

Huami Corporation (HMI) Fireside Chat Call Transcript

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Company Participants

Brad Samson	VP, Investor Relations
Grace Zhang	Investor Relations East
Wang Huang	Chairman and CEO
David Cui	CFO
Mike Yeung	COO

Operator

Hello, ladies and gentlemen. Thank you for standing by for Huami Corporation's July 2020 Fireside Chat Conference Call. At this time, all participants are in listen-only mode. Today's conference call is being recorded.

I will now turn the call over to your host, Mr. Brad Samson, Vice President of Investor Relations for the Company. Please go ahead, Brad.

Brad Samson

Hello, everyone, and welcome to Huami's first Fireside Chat. We hope you find it informative. Participating in today's call are Mr. Wang Huang, our Chairman of the Board of Directors and Chief Executive Officer, Mr. David Cui, our Chief Financial Officer, and Mr. Mike Yeung, our Chief Operating Officer. Management will begin with prepared remarks, and the call will conclude with a Q&A session.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provision of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the Company's actual results may be materially different from the views expressed today.

Further information regarding this and other risks and uncertainties is included in the Company's Annual Report on Form 20-F for the year ended December 31, 2019, and other filings with the U.S. Securities and Exchange Commission. The Company does not assume any obligation to update any forward-looking statements except as required under applicable law.

I will now turn the call over to our CEO, Mr. Wang Huang. Please go ahead.

Wang Huang

Thank you, Brad. Brad joined us at the beginning of June to help us be more responsive to investors in the U.S. . I want to use this event outside of our normal earnings results flow to talk about our story in the framework of how we think about the industry, and where we are going as a company.

Our company mission is connecting health with technology. I think everyone agrees that more personalized data can help improve individuals' lives, and give the healthcare system better information to drive diagnosis and treatment improvements, systemically as well as individually. There are several key challenges or hurdles to those objectives. Quality of data collected. Drawing valid or accurate conclusions from the data. Inertia of healthcare system participants to accept the information gleaned from the data. Adoption of monitoring technology by consumers. Consumer long-term adherence to health improvement recommendations. Payment or reimbursement that supports the collection and analysis of health information, and delivering related services.

Huami's mission is to address many of these challenges with its growing products and services portfolio, to achieve our vision objective of improving health through the application of technology.

Starting with data quality, questions remain in many clinicians' minds about the quality of the data provided by personal health monitoring devices, such as smartwatches, fitness bands and other wearable devices. For example, the class action lawsuit against another industry player over the accuracy of its heart rate data has made this all the more challenging to convince consumers and clinicians of the accuracy and validity of heart data.

Huami, like several other industry leaders, is working to advance the quality of data collected from personal health devices. That is important, because I think many U.S. investors have some misperceptions about the global marketplace. It's not uncommon, for example, to get the question, why doesn't Apple just win by default? That's the misperception, because Apple's phone market share, while 50% in the U.S. is only 20% globally, which has been pretty consistent for the last four years. Of course, you need to be part of the Apple ecosystem to use an Apple watch. Apple Watch cost is also a challenge in many parts of the world, for both individual consumers and for insurance partners.

Just in the last two weeks, you may have seen the announcement of the second generation of Huami's Huangshan AI chip that features significant improvements in power savings, data collection and analysis accuracy. Huangshan-2 detects atrial fibrillation 7 times faster than Huangshan-1 and 26 times faster than competing algorithms. A study done with the Peking University First Hospital last year demonstrated our wearable technology had atrial fibrillation accuracy of 93.27% with PPG.

We were the first to launch medical grade ECG smart wearable products commercially in the industry. PPG technology works 24/7 to collect data continuously. We developed our own PPG bio-tracking optical sensor, launching the next generation with the Huangshan AI chip. The new BioTracker™ 2 sensor supports five biological data engines: heart rate, breathing and oxygen, sleep, exercise, and heart health, making it the most versatile and precise biosensor ever developed by Huami. These new algorithms all represent significant improvements in data collection and analysis.

All of our products, from the top of the line on down, utilize the same advanced algorithm technologies which increases the accuracy of the data collected. That distinguishes us from several of our competitor's approaches.

I won't go through each of these algorithms from the announcement. Instead, I would encourage you to look at the release, which ran on June 17. But, I will highlight, that several of these leverage our heart rate and cardiovascular disease detection technology from PAI Health and through our minority investment in AliveCor. Both of these are developers of market-leading heart health insights. AliveCor has FDA approved fibrillation technology.

