



The Generational Buy

Investors Listen Well Well

Background

In May 2019, Citron exposed the problems at Jumia Technologies (JMIA) that included:

- Discrepancies in financials between investor presentations and SEC filings
- Fraudulent orders
- A company burdened with inefficiencies

EVERYTHING HAS NOW CHANGED.

While we acknowledge that starting an e-commerce business in an emerging market will have its challenges, the rewards can be great for patient investors as we've seen with MELI, BABA and SE. Over the past year, the pandemic has accelerated the global shift to e-commerce and JMIA has benefited from:

- Acceleration of e-commerce adoption by Nigerian consumers
- The renewed focus on profitability
- The rapid acceptance of fintech products in Nigeria including JumiaPay
- The ability to use JMIA has a platform for ancillary products

“Investors who ignore Nigeria now have to ask themselves: What do I know that Patrick Collison doesn’t?”

– Paul Graham

All About The TAM

In Citron’s initial short recommendations on JMIA, the one bit of hesitation we always had was the size of the of the addressable market vs. the misstatements in the financials.

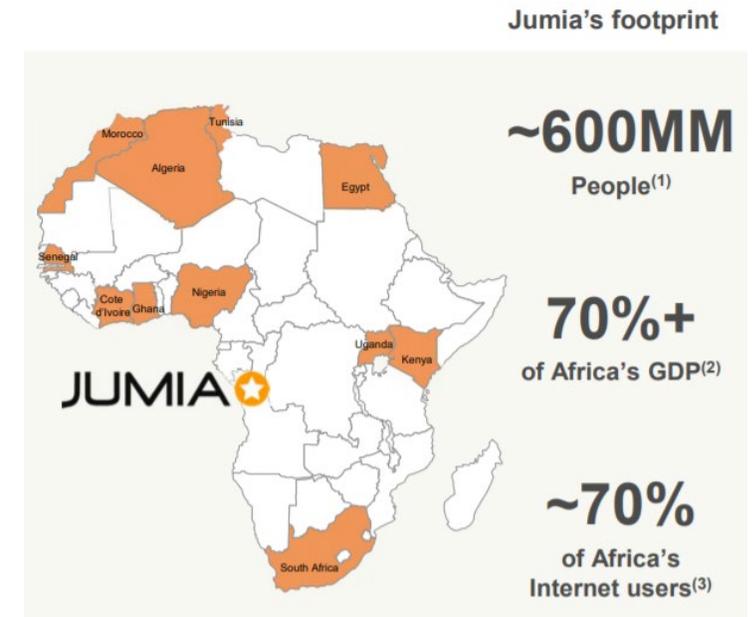
There is no denying that the COVID-19 pandemic has accelerated e-commerce globally. JMIA is the key beneficiary as it is the only scaled e-commerce player in Africa. You can’t deny the numbers:

- 1.3 billion population
- 523 million internet users
- Fastest growing continent in the world that will account for >50% of global population growth between now and 2050
- McKinsey estimates that Africa e-commerce will grow to a \$75 billion market opportunity by 2025
- In Nigeria, over 40% of the population is under the age of 14 and over 50% of registered voters are under the age of 35

EITHER THESE YOUNG NIGERIANS WILL BE THE FIRST PEOPLE ON EARTH TO NOT ACCEPT E-COMMERCE OR THE STOCK IS GOING TO \$100.

“There is enormous opportunity. In absolute numbers, Africa may be smaller right now than other regions, but online commerce will grow about 30% every year. And even with wider global declines, online shoppers are growing twice as fast. Stripe thinks on a longer time horizon than others because we are an infrastructure company. We are thinking of what the world will look like in 2040-2050.”

– Patrick Collison, Stripe’s Co-founder and CEO



Pandemic – When the Music Changes So Does the Dance

The 2020 global COVID-19 pandemic quickly shifted the purchasing habits of Africans and accelerated the acceptance of e-commerce in a economy that many including Citron questioned would be ready to accept a new way of doing business.

As noted by Kemi Okusanya, Vice President Visa West Africa:

“The reality of the Covid-19 pandemic has presented a new shift in consumer behavior... The survey revealed that 39% of consumers in Nigeria started purchasing groceries online, 42% started purchasing food delivery online, while 43% of consumers started purchasing from pharmacies online for the first time.”

