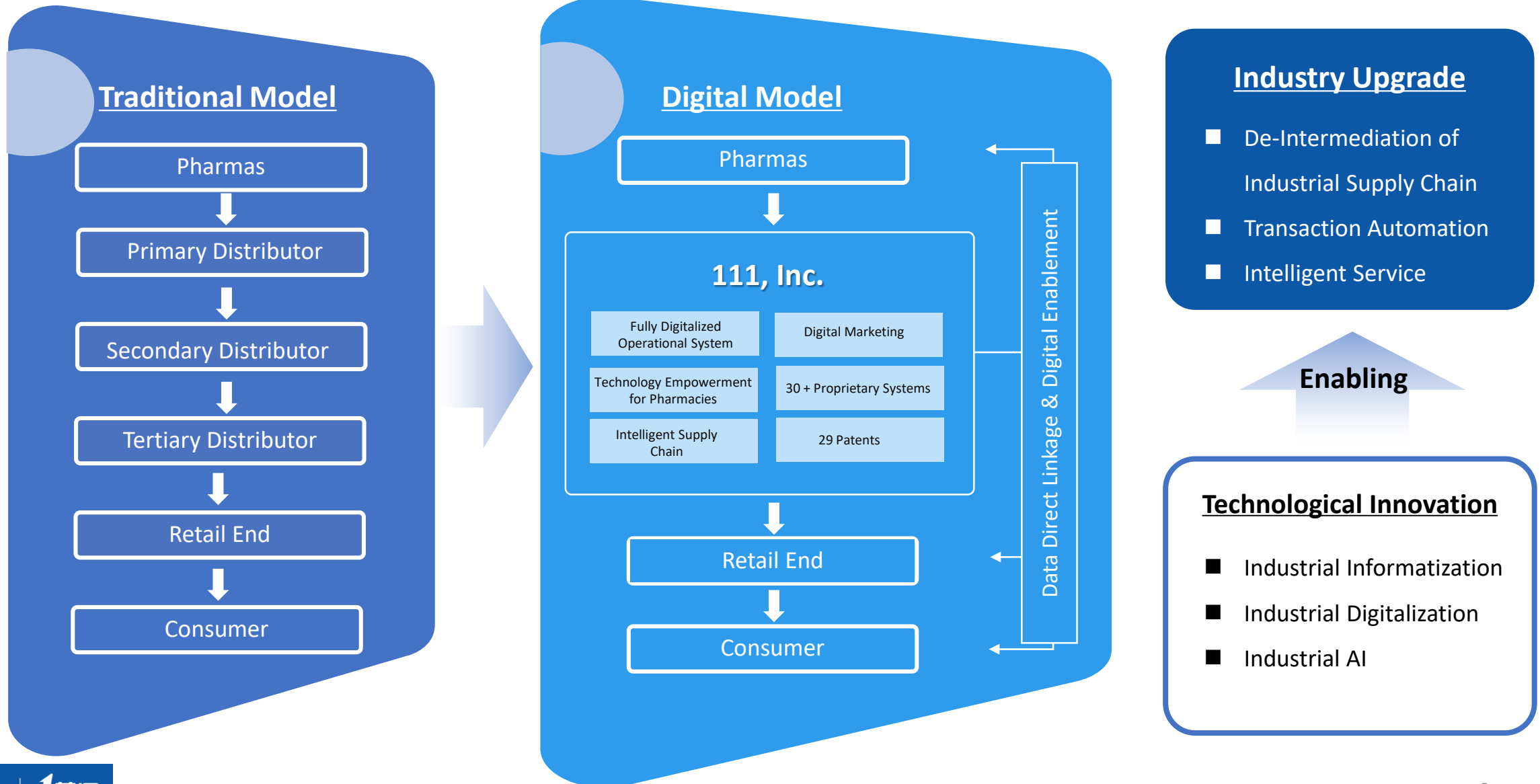
Non-GAAP Income (Loss) from Operations¹ as % of Net Revenue



