

Viomi Technology Co., Ltd. – Transformative Restructuring and Streamlined Product Portfolio Restore 1H 2024 Profitability, Optimize Operational Efficiency, and Position the Company for Future Growth in the Global Water Purification Market

Viomi Technology Co., Ltd (NASDAQ: VIOT)

Share Price: \$1.83

Valuation: \$5.00



Key Statistics

52 Week Range	\$0.50 - \$1.09
Avg. Volume (3 months)	150.97K
Shares Outstanding	68.2M
Market Capitalization	\$124.9M
EV/Revenue	n/a
Cash Balance*	\$96.5M
Analyst Coverage	1

*Cash balance as of June 2024

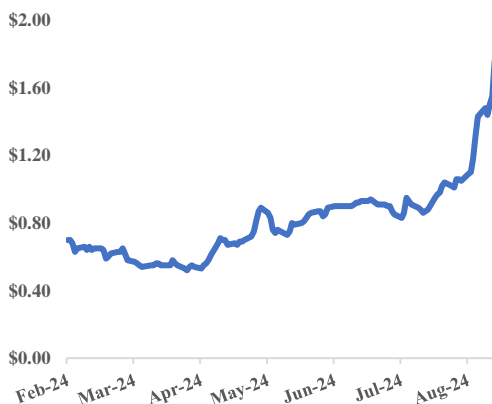
Revenue (in RMB million)**

Dec - FY	2023A	2024E	2025E
1H	1,304.39	1,040.16	912.25
2H	1,189.00	1,001.77	1,161.05
FY	2,493.39	2,041.93	2,073.30

EPS (in RMB)**

Dec - FY	2023A	2024E	2025E
1H	(0.27)	0.03	0.18
2H	(0.14)	0.23	0.25
FY	(0.41)	0.26	0.43

Stock Price Chart (in \$)



Investment Highlights

- Profitability Returns Targeting Growth to Follow, Driven by an Optimized Product Portfolio:** In the first half of 2024, the company reported a decline in net revenues to RMB 1,040.2 million from RMB 1,304.4 million in the same period of 2023, attributed mainly to a strategic shift towards home water solutions and a reduction in the IoT@Home and small appliances segments. The estimated revenues of the continuing businesses exceeded RMB 800 million, reflecting a significant contribution to the overall financial performance. Even though the gross profit decreased to RMB 258.1 million with the decrease in revenues, the gross margin expanded by 280 bps to 24.8% due to increased sales in higher-margin core products. Operating expenses saw a notable decrease of 19.2% to RMB 292.3 million, driven by strategic cost management and operational efficiency improvements, including a significant reduction in selling and marketing expenses through optimized sales channels and product mix adjustments partially offset by a slight increase in general and administrative expenses. This financial recalibration reflects the company's focus on streamlining operations and concentrating on more profitable product categories while managing costs effectively across expense categories. ***This financial restructuring led to the company achieving profitability in the first half of 2024, reporting a net profit of RMB 6.0 million and reversing a significant net loss of RMB 54.9 million from the previous year. Moreover, the company's continuing business contributed RMB 50 million in income from operations in the first half of 2024.*** The company concluded H1 2024 with a robust financial standing, with cash and cash equivalents amounting to RMB 701.6 million compared to RMB 491.7 million as of December 31, 2023. The company also reported increases in restricted cash to RMB 206.9 million, with short-term deposits and short-term investments being valued at RMB 152.6 million and RMB 60.1 million, respectively, reflecting a well-structured financial asset base. In addition to the significant cash and liquid assets reserves, the company will also receive a total consideration of RMB 65 million in cash following the divestiture of certain IoT@Home portfolio products.
- Valuation:** Viomi's strategic realignments and operational improvements have been encouraging for potential sustained financial health and profitable growth. By prioritizing high-margin and profitable home water solutions and divesting less lucrative IoT@Home segments, Viomi has streamlined its focus on core competencies. Key initiatives, such as introducing new AI-driven products like the Viomi Kunlun Mineral AI Water Purifier, enhancing partnerships to maximize the benefits of its Water Purifier Gigafactory, increasing market share in the domestic water purification market, and pursuing growth in key international markets, are integral to Viomi's strategy. These developments, combined with a strong financial position and a focus on profitable and growing business segments, are targeting shareholder value creation. Furthermore, the company is currently trading near its cash position, suggesting that the market may be placing limited value on the potential of its growth prospects. We have updated our financial model to incorporate the divestiture of specific IoT@Home portfolio products, leading to revised revenue projections and higher margin expectations. This update also reflects the latest financial results and an adjusted share count. Additionally, we have refined our comparable company analysis, replacing businesses that no longer align with Viomi's refocused strategy and operational profile. Incorporating these adjustments, our valuation model yields a value of \$5.00 per share, contingent on the successful execution of the company.