As noted by CNN:

“Individuals won't be buying the same way as they used to before. People are becoming comfortable with the fact that they don't need to step into the market to get what they need to eat. We are positioning ourselves for that new normal.”

<https://www.cnn.com/2020/06/18/tech/africa-ecommerce-covid-spc-intl/index.html>

<https://www.thisdaylive.com/index.php/2020/07/01/the-effects-of-covid-19-might-spur-e-commerce-to-further-growth/>

<https://nairametrics.com/2020/10/13/visa-and-standard-chartered-partner-to-promote-ecommerce-payments-in-nigeria/>

INNOVATE AFRICA

The pandemic could be a turning point for online shopping in Africa

By Nell Lewis, CNN Business

Updated 9:48 AM ET, Thu June 18, 2020

These quotes from Nigerian National newspaper THISDAY highlight why JMIA's stock price is a coiled spring:

“Interestingly, one of the positive game-changing new realities that the Coronavirus pandemic is impacting on the ecosystem is the increasing popularity of online shopping and importance of e-commerce platforms like Alibaba, Amazon and Jumia, to mention a few.”

“In fact, we might be entering the ‘e-commerce era’ as the pandemic represents a big opportunity that can spur further growth of the evolving e-commerce sector in Nigeria and other African countries with Jumia leading other operators from the front.”

“With Jumia marketplace, Jumia Services (logistics), JumiaPay and Jumia Food amongst other innovative offerings, Nigerians can avoid coming in contact with unsuspected COVID-19 infected persons that they may unknowingly meet if they go shopping in the malls, supermarkets, open markets or banking halls that are usually overcrowded.”

Pandemic – When the Music Changes So Does the Dance

Last month, JMIA launched a Brand Festival campaign with top global brands such as Reckitt Benkiser, Unilever, Nokia, Intel, HP, Nexus, Hisense, Sharp, Samsung, Binatone, XIAOMI, ABSOLUT, Dettol, and Logitech.

“In the last few months, we’ve seen that e-commerce is crucial to the Nigerian economy, with more people shifting their activities online at a faster pace: working and shopping are coming online faster than we thought and imagined before. Jumia became a place where communities across Nigeria came to buy all sorts of products: groceries, fashion. During this time, more brands come online to partner with Jumia by putting their products and services on our platform or advertising offers on Jumia Advertising.”

“In the wake of COVID-19, we have continued to strive to operate so that consumers can continue to stay at home, use e-commerce to shop, and stay safe in this trying time. We are proud to partner with Unilever, Nokia and other top brands as part of our commitment to provide customers easy access to quality products directly from the manufacturers at best prices.”

– Massimiliano Spalazzi, Jumia Nigeria CEO

<https://businesspost.ng/featureoped/covid-19-e-commerce-as-recovery-conduit-for-smes/>

<https://www.vanguardngr.com/2020/09/jumia-partners-top-brands-to-enable-customers-save-more-on-quality-products/>

Emerging Market E-commerce – We’ve Seen this Before

It was only three years ago when Sea Limited (SE) was trading at \$14-15 in 2017 when Morgan Stanley expressed a thought that many of the same JMIA critics are using today:

“Different market dynamics across Taiwan and Southeast Asian countries yield significant execution difficulties in replicating success from one region to another.”

SE had low growth back in 2017-2018 similar to JMIA today before the company hit a big inflection point and revenue growth accelerated massively.

Morgan Stanley expressed similar skepticism of MercadoLibre (MELI) in 2018:

“The combination of poor infrastructure, the continental size of some countries, traffic congestion in big cities, and the scarcity of nationwide transportation companies make shipping expensive and delivery times lengthy and unreliable in Latin America.”

MELI founder Marcos Galperin noted in an interview this week that it’s typical that people are skeptical about e-commerce when a business model is in the early stages of its development in an emerging market. There were even questions during the early days of Alibaba (BABA). Who remembers when BABA sold a 40% stake for \$1 billion to Yahoo in 2005?

While we understand the many concerns of skeptics about the future of e-commerce, it’s nothing that we haven’t seen before. More importantly, smartphone and digital payment penetration continues to increase globally, which has been the largest obstacle for e-commerce adoption in other emerging markets.