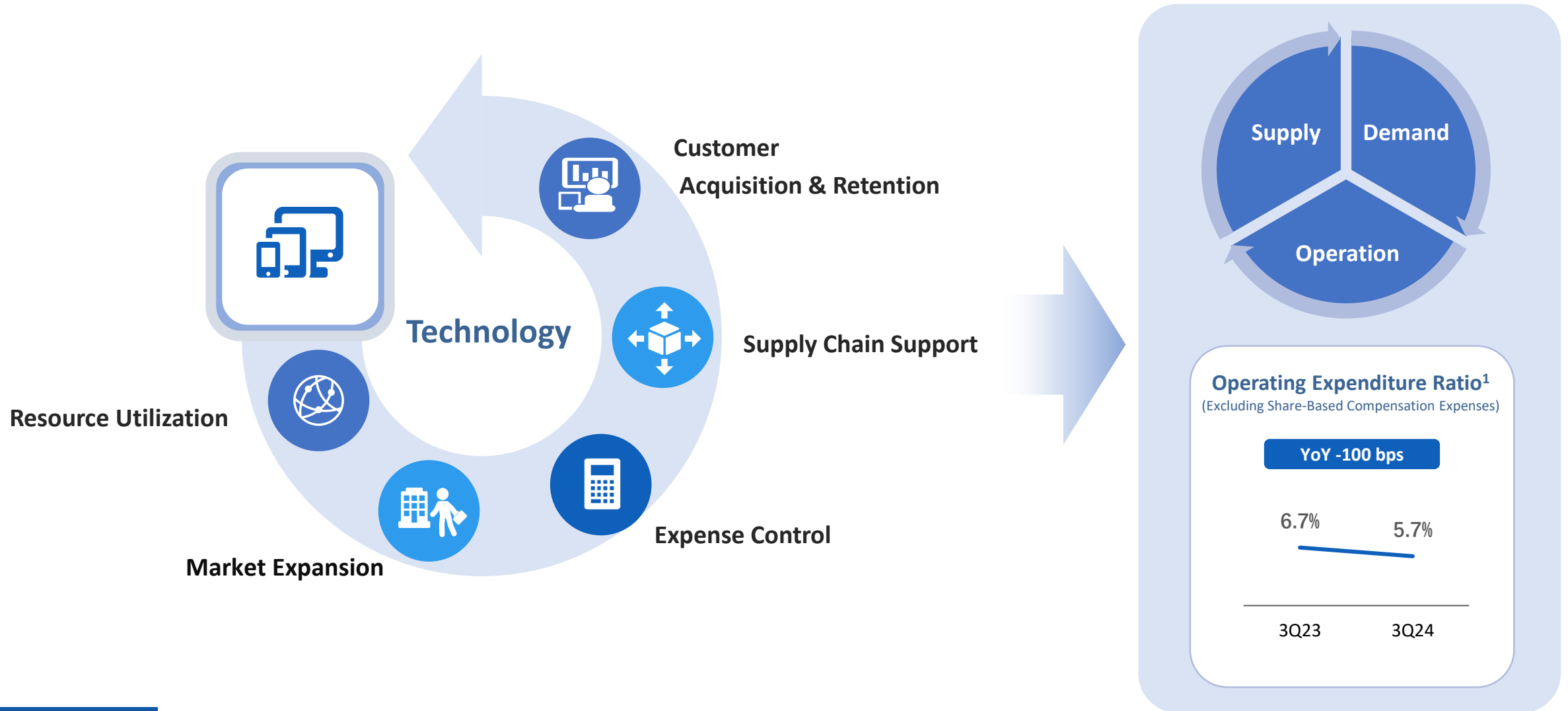
Notes:

1. Non-GAAP income (loss) from operations represents income (loss) from operations excluding share-based compensation expenses.

Reshaping Entire Value Chain of Healthcare Industry with Digital Technology



Driving Operational Excellence by Leveraging Technology



Note: 1. The ratio represents operating expenses as a percentage of net revenues

Intelligent Integration: Tech Boosts Supply Capacity, Smart Pricing Tool , AI Matching Tool

Tech Boosts Supply Capacity

- Through the **JBP Platform** and **Inventory Sharing Technology**, we have organically linked upstream merchants inventories to form our own integrated stock
- Enriching the product selection of additional 23,000 new SKUs by sharing inventory

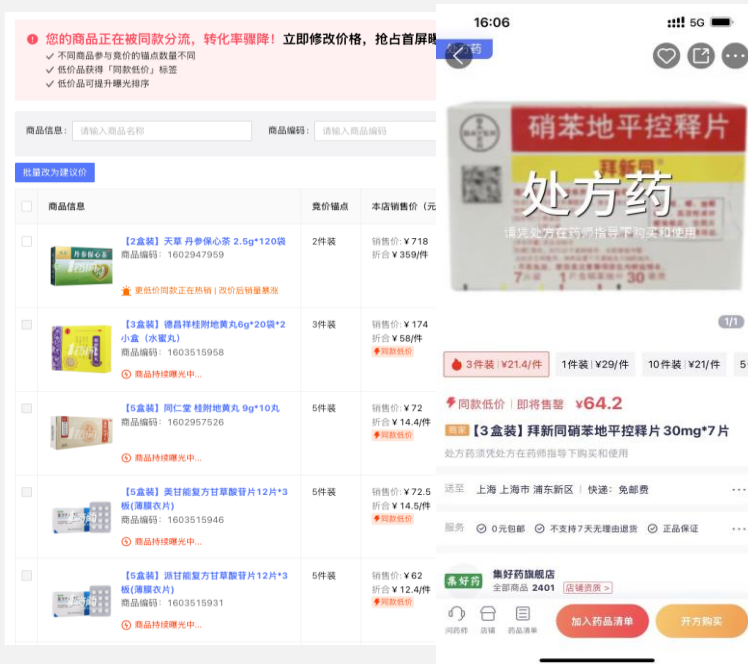
Strengthened Supply



Strengthen Upstream Inventories for Joint Downstream Sales

Supply Improvement & Traffic Efficiency

- Supply Deployment Upgrading and Smart Pricing Tool** for the B2C online retail segment
- Supply richness** increased by **104%**
- Customer conversion rate** hit a historical record high, reaching **13.49%**



