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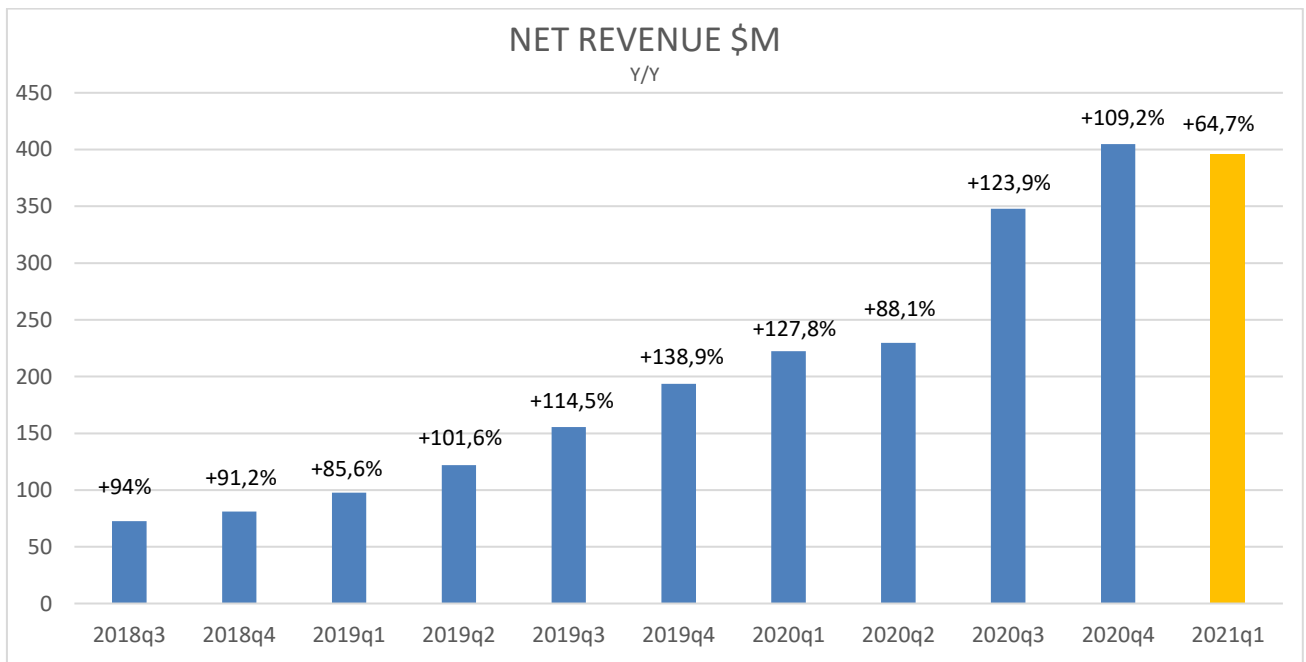
**111 Inc (YI) – is the Chinese pharmaceuticals distributor with high revenue growth, strong potential to reach leaders’ size; and with an attractive P/S ratio.**

111 Inc operates as a digital and mobile healthcare program, engaging in pharmaceutical distribution and providing online medical consultations and e-prescription services



The main business line – is the B2B pharmaceutical distribution platform **with six distribution centers across China**. This line generates 93% of the overall revenue. The second line is the B2C platform, which offers such medical services as online medical appointments and e-prescription write-outs.