Last year, one of Citron’s biggest criticisms of transacting e-commerce in Nigeria has been the lack of physical addresses. Not only has JMIA collected the largest database of addresses in Nigeria, Google has overcome this issue with the creation of “plus codes” in Nigeria.

Jumia's Shift to Profitability

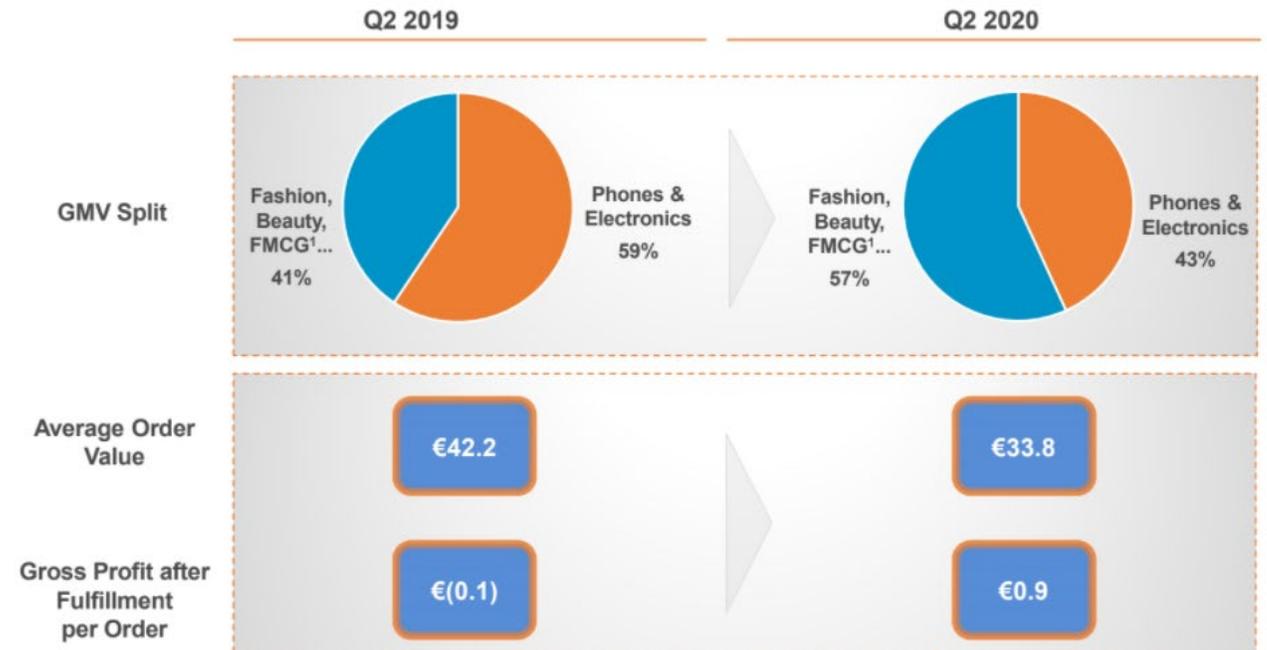
JMIA has the benefit of having a 5th mover advantage and learning from the successes of AMZN, SE, MELI and BABA.

JMIA's stock sold off 50% last earnings on what appeared to be a bad print due to declining GMV.

The reality is JMIA has refocused its business on fast-moving consumer goods (e.g., packaged foods, beverages, toiletries, cosmetics, dry goods, and other consumables) to drive the business towards profitability.

It is important to note that GMV (excluding categories that JMIA is exiting) grew significantly and we believe that JMIA will provide additional disclosure on the breakdown of GMV in the coming quarters to clear up any confusion.

The business mix rebalancing helped us further diversify our mix towards every-day categories, supporting our unit economics



Notes:
 1. Categories in this portion include fashion, beauty, home & living, FMCG, digital services, food delivery and others

Jumia's Shift to Profitability

In a business that always faced skepticism that it could achieve profitability, JMIA is already there on a per-unit basis after fulfillment in the most difficult infrastructure market in the world. This creates a huge advantage for JMIA and a significant barrier to entry for any competitors. JMIA's new focus on profitable "everyday item" product lines and away from unprofitable consumer appliances and electronics shows that JMIA is the only company that has figured out how to address the infrastructure issues plaguing e-commerce in Africa.