Company Description

Viomi Technology Co., Ltd, a leading Chinese innovator in home water purification, leverages advanced AI and IoT technology to deliver cutting-edge solutions. With significant R&D investment and the Viomi AI Water Purification Technology Park, Viomi addresses global demands for high-efficiency, advanced water purification systems

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Please see last page for important disclosures

- **Strategic Divestiture of IoT@Home Portfolio to Focus on Home Water Solutions Products:** Viomi Technology Co., Ltd has announced a strategic initiative to intensify its focus on the home water solutions market. The company has entered into definitive agreements with its founder, Chairman of the Board, and CEO, Mr. Xiaoping Chen, along with an entity controlled by Mr. Chen, to divest its IoT@Home portfolio products (excluding range hoods, gas stoves, and water heaters) for RMB 65 million in cash. The restructuring is expected to be completed by the end of August 2024. In our view, given the increasing competition in the IoT and smart home market, Viomi's decision to divest its IoT@Home portfolio and concentrate on the home water solutions sector is a prudent strategy. The global demand for advanced water purification and management systems remains high and largely unmet. By reallocating resources and focus to this niche, Viomi positions itself to address a critical need, potentially capturing significant market share in a large and growing industry. This strategic refocus could lead to enhanced innovation, improved product offerings, and a stronger market presence in the water technology space.

- **Impact of Viomi's Strategic Restructuring on Core Business and Efficiency:** Viomi's divestment of loss-making businesses is a pivotal move aimed at streamlining operations, improving financial health, and reinforcing its focus on core home water solutions. This restructuring is a key component of Viomi's broader strategy to optimize its operational framework and enhance overall efficiency:
 - **Optimization of Operating Structure:** Viomi's major restructuring is a strategic initiative designed to optimize its operating structure, improve overall efficiency, and sharpen its focus on the core business of home water solutions. By divesting loss-making businesses, Viomi aims to achieve a more favorable operational position and maximize its key strengths. The company will strategically concentrate on household water solutions and related products, utilizing AI technology to deliver superior drinking water solutions for consumers. With over a decade of specialized experience in the water purification industry, Viomi has distinguished itself through its unique **'Equipment + Consumables' business model**, which not only drives recurring revenue but also deepens customer engagement.

 - **Driving Product Innovation in Water Purification:** Viomi has consistently led the way in technological innovation within the water purification industry. **Over the past decade, the company has introduced several groundbreaking products**, such as tankless large-flux water purifiers that ensure a continuous supply of fresh drinking water. By enhancing water flux to 2000G, Viomi has expanded the applications of purified water from drinking to cooking and washing, broadening its utility in daily life. The company's ERO electro dialysis technology further exemplifies its innovative edge, offering adjustable water quality options, from pure to mineralized, tailored to different preferences. The launch of the Viomi Kunlun Mineral AI Water Purifier in March 2024, featuring a unique mineralizing filter, marks another milestone in product innovation. This technology replicates the composition of natural mineral water, allowing users to enjoy fresh, mineral-rich water at home. Spanning kitchen, living room, and whole-house applications, Viomi's diverse product lineup effectively addresses the growing global demand for cleaner, fresher, and healthier drinking water.