### High Revenue Growth Rates, Constantly Absorbing the Chinese Market

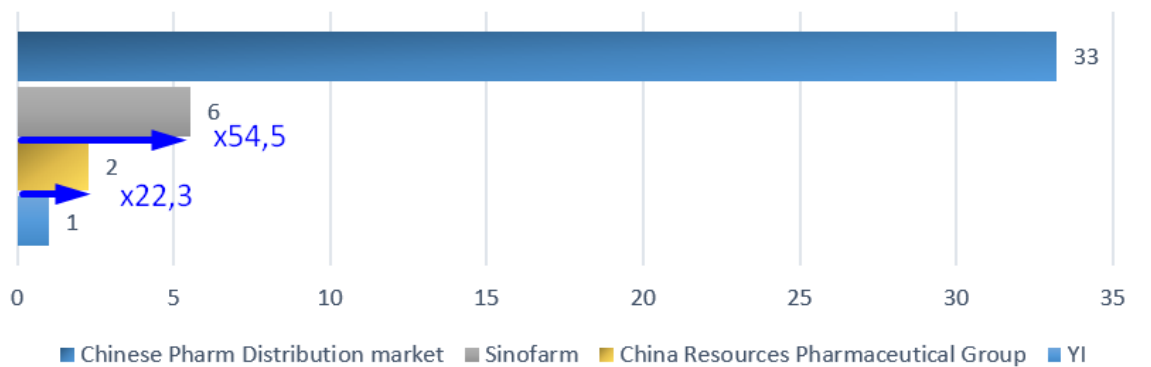


The company demonstrates historically high average revenue growth: 102,9%. The net revenue growth rate for Q4’2020 was 96,1%. 111 Inc extensively increases its sales in B2B line with revenue growth of 108.7%; meanwhile, B2C performance is not so prosperous: B2C sales fell by 5.2%: online pharmacy market is more competitive and has a lower market entry threshold.

### Chinese Market Potential Is Not Yet Fulfilled

Even though the company is gradually expanding, growth potential remains to be 22-54x times to reach the market leaders’ size. The sales volume of the two biggest pharmaceutical distributors and 111 Inc in relation to market estimate in 2019 are presented below:

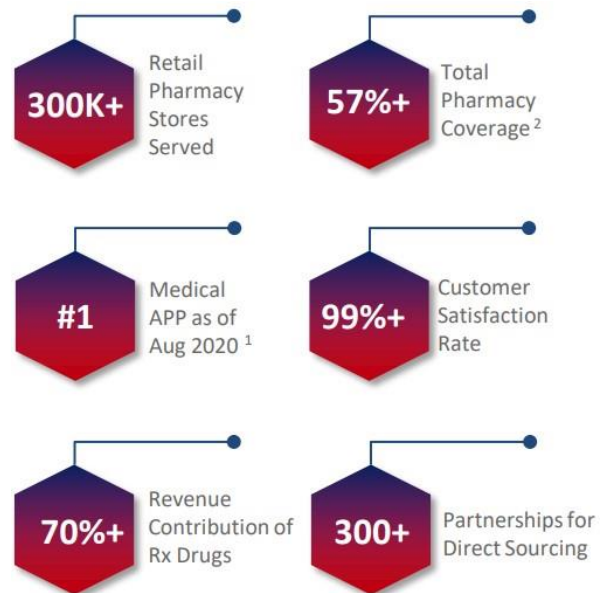
## Market Share, \$B



Also, The Chinese pharmaceutical distribution market has constantly been expanding, reaching \$332 billion in 2019 with a year-on-year increase of 8.9%. [Market is forecasted to double by 2026](#). As of today, 111 Inc holds 0.31% market share.

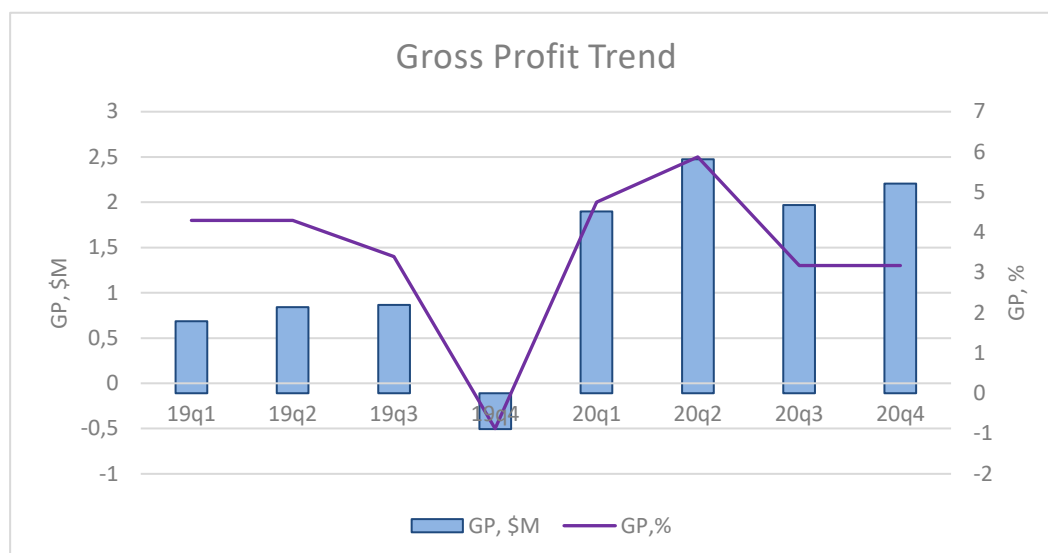
The company steadily expands its total pharmacy coverage and increases internal assortment through the search for new suppliers.