"We are now generating almost EUR1 per order of gross profit after fulfillment, and in fact, we are almost breakeven after Sales & Advertising"

– Sacha Poignon, Jumia Co-Founder and CEO, Q2 2020 Earnings Call

"The gross profit after fulfillment expense per order reached EUR0.90 compared to a EUR0.10 loss in Q2 2019. And as Sacha mentioned earlier, we are also very close to breakeven on a per order basis after fulfillment and Sales & Advertising expense. This rebalancing which was in the making for few years, further increase our relevance in light of the COVID-2019 situation."

– Jeremy Hodara, Jumia Co-Founder and CEO, Q2 2020 Earnings Call

Jumia as a Platform

Beyond its traditional e-commerce business, JMIA has used its platform to extend into other verticals.

As Grubhub is hitting 52-week highs, JMIA's dominant position in food delivery in Africa has been solidified.

“As more consumers embrace online food delivery during and post COVID-19, we will strive to retain more consumers on Jumia Food through unmatched value, convenience and superior customer experience.”

– Nacer Bendriss, Country Manager, Olayan Food, Burger King Representative in Morocco

“As convenience is becoming more and more the norm in everyday life, delivery continues to be a key focus point for our business, today and in the future. Jumia has been instrumental in dealing with the respective Government agencies during the lockdown period to enable us and other food vendors to continue to trade even though our sit-down areas were closed.”

– Jacques Theunissen, Chief Operating Officer, KFC representative in East Africa

Just watch this week's CNBC interview with Jumia Food Chief Commercial Officer Shreenal Ruparelia.

Jumia – SMEs Bridge to the Digital Economy

In Nigeria, small and mid-size enterprises (SMEs) contribute 48% of national GDP, account for 96% of businesses and 84% of employment.

Through partnerships with Microsoft and offering fulfillment services, JMIA is facilitating the move online for these small businesses and digital entrepreneurs.

One of the biggest mistakes Citron has made in its publishing history was underestimating Shopify and its role in taking the small businessman online and offering drop shipping opportunities.

We are not making the same mistake with respect to JMIA.

- <https://www.pwc.com/ng/en/events/nigeria-sme-survey.html>
- <https://news.microsoft.com/en-xm/2020/07/16/how-global-disruption-can-have-local-implications/>
- <https://www.youtube.com/watch?v=n6SEb-Co9WQ>
- <https://www.youtube.com/watch?v=YgFJxuMKTks>
- <https://www.youtube.com/watch?v=m5ff2Dld-z4&t=633s>
- <https://www.youtube.com/watch?v=ZYll6k75MJg>
- <https://www.youtube.com/watch?v=R3WGs1VeXc>



JumiaPay

One of the largest criticisms of conducting e-commerce in Africa was the continent's reliance on a cash economy, which is obviously not e-commerce friendly.

JMIA has created their own digital currency – think PayPal, which now accounts for 24% of GMV and 36% of orders.

Last month, McKinsey's comments on the future of fintech can also be applied to e-commerce:

“A youthful population, increasing smartphone penetration, and a focused regulatory drive to increase financial inclusion and cashless payments, are combining to create the perfect recipe for a thriving fintech sector.”

The takeaway is no matter who wins in fintech, JMIA and e-commerce are winners.

<https://www.mckinsey.com/featured-insights/middle-east-and-africa/harnessing-nigerias-fintech-potential>

Alibaba and Softbank for Jumia

It is no secret that JMIA has been seeking closer cooperation with China. After speaking with executive vice president of Jumia Group Jeremy Doute, Xinhua noted:

- *“Doute explained that his company shares more similarities with Alibaba as compared to western online retailers such as Amazon.”*
- *“Our ecosystem from our philosophy to our practical approach to attract and maintain consumers is very close to that of Alibaba,” he said.*
- *“Doute observed that its platform currently has over 81,000 vendors from Africa and 1,500 from China.”*
- *“We want to attract more Chinese sellers to the digital platform in order to enhance the variety and choice of products available for our African consumers,” he said*

China seems to have a clear lead in the race to control Africa. Africa is by far the biggest nascent market for Chinese goods. The African people would greatly benefit from a direct supply chain of goods made in China. In the years to come, there is no doubt that JMIA will need more capital to fund its expansion. Citron believes that BABA and/or Softbank will come in as a strategic partner/investor, which will simultaneously validate the business model, put JMIA on the radar of the world’s largest investors and provide a direct channel for Chinese goods into the African market. This will inevitably make JMIA the next market darling for investors who missed out on AMZN, MELI and SE.

