



Not All IPOs are Created Equal. Jumia is a Fraud
Citron Exposes the Smoking Gun
Equity is Worthless

Introduction

In 18 years of publishing, Citron has never seen such an obvious fraud as Jumia. As the media in the US is naively anointing Jumia the “Amazon of Africa”, the media in its home country of Nigeria has a plethora of articles discussing the widespread fraud in this Nigerian company. Not even that elusive Nigerian prince can cover this one up.

Jumia is the worst abuse of the IPO system since the Chinese RTO fraud boom almost a decade ago. Worse than being “the most expensive” US listed ecommerce company, Jumia reported financials show us a stagnant business that has burned through \$1 billion and has moved the suckers game to the US Markets.

In this report, Citron will expose the **SMOKING GUN** and show why the equity is **WORTHLESS**. We believe investors cannot rely on reported numbers and a restatement of financials is on the horizon. The SEC must protect US Investors.

Securities Fraud

What do you do when you're on the verge of bankruptcy, your largest shareholders won't fund you anymore, and your closest competitor just got sold at a fire sale valuation? You fudge the numbers and hope that you can dump stock onto US investors.

At the end of 2018, Jumia had a year's worth of cash left and its two largest shareholders, MTN and Rocket Internet, wanted an exit. Therefore, Jumia filed for an IPO in March 2019, fudged its numbers, and began trading last month. This is where the fraud begins...

<https://uk.reuters.com/article/us-rocket-internet-jumia-ipo/rocket-internet-prepares-ipo-for-african-platform-jumia-sources-idUKKCN1M01PG>

<https://www.bloomberg.com/news/articles/2019-04-30/mtn-is-said-to-plan-sale-of-jumia-stake-after-agreed-lock-in>

From 2015 to 2018, Jumia made little progress in its core business. While mobile penetration has soared in the core markets, the Company's revenue declined from \$145 million to \$131 million while adjusted EBITDA loss went from \$161 million to \$150 million. Jumia learned the hard way that Nigeria, Jumia's largest and most important market, is not an easy place to do ecommerce for plenty of reasons including logistics, poverty, and a culture of corruption.

Naspers, the smartest and largest tech investor in Africa, invested in a Nigerian ecommerce company called Konga but sold the business to Zinox Technologies in 2018 for a >90% loss on its investment. This was not due to a lack of funds or a short-term investment horizon. Naspers has \$12 billion of cash on the balance sheet and its original investment in Tencent (still owns >30%) dates back to 2001. Rather, this decision was a reflection of Naspers' bearish view on the Nigerian ecommerce market vs. a bullish view on South African ecommerce. Since its Konga exit, Naspers announced plans to invest over \$300 million in South African tech businesses.

<https://www.naspers.com/news/naspers-commits-r4-6bn-of-funding-to-back-south-af>

The Smoking Gun

Before coming to the US Markets, Jumia made one last effort to raise money in 2018 and they presented this: **Confidential Investor Presentation**

Citron has obtained a copy of Jumia's confidential investor presentation from October 2018 that was being used to market to investors late last year and is NOT what they told the SEC

We will present some of many **MATERIAL DISCREPANCIES** in reported key financial metrics when comparing this confidential document with Jumia's F-1 filing from last month.

When a company markets to investors ahead of its IPO and then a few months later omits material facts and makes material changes to its key financial metrics to make the business seem viable, this is **SECURITIES FRAUD**.

**To protect the identity of our source, we have removed all watermarks. However, we will send a full copy of the presentation to the SEC.*

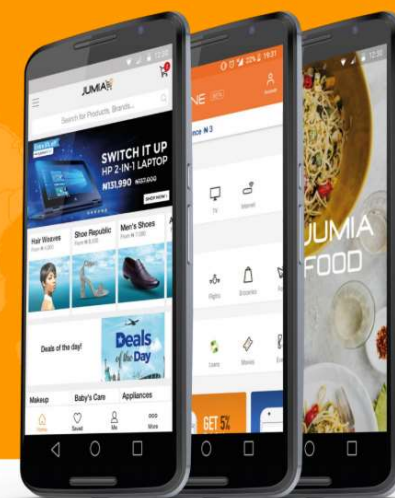
Confidential Investor Presentation

October 2018

The Leading
e-Commerce
Ecosystem
in Africa

Confidential Investor Presentation
October 2018

JUMIA



Material Discrepancy in Reported Key Financials Metrics

We are sure that when the SEC investigates Jumia we will get endless details on fraud, but here's a sample of the significant discrepancies we found:

	Jumia Confidential Presentation (October 2018)	Jumia F-1 (April 2019)
2017 Active Consumers (in millions)	2.1	2.7
2017 Active Merchants (in thousands)	43	53

In order to raise more money from investors, Jumia **inflated its active consumers and active merchants figures by 20-30% (FRAUD)**.

The most disturbing disclosure that Jumia removed from its F-1 filing was that **41% of orders were returned, not delivered, or cancelled**. This was previously disclosed in the Company's October 2018 confidential investor presentation. This number is so alarming that it screams **fraudulent activities**.

Instead, Jumia disclosed that "orders accounting for 14.4% of our GMV were either failed deliveries or returned by our consumers" in 2018. Assuming 41% of orders were returned, not delivered, or cancelled in 2018, this implies that **almost 30% of orders were cancelled in 2018**. Since Jumia primarily sells consumer electronics, which should not have this high of a cancellation rate, it wreaks of fraud.

October 2018 Confidential Presentation vs. April 2019 F-1

Jumia - P&L

EUR m

	FY 17 Actuals
Active consumers (m)	2.1
Spend per consumer (EUR)	240
Number of Orders (m)	5.9
Gross Merchandise Value (Order date)	507
Cancellations and Returns	(209)
Net Merchandise Value (Order date)	298
NMV / GMV Ratio (%)	59%

Selected Other Data(1)

	As of and for the year ended December 31,		
	2017	2018	
	(unaudited, in millions)		
Active Consumers	2.7	4.0	
GMV	€ 507.1	€ 828.2	\$ 948.8
Adjusted EBITDA	€(126.8)	€(150.1)	\$(172.0)

Active Merchants



Number of sellers and goods and services offered by those sellers

The success of our marketplace, which is central to our business model, is driven by the breadth and quality of the goods and services offered, which depends largely on the number of sellers on our marketplace and their ability to increase the range of goods and services they offer to our consumers. As of December 31, 2018, we had 81 thousand Active Sellers on our platform, up from 53 thousand Active Sellers as of December 31, 2017. The number of sellers offering similar goods on our marketplace is a key driver of price attractiveness and quality of service, as they compete for market share on our marketplace. Competition between sellers is also essential to our monetization, as it increases the appetite for sellers to use our services that are geared toward enhancing the sellers' visibility or their quality of service.

History of Corporate Fraud at Jumia Well Documented in Africa!

The systemic fraud at Jumia had not been overlooked by local Nigerian newspapers as they articulate the issue clearer than Citron can.

An investigation by Nigerian news reporters described Jumia as follows:

- **“Cuts a picture of a fast-growing e-commerce company” but “beneath what is painted is a company struggling to survive over internal fraudulent activities”**
- **Jumia is “sitting on gun powder which might explode any moment as the retail outfit is filled with many shady deals”**

<https://www.societyreelnews.com/multiple-frauds-rocks-jumia-nigeria-details-of-how-top-directors-uses-personal-coy-to-defraud-the-online-retail-outfit/>



Recent Fraud Shows Jumia is a Ticking Time Bomb

Jumia pays commissions to a sales force of Nigerians that place orders for other people using their ID numbers, Jforce Consultants. Sales through Jforce Consultants account for 30-40% of net merchandise value for Jumia.

Last month, Jumia amended its F-1 and added language that Jumia **“recently received information alleging that some of our independent sales consultants, members of our JForce program in Nigeria, may have engaged in fraudulent activities.”** This language was missing from the original F-1 from just a month earlier.

This means that either 1) Jumia just found out about this historical fraud, 2) this is a new fraud that will affect future financials, or 3) Jumia has been hiding the fraud for quite some time but going public forced their lawyers to add this language.

Management must reconcile this widespread fraud issue.