Matching Tool—Chinese Herbal Medicine

- The application of **AI Models** for **Chinese Herbal Medicine's specification recognition**
- Matching accuracy** increased by **100%**
- Model accuracy** increased by **27%**

Identify The Core Elements Of Chinese Herbal Pieces



【品 名】川贝粉
 【规 格】1克×10袋/盒
 【产 地】四川
 【用法与用量】冲服，一次1~2g。
 【贮 藏】置通风干燥处，防蛀。
 【注 意】不宜与川乌、制川乌、草乌、制草乌、附子同用。
 【生产许可证号】苏20160236
 【执行标准】《浙江省中药炮制规范》2015年版

- Generic Name
- Brand Name
- Manufacturing Company
- Place of Origin
- Pharmaceutical Production License Number
- Specification
- Barcode



Kunpeng Pharmaceutical Logistics Network Fuels Supply Chain Cost Reduction

Our goal is to establish a national pharmaceutical logistics network, ensuring efficient last-mile delivery in supply-dense areas while maintaining full control of the supply chain.

Significant Progress

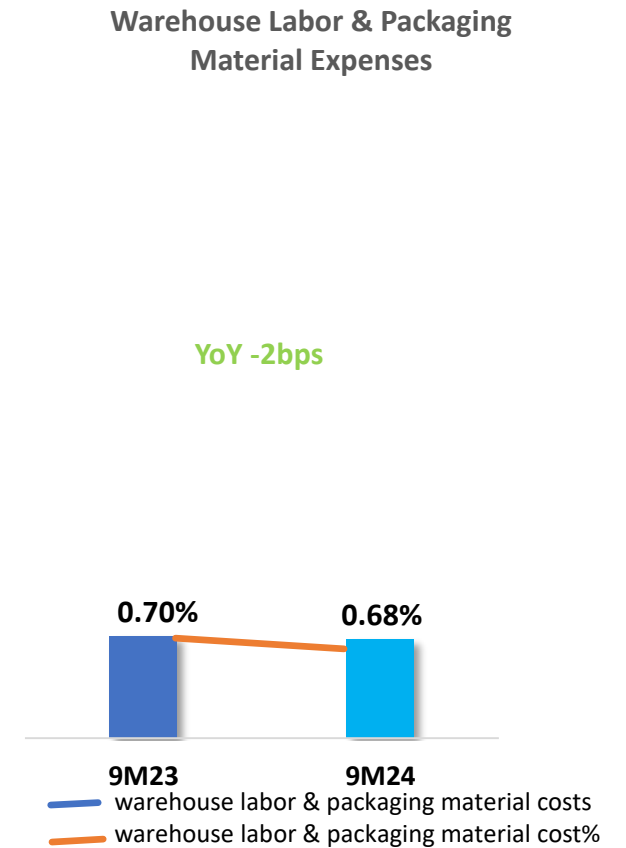
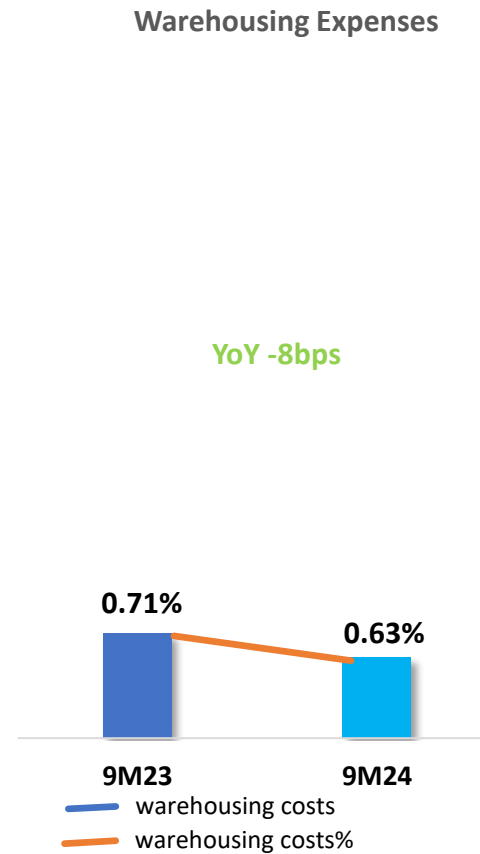
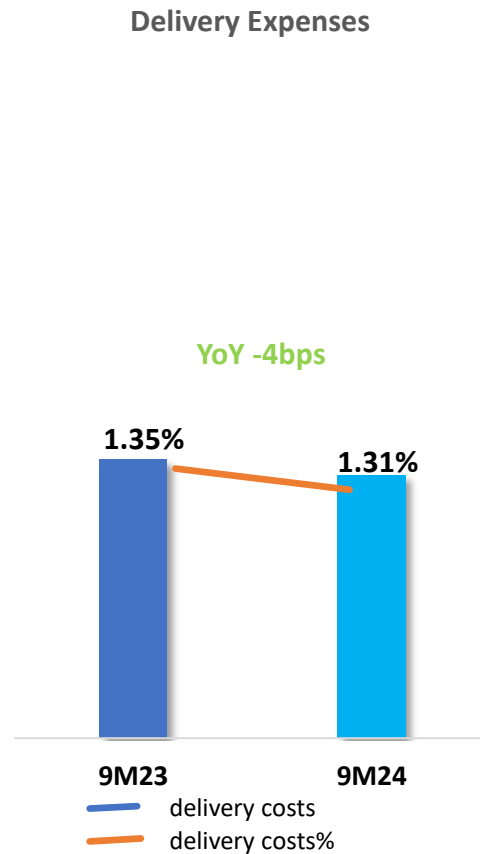
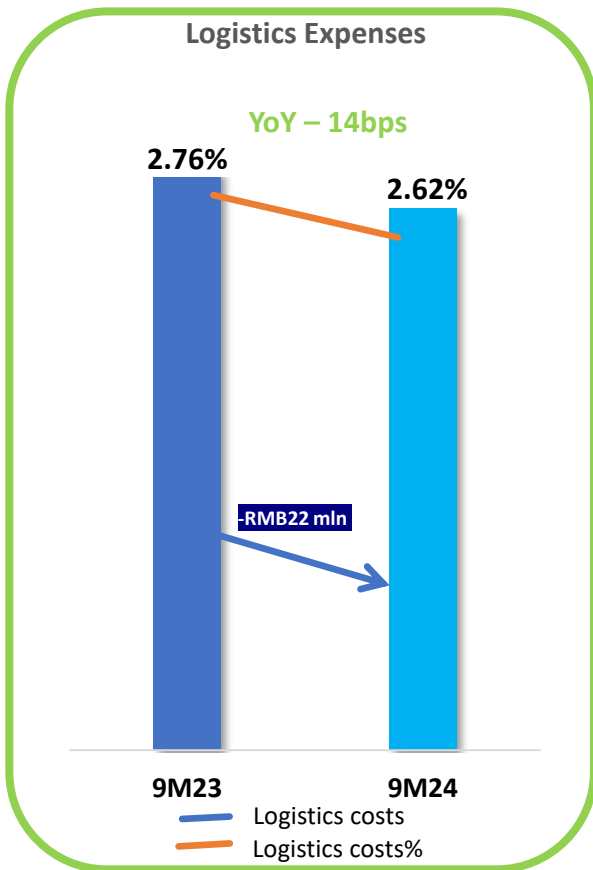
- Enables **an extended network across our 5 major fulfillment centers for transshipment**—East China, Central China, South China, North China, and Southwest China.
- Operates **28** transportation routes and first-mile warehousing services, an increase of 8 from Q2.
- Serves external clients, up 17% from Q2.
- Achieved total cost savings of **RMB5.3** million to date.