Valuations Show Market is Forward Looking

How do you value a disruptive platform in an emerging economy?

In a world where civilian space exploration has a \$5 billion market cap and the newest SaaS platform trades at 132x sales, we're faced with a new reality of looking out towards the distant future.

While we acknowledge the difficulties of 2020 and scaling JMIA's business, their positioning in Africa alone (e.g., logistics, technology, employees, brand) should be worth minimum \$7 billion or \$100 per share.

When it is at that point, we can start discussing valuation.

The only way that this does not work is if this young, tech hungry population of Nigeria decides that they do not want e-commerce.

Citron Standing on the Shoulders of Giants

In Q1 2020, UK based Baillie Gifford doubled their position to become the largest institutional investor in JMIA. It should be noted that they're also the 2nd largest shareholder in MELI, a top 10 shareholder in SE and a early investor in Flipkart.

Baillie Gifford has access to all the management teams of these leading global e-commerce companies. Given that JMIA is not a direct competitor, Baillie Gifford can guide JMIA in successful strategies for emerging market e-commerce.

Anecdotally, Baillie Gifford has been is a top 5 shareholder in the biggest naysayer stock of all time – Tesla.

Conclusion

Citron identifies that the best investments over the past 5 years are the ones that are disruptive in nature.

Forget about valuation and look more at significance. The country of Nigeria is dedicated to making e-commerce work to increase the quality of life of their growing and sizeable population.

Consider this – JMIA is now shipping over 20 million packages a year to cities and rural areas across 11 countries.

Nigeria is benefiting from the logistics network, technology and product offerings that JMIA has brought to this long-overlooked part of the world.

JMIA is at the epicenter of this movement and the only scaled e-commerce player in Africa.

Cautious Investing to All

These reports have been prepared by either Citron Research (“Citron Research”) or Citron Capital, LLC (“Citron Capital”). Citron Research and Citron Capital are referred to collectively as “Citron” and each individually as a “Citron Entity.” Each report specifies the publisher and owner of that report. All reports are for informational purposes only and presented “as is” with no warranty of any kind, express or implied. Under no circumstances should any of these reports or any information herein be construed as investment advice, or as an offer to sell or the solicitation of an offer to buy any securities or other financial instruments.

Citron Research produces research reports on publicly traded securities, and Citron Capital is an exempt reporting adviser filed with the California Department of Business Oversight. The reports are the property of the applicable Citron Entity that published that report. The opinions, information and reports set forth herein are solely attributable to the applicable Citron Entity and are not attributable to any Citron Related Person (defined below) (other than the Citron Entity that published the report).

By downloading, accessing, or viewing any research report, you agree to the following Terms of Use. You agree that use of the research presented in any report is at your own risk. You (or any person you are acting as agent for) agree to hold harmless Citron Research, Citron Capital and each of their affiliates and related parties, including, but not limited to any principals, officers, directors, employees, members, clients, investors, consultants and agents (collectively, the “Citron Related Persons”) for any direct or indirect losses (including trading losses) attributable to any information in a research report. You further agree to do your own research and due diligence before making any investment decision with respect to securities of the issuers covered herein (each, a “Covered Issuer”) or any other financial instruments that reference the Covered Issuer or any securities issued by the Covered Issuer. You represent that you have sufficient investment sophistication to critically assess the information, analysis and opinion presented in any Citron report. You further agree that you will not communicate the contents of reports and other materials made available by Citron to any other person unless that person has agreed to be bound by these Terms of Use. If you access, download or receive the contents of Citron reports or other materials on your own behalf, you agree to and shall be bound by these Terms of Use. If you access, download or receive the contents of Citron reports or other materials as an agent for any other person, you are binding your principal to these same Terms of Use.