The company offers such services as smart-supply-chain distribution, digital marketing, and cloud-based services to pharmaceutical market leaders and unique manufacturers. So, Xiangxue Pharmaceutical – the leading company in the modernization of traditional Chinese medicine – had become 111 Inc's client on September 24, 2020. Also, 111 Inc reached an agreement with **Bayer Healthcare** company, which was looking for an effective Chinese market entry. Both companies will collaborate on initiatives of pharmaceuticals commercialization in China.



### The Company Is Still Unprofitable, but Gross Profit Is Gradually Increasing

Gross Profit for the last 12 months is \$43.7 million in absolute terms. The change in Gross Profit since 2019 is presented below:



### The Company Is Unprofitable, but Has Cash on The Balance Sheet, and in The 3rd Quarter Reached Positive Cash Flow

111 Inc has a negative Cash Flow of -1.3% of capitalization. Also, the company has an annual Net Loss of \$ 71mil with the Market Cap of \$ 560mil. Nevertheless, the company has more than **\$1 billion of Cash Assets**; meanwhile total debt remains low.

Net Assets on the Balance Sheet is \$480mil – being greater than 85% of the Market Cap (which is rare for tech companies).

As for now, the company is aimed at rapid growth, so it may be the cause why Gross Profit floats at 5% of the revenue. World Pharmaceutical Market's **Gross Profit Average= 9.27%**. 111 Inc will probably have an increase in Gross Profit to finance new projects if it fulfils opportunities in this market.

### Comparison with Peers: Attractive P/S at High Growth Rates

The company's stock is trading at P/S 0.72x whilst growth marketplaces are trading at 4.5-8x (**x10 more expensive**). The company also has a growth potential in capitalization 10 times to Chinese pharmaceutical distribution leaders, which operate in the traditional format. There are two Chinese pharmaceutical distribution leaders included in the sample: China Resources Pharmaceutical Group and Sinopharm. Both companies have diversified their business into manufacturing, R&D and retail, but 75-85% of revenue is still generated from distribution. Potentially, 111 Inc has all the possibilities to achieve their level and develop in similar segments.

Apart from competitors in the Chinese market, three leaders of world pharmaceutical distribution are also included in the sample: AmerisourceBergen Corporation, Cardinal Health, and McKesson. Alibaba Group and

Amazon – Titans of marketplace industry – are also sampled. Ozon – the company that has recently submitted an IPO– already has a P/S ratio of 7,84 at >90% growth (21q1-over-20q1).

Ticker	Company	Mcap, \$m	Revenue, \$m	EV/S	Last Revenue Growth	P/S
YI US Equity	YI	862	1 190	0,4x	108%	0,72
3320 HK Equity	China Resources Pharmaceutical Group	4 109	25 841	0,5x	-2%	0,16
1099 HK Equity	Sinofarm	10 286	66 217	0,2x	7%	0,16
<b>AVG local leaders</b>		<b>7 198</b>	<b>46 029</b>	<b>0,3x</b>	<b>3%</b>	<b>0,10</b>
CAH US Equity	Cardinal Health	16 347	156 570	0,1x	5%	0,10
ABC US Equity	AmerisourceBergen Corporation	23 934	196 282	0,1x	6%	0,12
MCK US Equity	McKesson	30 846	238 228	0,1x	3%	0,13
<b>AVG world leaders</b>		<b>23 709</b>	<b>197 027</b>	<b>0,1x</b>	<b>5%</b>	<b>0,12</b>
BABA US Equity	Alibaba	568 006	105 957	5,4x	41%	5,36
AMZN US Equity	Amazon	1 625 385	419 130	3,9x	38%	3,88
<b>AVG world marketplaces</b>		<b>1 096 696</b>	<b>262 544</b>	<b>4,6x</b>	<b>39%</b>	<b>4,18</b>
OZON US Equity	OZON	11 374	1 450	7,8x	>90%	7,84

The overall picture: with higher growth rates, the market values the company higher. The YI's P/S ratio is greater than those of stable companies, with the growth rate being higher than the inflation rate. That is why 111 Inc is attractive: 112,8% of annual growth and 0.72 P/S ratio. Hence, the potential for revenue growth amounts to x30-x65 and x8 in capitalization to the level of local leaders.