Added Value

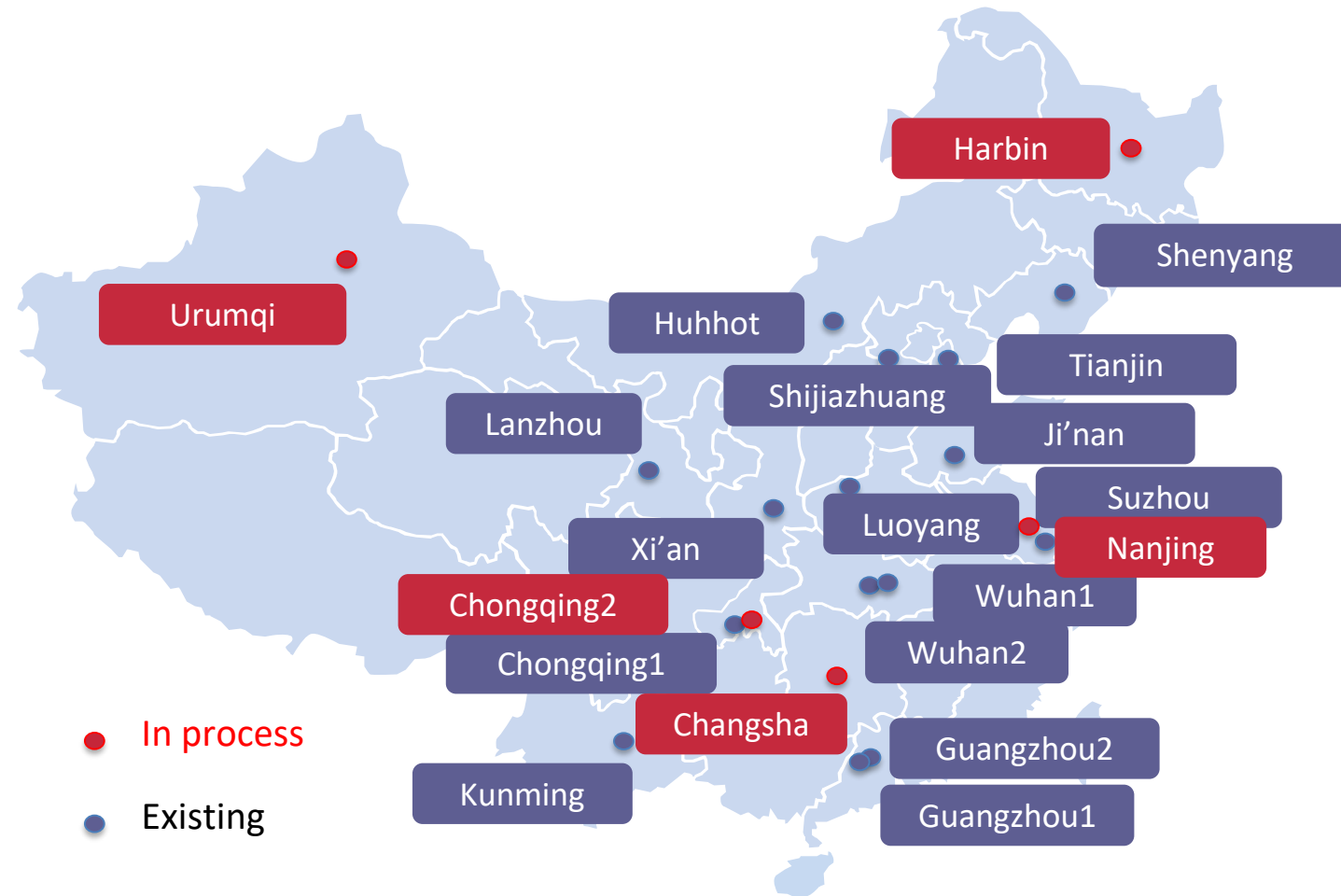
- Reduced internal distribution costs.
- Enabled external supply chains to lower shipping costs and damage rate.
- Addressed industry pain points such as mixed cargo handling and inefficient inbound and QC processes.