- **Technological Advancements with AI Integration:** Viomi's commitment to continuous research and development is evident in its technological innovations, such as fresh large flux direct drinking water technology, three-dimensional integrated water circuits, ERO electro dialysis water quality adjustment technology, and 10-year long-lasting filter cartridges. These advancements have consistently improved the quality of life for consumers. Furthermore, Viomi's integration of AI technology in its water purifiers offers real-time water quality display, remote monitoring, proactive reminders, and intelligent waterway self-cleaning technology, enhancing user experience.
- **Increased Production Capabilities and International Expansion:** The consolidation of Viomi's Water Purifier Gigafactory, with an annual production capacity of 5 million units and 30 million filter cartridges, exemplifies its integrated and automated production capabilities. The gigafactory's comprehensive industrial chain and high-standard hygienic production processes ensure end-to-end traceable quality control. Additionally, Viomi has recruited top industry talents and developed omni-channel marketing and service capabilities in China, while actively expanding into the U.S. and other international markets.
- **Future Prospects:** Looking ahead, Viomi will focus on maximizing the strengths of its water purifier gigafactory, building a robust industrial chain system, achieving scale efficiency, and enhancing its brand impact. We believe that Viomi's reorganization is significant, as it not only improves the company's financial health by divesting loss-making businesses but also enhances its competitiveness in the home water solution market. This strategic focus moves Viomi towards providing better drinking water solutions for global home users.

Company Overview

Viomi Technology Co., Ltd, based in the People’s Republic of China, has strategically refocused its business to concentrate on the burgeoning home water solutions market. Previously notable for its expansive IoT @ Home platform, which seamlessly integrated and managed an array of smart home products, Viomi has shifted its attention to meet the rising global demand for advanced water purification systems.

Viomi’s home water solutions business is designed to leverage its technological prowess in creating cutting-edge water purification systems. The company’s product portfolio includes a wide range of water purifiers, including AI-enabled water purifiers that offer superior drinking water solutions for households. This strategic shift allows Viomi to harness its expertise in AI, IoT, and smart hardware to develop innovative water purification products that cater to the global market's needs. The growing awareness of water contamination issues and the rising prevalence of waterborne diseases have heightened the demand for reliable and advanced water purification solutions, positioning Viomi at the forefront of this vital industry.

A central component of Viomi's strategy is the continued investment in R&D, positioning it as a leader in the water purification industry with over nine years of industrial experience. This commitment is exemplified by the Viomi AI Water Purification Technology Park, which integrates a smart factory, warehouse, testing center, and R&D facilities, reflecting a vertically integrated approach that extends from R&D to manufacturing. This focus on innovation is evident in the company’s intellectual property assets, including numerous patents and trademarks. As of June 2024, the company had over 6,682 cumulative registered patents.

Before its strategic divestment, Viomi had established itself as a prominent entity in the smart home industry through its IoT @ Home platform. This platform, bolstered by an in-house product line under the Viomi brand and a strategic partnership with tech giant Xiaomi, enabled consumers to integrate and manage a diverse range of smart home products. Xiaomi, as a shareholder and significant customer, extended Viomi's access to a broader ecosystem and diversified sales channels, strengthening the company's revenue streams. By June 2024, Viomi's smart home solutions reached approximately 8.7 million households, highlighting its expansive market presence.

As urbanization surges and consumers become increasingly tech-savvy, the demand for integrated water purification solutions is expected to rise. Viomi’s strategic focus on home water solutions positions it to capitalize on this significant market opportunity. The company's combination of a robust product line, strategic partnerships, and a commitment to innovation places it in a promising position to address global water purification needs. While its legacy in smart home innovation continues to inform its approach, Viomi is dedicated to becoming a leader in the home water solutions market, ready to meet growing demands and drive future success in the industry.

Viomi Technology Co., Ltd has refocused on the home water solutions market, leveraging its expertise in AI and IoT to develop innovative water purification systems. This strategic shift, supported by significant R&D investments and a new AI Water Purification Technology Park, positions Viomi to address the growing global demand for advanced water purification solutions



Exhibit 1: Viomi's Corporate History. Source: Company Presentation

Viomi's Home Water Solutions

The core of home water solutions is self-branded and Xiaomi-branded smart water purifiers, which are complemented by easy-to-install replaceable water filter consumable products. Smart water purifiers generally feature precision sensors that enable them to monitor the water purification process and analyze the data collected using AI technology and automatically adjust various aspects of its operation; innovative water purification technologies such as high-flow reverse osmosis membrane and mobile application connectivity enable users to monitor the status of the water purifier and reminds the users to replace the filters. Viomi also introduced a series of large-flux purifiers, a series of premium water purifier products in 2020, as well as 800 to 2,000 gallons Super series of large-flux water purifiers in 2021 and 2022. In addition, in April 2021, Viomi introduced the high-end EROx mineral water purifier with the application of electro dialysis technique, which can retain the minerals beneficial for human health to meet the diverse demands of users further.