Should it be of any surprise that if you paid independent agents in Nigeria as an online sales force there is going to be fraud??? That could be the 40% returns.

The tendency for fraud is so high even HLF doesn't operate in Nigeria.

<https://www.sec.gov/Archives/edgar/data/1756708/000119312519101286/d650749df1a.htm>
<https://www.sec.gov/Archives/edgar/data/1756708/000119312519071692/d650749df1.htm>

**Jumia forecast from October 2018 Investor Presentation*



(EUR in millions)	2017	2018
JForce Commissions Paid	3.1	5.5
% Commission Rate	3%	3%
JForce Net Merchandise Value	102	184
Total Net Merchandise Value	298	543*
JForce Share of Total NMV	34%	34%

Systemic Fraud Starts from the Top – Let's Look at Management

Jumia Co-CEO, Jeremy Hodara, has engaged in extremely questionable related party transactions that the SEC should immediately question.

In February 2016, Jumia sold four of its subsidiaries to Hodara for 1 euro each. Jumia claims that the “transaction was motivated by [Jumia’s] intention to cease operations in Tanzania, and Jeremy Hodara’s intention to run operations in Tanzania under his sole ownership but to continue operating the Tanzanian Entities under the Jumia brand.”

Despite only generating revenue of 238 thousand euro and net losses of over 3 million euro in 2017, **Jumia reacquired these businesses in 2018 from Hodara for an undisclosed price.** During the same year, **Jumia acquired Jumia Facilities, a payroll and support services operation based in Dubai, from Hodara for an undisclosed price.**

Just before IPO, a Jumia MD was questioned by Nigerian police over allegations of fraudulent diversion of funds. Obviously, Jumia said he did nothing wrong. Why ruin a good IPO?

<https://www.vanguardngr.com/2019/02/police-arrest-jumias-md-over-fraud-petition/>

Local media commented that their investigation revealed that many top directors of Jumia were engaging in serious acts of fraud including diverting money that was supposed to be used for projects into their own bank accounts and using director owned private companies to accept Jumia orders while receiving advance payments but never fulfilling the orders.

In some cases, these fraudsters were relatives of senior management and “the directors would sweep the case under the carpet in order to avoid public scrutiny”.

<https://www.societyreelnews.com/multiple-frauds-rocks-jumia-nigeria-details-of-how-top-directors-uses-personal-coy-to-defraud-the-online-retail-outfit/>

What Does Ernst and Young Think? No Opinion

Not surprisingly, Jumia self-admittedly states that they “lack a dedicated centralized compliance function” in their F-1.

To put things in perspective, Jumia’s F-1 mentions the word “fraud” 59 times! Let’s compare this to Citron exposed Longtop Financial, which only used the F word 10 times.

For those who remember, Ernst & Young was the auditor at Sino Forest and a lot of the same controls are present. According to SEC filings, Ernst & Young **did not perform an audit** of financial controls and provided **no opinion** on the financial controls of Jumia.

As we read “E&Y: The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. (p. F-2)”

Ernst & Young uses foreign affiliates to do significant work for audits. The issue is that US regulators can’t check the audits of these foreign accounting firms such as Nigerian auditors.

Consider this – Jumia disclosed that “approximately 95% of [Jumia’s] consumers paid in cash” in Kenya. This resulted in “the large majority” of 720 thousand euros of cash payments never being collected from deliveries in 2016. Jumia discovered this in early 2018.

How can anyone properly audit this company?

<https://www.sec.gov/Archives/edgar/data/1412494/000119312507221983/df1a.htm>

Conclusion

Jumia hits the trifecta:

- This is a fraud and deserves immediate SEC attention
- This is the most expensive US listed ecommerce company with an unviable business
- If you're reading this report, Amazon knows more about ecommerce than you and Naspers knows more about Africa than you. Both companies have either divested or avoided investing regardless of valuation in the Nigerian ecommerce market, which is the growth story behind Jumia

Using the JOBS Act to push this out to US investors and flooding the media with misinformation is complete exploitation of the system and deserves immediate SEC attention.

There is nothing Jumia can say on next week's call that will overshadow the ugly facts of their business along with their soiled history.

Not all IPOs are created equal.

Cautious Investing to All

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