Operational Excellence: Enhancing Supply Chain Efficiency with Reduced Costs

- Fulfillment expenses significantly declined in the first nine months of 2024, dropping by **RMB22 million, representing an 8% decrease**, to RMB277 million from RMB299 million in the same period a year ago.
- Fulfillment expenses accounted for 2.62% of revenue in the first nine months of 2024, down **14 basis points** from 2.76% in the prior year.



Nationwide Fulfillment Network Expansion Strengthens Supply and Fulfillment Capabilities



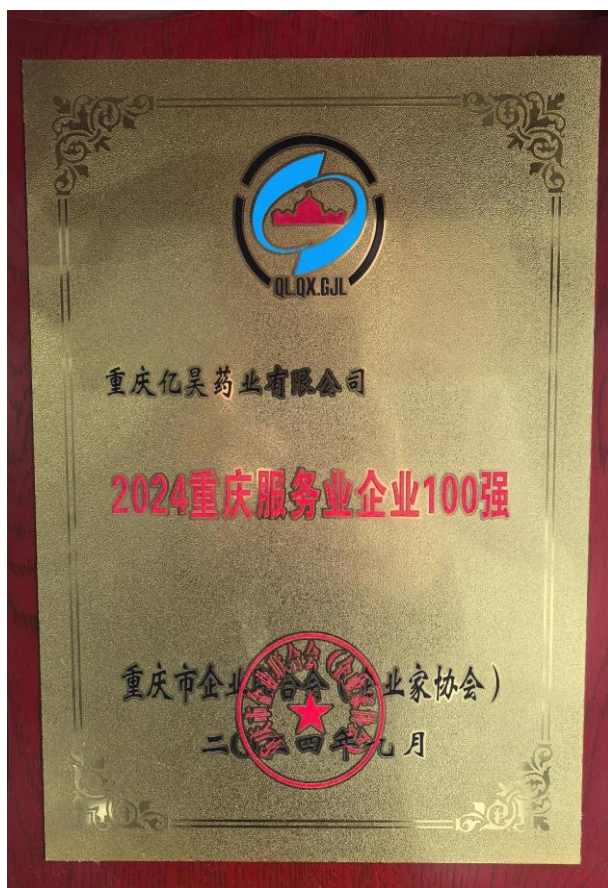
Significant Progress

- Between October and November, **four** new fulfillment centers began operations in Guangzhou, Guangdong Province, Wuhan, Hubei Province, Ji'nan, Shandong Province and Shijiazhuang, Hebei Province.
- Currently, our network encompasses **15** fulfillment centers.
- Plans to expand fulfillment center footprint by adding at least **five** more centers over the next year.