Viomi's new water purification strategy emphasizes advanced technology and product innovation for high water purity and efficiency. Supported by the Viomi AI Water Purification Technology Park, the strategy integrates smart manufacturing and extensive R&D

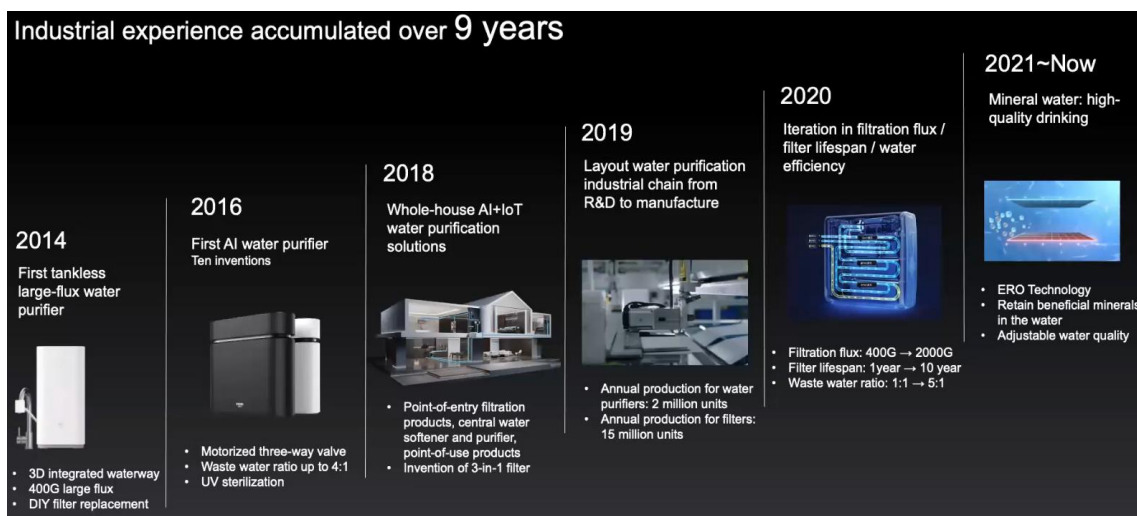


Exhibit 2: Viomi Water Purification Industrial Experience. Source: Company Presentation

Viomi's New Water Purification Strategy

Viomi's new water purification strategy, as detailed in their roadshow presentation, reveals a comprehensive approach to addressing the evolving needs of the smart home appliance market with a particular focus on water purification technology.



Exhibit 3: Viomi Water Purification Products. Source: Company Presentation

The new water purification strategy is a keystone of Viomi's product line. It has been developed to deliver a high level of drinking water purity and efficiency, featuring the "Space 2000G" water purifier, which boasts the industry's largest flux at 2000G, a 5.7 L/min output, and a durable life of the main RO filter lasting ten years. This product exemplifies Viomi's commitment to technological innovation, ensuring super-fast water purification that retains essential nutrients such as silicic acid, making it particularly suitable for families with babies. This is further enhanced by bamboo charcoal filters that adsorb residual chlorine, color, and odor abnormalities in the water. In addition to the Space 2000G, the strategy includes the "Super 2 1200G" and the introduction of AI Mineral Water purifiers that utilize electro dialysis technology for intelligent absorption and effective removal of heavy metals. This not only purifies the water but enhances it for specific uses, such as coffee & tea, porridge & soup, by adjusting the mineral content.



Exhibit 4: Viomi AI Water Purification Technology Park. Source: Press Release

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Consumables

Viomi offers a range of consumable products that are often essential and complementary to IoT products. These products provide additional, recurring, and ongoing revenue streams throughout the life cycle of IoT products. Consumers can easily purchase these products either through sales channels or e-commerce platforms embedded within various IoT products. The consumables mainly include water filters for smart water purifiers, water pitcher filters. The products come with easy installation mechanisms, allowing consumers to install them effortlessly.