As of the publication date of a Citron report, Citron Related Persons (possibly along with or through its members, partners, affiliates, employees, and/or consultants), Citron Related Persons clients and/or investors and/or their clients and/or investors have a position (long or short) in one or more of the securities of a Covered Issuer (and/or options, swaps, and other derivatives related to one or more of these securities), and therefore may realize significant gains in the event that the prices of a Covered Issuer’s securities decline or appreciate. Citron Research, Citron Capital and/or the Citron Related Persons may continue to transact in Covered Issuers’ securities for an indefinite period after an initial report on a Covered Issuer, and such position(s) may be long, short, or neutral at any time hereafter regardless of their initial position(s) and views as stated in the Citron research. Neither Citron Research nor Citron Capital will update any report or information to reflect changes in positions that may be held by a Citron Related Person.

This is not an offer to sell or a solicitation of an offer to buy any security. Neither Citron Research nor any Citron Related Person (including Citron Capital) are offering, selling or buying any security to or from any person through any Citron research reports. Citron Research is affiliated with Citron Capital. Citron Capital is an exempt reporting adviser filed with the California Department of Business Oversight and is not registered as investment adviser in any other jurisdiction. Citron Capital does not render investment advice to anyone unless it has an investment adviser-client relationship with that person evidenced in writing. You understand and agree that Citron Capital does not have any investment advisory relationship with you or does not owe fiduciary duties to you. Giving investment advice requires knowledge of your financial situation, investment objectives, and risk tolerance, and Citron Capital has no such knowledge about you.

The research and reports made available by Citron reflect express the opinion of the applicable Citron Entity as of the time of the report only. Reports are based on generally available information, field research, inferences and deductions through the applicable Citron Entity’s due diligence and analytical process. To the best of the applicable Citron Entity’s ability and belief, all information contained herein is accurate and reliable, is not material non-public information, and has been obtained from public sources that the applicable Citron Entity believe to be accurate and reliable, and who are not insiders or connected persons of the Covered Issuers or who may otherwise owe a fiduciary duty, duty of confidentiality or any other duty to the Covered Issuer (directly or indirectly). However, such information is presented “as is,” without warranty of any kind, whether express or implied. With respect to

their respective research reports, Citron Research and Citron Capital makes no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results to be obtained from its use. Further, any research report contains a very large measure of analysis and opinion. All expressions of opinion are subject to change without notice, and Citron does not undertake to update or supplement any reports or any of the information, analysis and opinion contained in them.

In no event shall Citron Research, Citron Capital or any Citron Related Persons be liable for any claims, losses, costs or damages of any kind, including direct, indirect, punitive, exemplary, incidental, special or, consequential damages, arising out of or in any way connected with any information presented in any Citron report. This limitation of liability applies regardless of any negligence or gross negligence of Citron Research, Citron Capital or any Citron Related Persons. You accept all risks in relying on the information presented in any report.

You agree that the information in any Citron research report is copyrighted, and you therefore agree not to distribute this information in any manner without the express prior written consent of the applicable Citron Entity. If you have obtained Citron research reports in any manner other than as provided by Citron, you may not read such research without agreeing to these Terms of Use. You further agree that any dispute between you and Citron and their affiliates arising from or related to this report or viewing the material presented herein shall be governed by the laws of the State of California, without regard to any conflict of law provisions. The failure of Citron Research or Citron Capital to exercise or enforce any right or provision of these Terms of Use shall not constitute a waiver of this right or provision. You agree that each Citron Related Person is a third-party beneficiary to these Terms of Use. If any provision of these Terms of Use is found by a court of competent jurisdiction to be invalid, the parties nevertheless agree that the court should endeavor to give effect to the parties’ intentions as reflected in the provision and rule that the other provisions of these Terms of Use remain in full force and effect, in particular as to this governing law and jurisdiction provision. You agree that regardless of any statute or law to the contrary, any claim or cause of action arising out of or related to Citron report or related material must be filed within one (1) year after the occurrence of the alleged harm that gave rise to such claim or cause of action, or such claim or cause of action be forever barred.