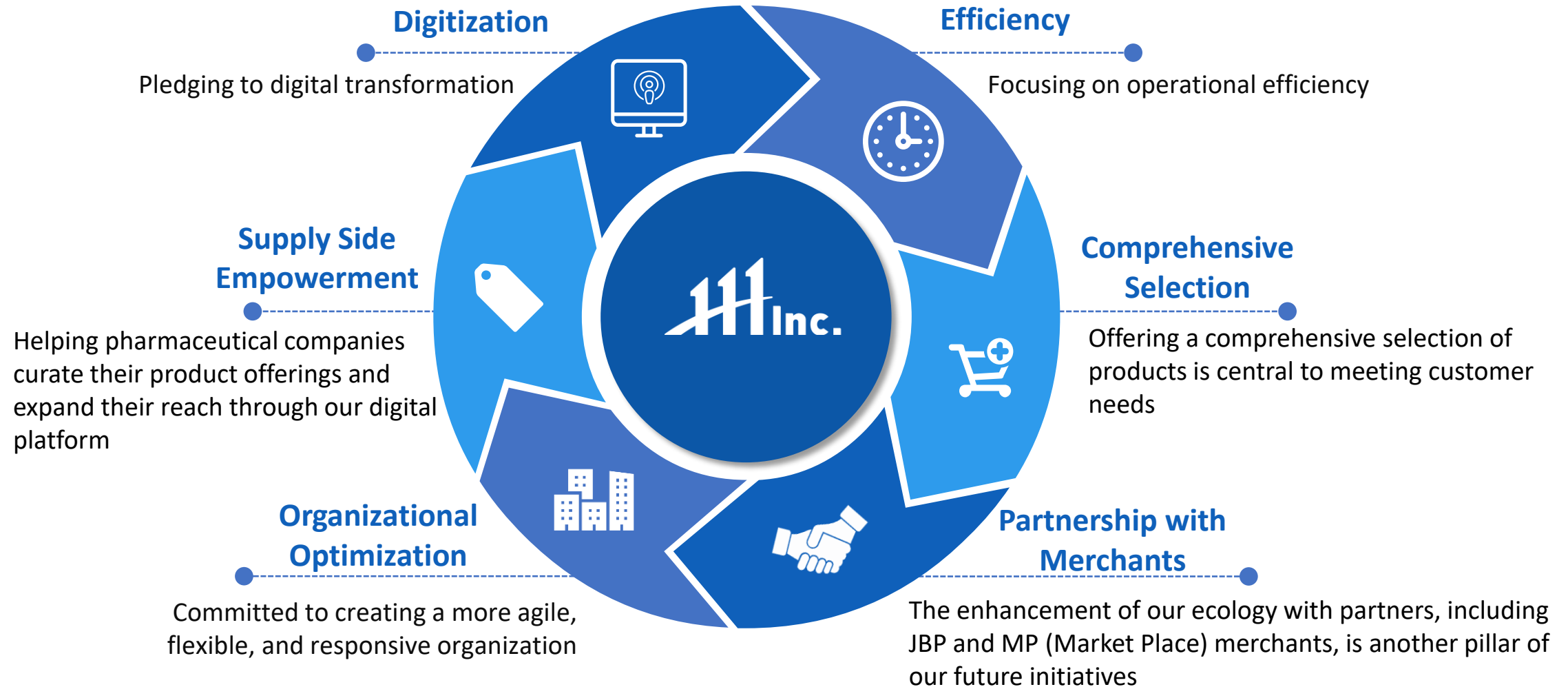
Leading the Way: Discover Our Latest Accolades



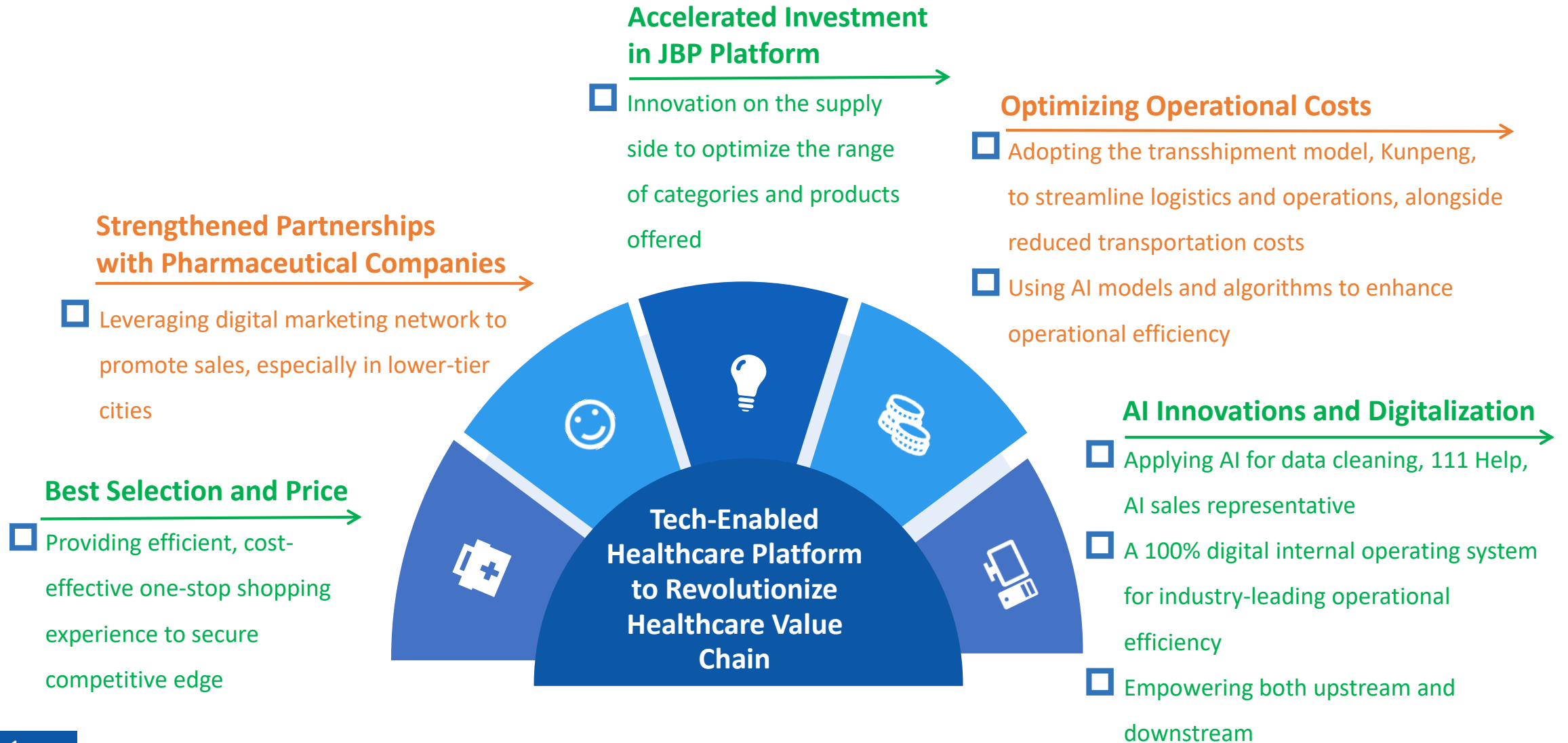
Our operation centers have been named as either “Top 100 Service Industry Enterprises” or “Top 100 Private Enterprises” in Guangdong, Wuhan and Chongqing, underscoring strong business performance and influence in these regional markets.