The new Huangshan AI chip and all its new intelligence driven by large data sets and artificial intelligence, are great examples of how Huami is among the leaders in improving the quality of data collected, as well as the validity and accuracy of its analysis for action by consumers and clinicians.

Proving that, is the purpose of doing clinical research and studies. And, like other leaders in this space, Huami is very active in proving the validity and clinical actionability of the data we can provide.

Just a month ago, PAI Health published new clinical proof of the value of its unique heart health algorithm, Personal Activity Intelligence, from a 15-year longitudinal study of 56,000 people in Dallas. The PAI metric provides actionable intelligence to consumers and clinicians which can result in improved heart health and longevity. Continuing to operate under its own identity, PAI Health is working to establish relationships with insurers and clinicians to leverage this intelligence to improve member health.

We have a number of other joint study relationships and clinical trials with universities, fellow vendors and groups, utilizing our wearable technologies and devices.

Some of these partnerships include the Huami AI Research Institute with professor Ramesh Jain from the University of California Irvine, the Smart Wrist Wearable Joint Lab research team led by a fellow and leading respiratory expert from the Chinese Academy of Engineering, the Track and Field Joint Lab with the Chinese Athletic Association, and the Brain-Computer Intelligence Joint Lab with the University of Science and Technology of China, and the Norwegian University of Science and Technology, including several of these universities medical schools.

These all help give our data the credibility to provide information and analytics to partners in the healthcare industry including insurers, care providers and other service providers. Today, that is a small portion of our revenue. But we believe as we continue to prove the value of the actionable intelligence that can be realized from our data, that part of our business will grow as a percentage of our total revenue.

Let me note that proving out the value of the data and algorithms, ours as well as others in the industry, I think will drive payment and reimbursement. When providers and insurers believe in the validity of the data, and what can be done with it, the money will flow to those solutions.

Let me switch gears to talking about consumer adoption and long-term engagement. Our view is that consumers are always looking for new features, getting something leading edge, and perceiving a good value, whether that's a lot of bang for the buck, or having something that is perceived as a luxury item.

Huami has multiple strategies for consumer engagement. In both our own Amazfit brand and through our partnership as developer and manufacturer of Xiaomi's Mi-Band products, we may be the industry's leading driver of value for the dollar.

Our Amazfit T-Rex that is just hitting the market in the U.S. is a great example. Designed for extra durability, T-Rex features 12 military-spec certifications, both GPS and GLONASS, 5 atmosphere water resistance, and 20-day battery life, and is priced at \$139.99 U.S.

The latest version of Xiaomi's top selling Mi-Band, which we design and manufacture, the 5, is just about to hit the market in Asia and Europe, at an expected price of about \$45 U.S.

Our most advanced product to date that is coming this fall, Amazfit X, has been accumulating advance orders on IndieGoGo. To-date, capturing nearly 2 million US Dollars in orders. The X features a 92 degree dramatically curved display with buttonless operation. We have detailed videos and photos on IndieGoGo if you want to see what's coming.

With our proprietary technology and manufacturing scale, Huami is driving the industry's value proposition, and doing so profitably. Using IDC's final numbers for 2019 global shipments of smart watches and fitness trackers, the 42.3 million units of Amazfit, and Xiaomi products we shipped last year accounted for 26% of the global market. That generated 835 million in U.S. dollar revenue in 2019 and \$1.29 US dollars in fully diluted GAAP earnings per ADS.

I also want to emphasize Huami's view that battery life is the killer app for many customers. People have enough things to charge every night without also have to charge their smart watch, too. Plus, if it's in the charger, how are you going to monitor your sleep, or have it wake you with a silent alarm? The new Huangshan 2 chip cuts power consumption by 50%, which will further extend battery life on the next generation products that will utilize that chip.

If you have done a little research on Huami, you'll see that at CES in January, we announced several product line extensions, including Amazfit Home Studio, a smart gym hub; Amazfit AirRun, a foldable next gen treadmill; and two new hearables, Amazfit PowerBuds and ZenBuds. This was our first time launching new devices at CES. And Mike will come on in a little while to provide some further color on our U.S. growth.

I hope this has given you some insight into Huami and how we are approaching the market. I am focused on building this company to lead in R&D that creates high-value health information for consumers and clinicians to use, while investing responsibly. We will continue to focus on driving the hardware value equation profitably. I am proud of what we have achieved in the company's short history, and very excited about the prospects for the future based on what we have achieved, especially in the last 12 months.

Next up, our CFO, David Cui, has a few comments to add. David?

David Cui

Thank you, Wang.

I only have a few comments to add. First, I want to update guidance.