### Share price and dividends



### Risk

111 Inc financial quotes remain on the relatively same level for a long period – the market considers the company's risk to deplete its resources for growth before reaching profitability.

## Appendix – Market Overview: Projected Growth and Time of Change

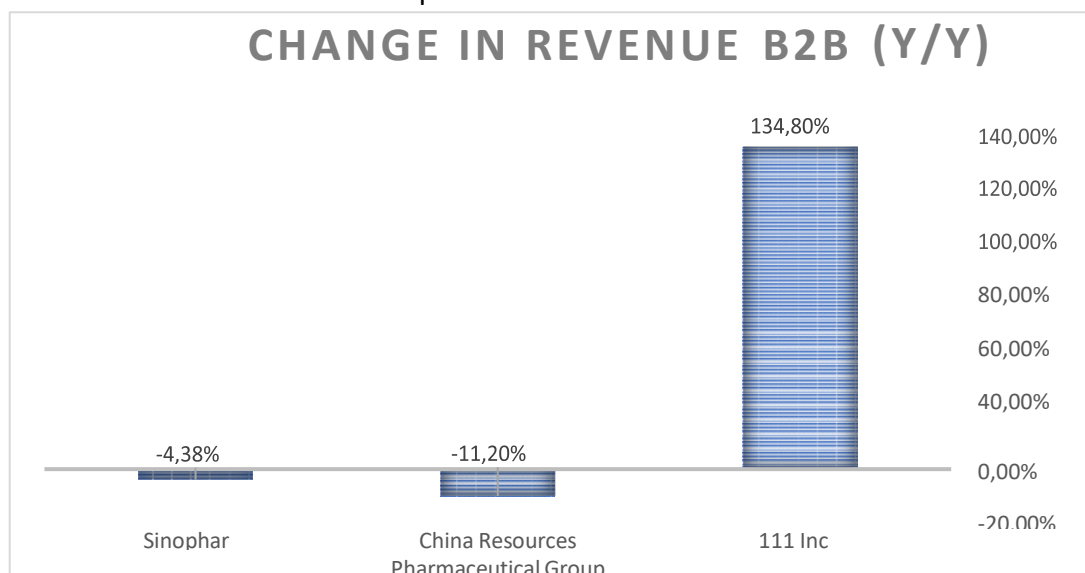
Two years ago, [CB Insights published an article](#) regarding the world drug market failure due to the large quantity of mediators. In 2017, in the USA, for every \$100 spent on prescription drugs, \$41 went to intermediaries in the supply chain. Companies have long ago found a solution to this problem through vertical integration and simplified supply chains.

### Technology is making drug delivery faster and more reliable



111 Inc implements both of the approaches: B2B logistics и B2C online-pharmacy. It confers a significant advantage to the company today: the pharmaceutical market is overheated with small drug manufacturers, which specialize in a narrow niche and cannot afford a full-fledged vertical integration with cloud-based services and efficient supply chains.

The current situation is perfectly substantiated by pharmaceutical market leaders' loss in market share due to increased competition.



China National Pharmaceutical Group Corporation, also known as Sinopharm, showed a 4.38% decrease in last year revenue of distribution in the mid-term report for 2020 (75% of the total revenue). The fall is explained by «a growing competitive environment in the pharmaceutical distribution industry». Another major player, China Resources

Pharmaceutical Commercial Group, generating 85% of the total revenue from pharmaceutical distribution, also lost 11.2% in revenue in this segment last year.

Overall, for the last couple of years, the global community has witnessed the rise of many successful marketplaces — as it makes life easier for both businesses and customers. One example is a wholesale marketplace, Faire, which has been recently estimated at \$2.5 billion. The company constantly grew before the pandemic and got an even greater influx of new clients in 2020. Founded in 2017, the marketplace has become the new tool for more than 10,000 brands and 100,000 local retail stores.

[About the potential of B2B marketplaces](#)

[The story of a wholesale startup that doubled its customer base and tripled in size](#)

**Kind Regards,**

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