Shaping the Future: Enhancing Leadership and Competitive Advantage with a Structured Approach



Unlocking Success: Relentlessly Driving Revenue and Margin Growth



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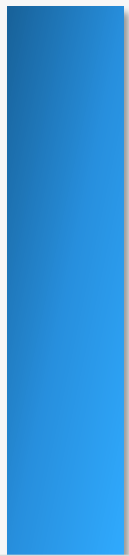
Total Revenue Holds Firm Despite Macroeconomic Challenges

Revenue – Total

(Million)

YoY -1.8%

RMB3,665
USD502



2023 Q3

RMB3,601
USD513



2024 Q3

B2B Segment¹ – Revenue

(Million)

YoY -1.2%

RMB3,577
USD490



2023 Q3

RMB3,536
USD504



2024 Q3

B2C Segment² – Revenue

(Million)

YoY -26.4%

RMB88
USD12



2023 Q3

RMB65
USD9



2024 Q3

Notes:

1. B2B Segment revenue includes B2B product revenue and B2B service revenue.
2. B2C Segment revenue includes B2C product revenue and B2C service revenue.

Gross Margin Growth Amid Macroeconomic Challenges

Gross Segment Margin – Total ¹

(Million)

5.2%

RMB191
USD26

YoY 10.5%

5.8%

RMB211
USD30

2023 Q3

2024 Q3

B2B Segment ² – Gross Segment Margin

(Million)

4.8%

RMB171
USD23

YoY 14.0%

5.5%

RMB195
USD28

2023 Q3

2024 Q3

B2C Segment ³ – Gross Segment Margin

(Million)

22.2%

RMB20
USD3

YoY -20.2%

24.1%

RMB16
USD2

2023 Q3

2024 Q3

Notes:

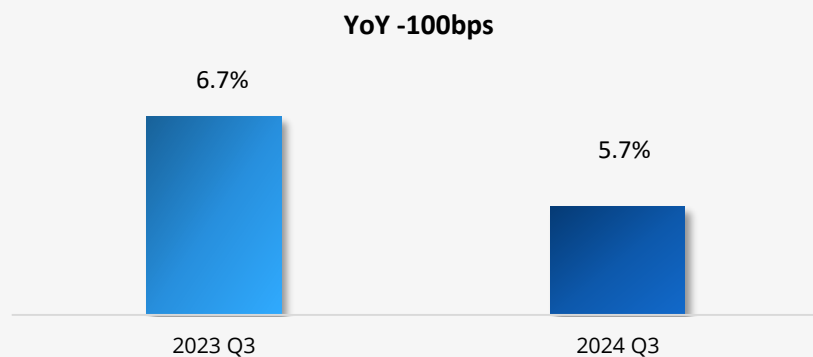
1. Total Segment Margin% = (Product Revenue + Service Revenue – COGS)/Net Revenue

2. B2B Gross Segment Margin% = (B2B Product Revenue + B2B Service Revenue – B2B COGS)/ B2B Revenue

3. B2C Gross Segment Margin% = (B2C Product Revenue + B2C Service Revenue – B2C COGS)/B2C Revenue

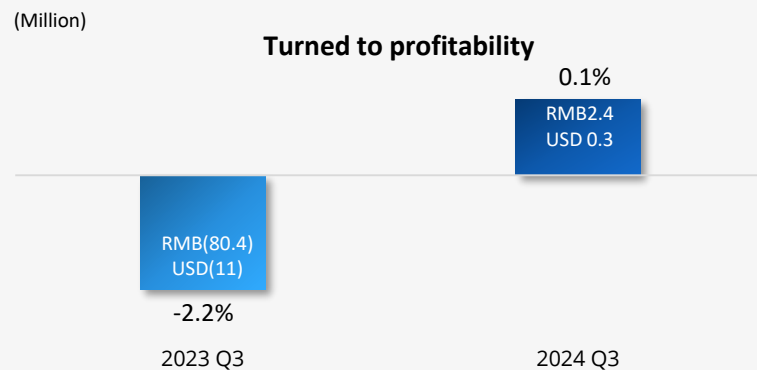
Sustaining Operational Profitability for Three Consecutive Quarters Through Enhanced Efficiency