On our May 13 earnings announcement, I noted that we were pleased with the resiliency of our first quarter revenue growth. That resiliency continued in the second quarter, although we continued to feel the effects of the pandemic.

Our guidance for second quarter 2020 revenue on the May 13 call was for 1.0 billion to 1.05 billion RMB, or roughly 142 million to 149 million U.S. dollars.

Today, I am raising our guidance to 1.1 billion to 1.14 billion RMB. In U.S. dollars, that is approximately 155 million to 160 million.

I'll provide all the details on the quarterly call in August, which we currently expect on or about the 18th.

Huami has grown tremendously, and I am proud of the numbers we have posted. Our IPO materials began with 2015 financials showing 896 million RMB revenue and we grew to 5.8 billion RMB last year, a CAGR of 59.6%.

In 2015 we reported a fully diluted loss of 1.22 RMB per share, or US\$ 70 cents per ADS. We became sustainably profitable in 2017 and last year reported 2.24 RMB per share, or 1.29 U.S. dollars per ADS.

Cash flow from operations last year grew to 428 million RMB, or 61 million US dollars.

I know there is heightened scrutiny of Chinese companies accounting practices. We take accounting practices and financial controls seriously. If you look up my bio, I went to college in Canada and worked in the U.S. both as an auditor for Ernst & Young in California, and in key accounting roles in several public companies. Before coming to Huami in 2017, I was the CFO of two other Chinese companies. One traded on the Hong Kong exchange, the other later listed on NASDAQ in the U.S. I hold CPA certificates in the U.S. and Canada.

In addition, I want to note that Wang and the Board are mindful of good governance, with the example of having recently created a new Board committee to oversee our privacy policies and practices, the AI and Big Data Ethics Committee.

Let me stop there and give Mike a chance to provide a few operations highlights. I'll be happy to answer questions when we get to Q&A at the end. Mike?

Mike Yeung

Thanks, David. Hello, everyone. I want to respect everyone's time, so will be brief, but I did want to touch on a few operational highlights, especially here in the U.S. As the COO, I am based in Cupertino.

Starting globally, as the company has expanded into new markets outside of China and Asia, it takes some time to get established and start to develop some real market presence, especially if you're being careful about spend rate. The U.S. market is a great example of that for Huami.

Over the last couple years we have been working on building the U.S. team and developing channel partners. As a result, 2020 seems to be a year of reaching critical mass and accelerating our business in the U.S. market. In addition to expanding distribution channels, the greater number of new, exciting products is helping accelerate U.S. business.

The strong value proposition of all our products is a factor in any market we enter. Because of our proprietary technology such as our AI chips, bio sensors and data algorithms; our pace of innovation; and our manufacturing scale, Huami's Amazfit smartwatch products offer very strong values at their price points. For example, our popular BIP series start at \$60 and the new BIP S is fully featured with color, GPS, heart rate sensor, swimproof and 40-day battery life at \$70. Competitive U.S. products at this price point are black and white without GPS or even heart rate. The new T-Rex that Wang noted is another great example, delivering an outstanding feature set at the \$140 price point. As you compare our products to others, you'll see that Huami strives to be a value driver in this space, in the U.S. and elsewhere around the world.

These new products are just coming into U.S. distribution. Amazfit products are now available online through Best Buy, Amazon, several other specialty online retailers, and through our own Amazfit web site, which you can find at U S dot AMAZFIT dot com. I am excited to announce that we also are expecting to be available in Walmart stores in the U.S. come September. We are happy to have become recognized among the top five smartwatches in U.S. market share in the first quarter.

This year we pre-tested some of our new products on IndieGoGo to gauge consumer interest and give us some feel for potential demand. The IndieGoGo campaigns for AmazFit X, an elegant titanium alloy curved screen and buttonless smartwatch, and the Amazfit ZenBuds, sleep assisting earbuds are wrapping up.

The Amazfit X has generated almost 2 million dollars U.S. in pre-orders, which we find very encouraging. ZenBuds has generated nearly 1 million dollars, so far.

Distribution continues to grow in European and Asian markets, but I'm going to save those highlights for the quarterly call next month. On the business services side, Wang already noted our subsidiary PAI Health's unique heart health algorithm driven program for insurers and other population managers.

These kinds of business services with analytics that derive actionable information from biometric data is an important part of our future business plans. Whether acquired, internally developed, or developed with research partners as Wang described, the company is building a portfolio of proprietary algorithms around which we plan to build business services for the healthcare industry. We will keep you apprised of those developments in the future.

Thank you for your attention.