Operating Expense as % of Net Revenue (Excluding Share-Based Compensation Expenses)

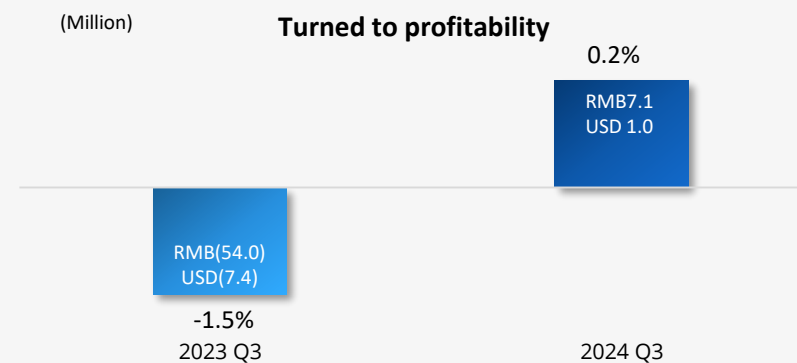


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Selling and Marketing	2.5%	2.1%
G&A	0.8%	0.3%
Technology	0.6%	0.5%
Fulfillment	2.8%	2.8%

Income (Loss) from Operations as % of Net Revenue



Non-GAAP Income (Loss) from Operations¹ as % of Net Revenue



Notes:

1. Non-GAAP income (loss) from operations represents income (loss) from operations excluding share-based compensation expenses.

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Selected Balance Sheet Summary

'000	As of			
	December 31, 2023		September 30, 2024	
	RMB	USD	RMB	USD
Cash and cash equivalents, restrict cash and short-term investments	673,691	94,886	614,411	87,553
Total current assets	2,933,331	413,150	2,886,888	411,379
Total assets	3,089,036	435,083	3,029,682	431,726
Total current liabilities	2,745,063	386,635	2,649,872	377,603
Total liabilities	2,812,932	396,194	2,722,172	387,906
Mezzanine equity	870,825	122,653	943,774	134,487
111 Inc's equity	(583,451)	(82,177)	(629,584)	(89,715)
Non-controlling interests	(11,270)	(1,587)	(6,680)	(952)
Total liabilities and shareholders' equity	3,089,036	435,083	3,029,682	431,726

Selected Income Statement Summary

For the Three Months Ended					
'000	September 30, 2023		September 30, 2024		
	RMB	USD	RMB	USD	
Net revenues	3,665,245	502,364	3,600,675	513,092	
Cost of products sold	(3,474,621)	(476,236)	(3,390,059)	(483,080)	
Fulfillment expenses	(101,602)	(13,925)	(99,977)	(14,247)	
Selling and marketing expenses	(95,523)	(13,093)	(76,954)	(10,966)	
General and administrative expenses	(45,839)	(6,283)	(14,367)	(2,047)	
Technology expenses	(25,386)	(3,479)	(17,549)	(2,501)	
(Loss)/Income from operations	(80,422)	(11,022)	2,371	337	
Interest expense (net) and other income (net)	(2,954)	(405)	(5,828)	(832)	
Loss before income taxes	(83,376)	(11,427)	(3,457)	(495)	
Income tax expense	(102)	(14)	(5)	(1)	
Net loss	(83,478)	(11,441)	(3,462)	(496)	
Non-GAAP net (loss) income	(57,076)	(7,822)	1,294	182	

Cash Flow Statements

	As of			
	September 30, 2023		September 30, 2024	
	'000	RMB	USD	RMB
Net cash provided by operating activities	35,208	4,825	109,865	15,656
Net cash provided by investing activities	5,163	708	49,845	7,103
Net cash provided by (used in) financing activities	110,452	15,139	(110,510)	(15,748)
Effect of exchange rate changes on cash and cash equivalents	2,621	359	(313)	(45)
Net increase in cash and cash equivalents	153,444	21,031	48,887	6,966
Cash and cash equivalents, and restricted cash at the beginning of the period	612,774	83,988	515,524	73,462
Cash and cash equivalents, and restricted cash at the end of the period	766,218	105,019	564,411	80,428

Non-GAAP Financial Measures Reconciliation

'000	For the Three Months Ended			
	September 30, 2023		September 30, 2024	
	RMB	USD	RMB	USD
(Loss)/Income from operations	(80,422)	(11,022)	2,371	337
Add: Share-based compensation	26,402	3,619	4,756	678
Non-GAAP (loss)/income from operations	(54,020)	(7,403)	7,127	1,015
Net loss	(83,478)	(11,441)	(3,462)	(496)
Add: Share-based compensation	26,402	3,619	4,756	678
Non-GAAP net (loss)/income	(57,076)	(7,822)	1,294	182

Q & A

THANK YOU