Other Small Appliances

Viomi offers a variety of other household products to supplement IoT products and promote regular impulse purchases by consumers. These small appliances include water quality meters, water filter pitchers, stainless-steel insulated water bottles, smart toilets, and food waste disposals, among others. Moreover, with the vibrant partner ecosystem, Viomi offers other services that can capture various scenario-driven consumption events in the home environment, such as enabling users to access media and entertainment content quickly and directly, as well as purchase multiple household fast-moving consumer goods when the need arises within the comfort of their home. Viomi achieves this through e-commerce platforms and interfaces embedded within and integrated with various IoT products and close collaboration with ecosystem partners.

Industry Growth Prospects and Competition

The global water purifier market, encompassing residential and light commercial segments, was valued at \$32.65 billion in 2023 and is projected to grow to \$62.88 billion by 2032, reflecting a compound annual growth rate (CAGR) of 7.6%. The Asia Pacific region dominated the market with a 39% share in 2023, driven by a growing awareness of water contamination issues and the need for advanced purification solutions.

Market Drivers and Consumer Preferences

The increasing recognition of the adverse effects of contaminated surface water and the declining levels of potable water have significantly influenced consumer preferences. There is a notable shift towards technology-based domestic water purification systems as a long-term solution to water quality concerns. The rise in waterborne diseases such as E. coli, cholera, and typhoid has further heightened the demand for reliable water purifiers. Consumers now prioritize portable and affordable water purification systems that offer sustained results over time. This preference for long-term solutions is crucial, as purchasing bottled water is not a feasible long-term option.

The global market is expected to overcome various challenges, including the provision of clean water to rural and semi-urban areas, where infrastructure may be lacking. As the global population increases, the pressure on water resources intensifies, making it imperative for water-distributing organizations to ensure the supply of clean and safe water. Industrialization and urbanization exacerbate water pollution, adding toxic minerals and chemicals to water sources. This has led to frequent outbreaks of waterborne diseases, particularly in developing regions of Asia, Latin America, and Africa, where the World Health Organization (WHO) estimates around 1.5 million deaths annually due to such diseases. Governments and non-governmental organizations (NGOs) are now focusing on building robust infrastructure to provide safe drinking water. This includes implementing water purification systems that can cater to the growing needs of both urban and rural populations.

Asia Pacific's dominance in the water purifier market is attributed to the improving living standards and rising disposable incomes in the region. This has led to an increased demand for products that promote a healthy lifestyle, including water purifiers. Many governments in the region have struggled to provide pure water for daily use, prompting consumers to adopt water purification systems at home. The region's growing population has strained existing water resources, further driving the demand for effective water purifiers.

Investor Interest in Water Purification Companies

Several companies have attracted significant investment and high valuations, highlighting the market's potential and investor confidence. Notably, institutional investors are often the top shareholders in many of these companies, signifying significant investor interest in the sector.

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Company	Valuation	Investors	Top Shareholders
Ecolab	\$70 billion	Institutional Investors	Vanguard - 8%, BlackRock - 8%
Xylem	\$33 billion	Institutional Investors	Vanguard - 12%, BlackRock - 10%
Pall Corporation	Acquired for \$13.8b	Acquired by Danaher	Danaher - 100%
Pentair	\$14 billion	Institutional Investors	Vanguard - 12%, BlackRock - 10%
AO Smith Corporation	\$12 billion	Institutional Investors	Vanguard - 12%, BlackRock - 8%
Evoqua Water	Acquired for \$7.5b	Acquired by Xylem	Xylem - 100%
Culligan International	Bought for \$6b	BDT Capital Partners	BDT Capital Partners - 100%
Whirlpool Corporation	\$5.40 billion	Institutional Investors	Vanguard - 12%, BlackRock - 9%
Gradiant Water	\$1 billion	Institutional Investors	Promoters
Aquatech International	Revenue - \$140m - \$180m	EXIM Bank	Promoters
Parkson Corporation	Revenue - \$90m - \$120m	Axel Johnson Inc	Axel Johnson Inc - 100%
PUR	Undisclosed Acquisition	Helen of Troy Limited	FMR, LLC - 14%, Blackrock - 12%
Aquasana	Acquired for \$87 million	AO Smith Corp	AO Smith - 100%
Brita GmbH	Revenue - \$800m - \$900m	Private	Hankammer Family
BWT AG	Undisclosed Acquisition	Aqua Invest GmbH	Aqua Invest GmbH - 100%

Exhibit 5: Select Residential and Commercial Water Purification Companies and Their Valuations. Source: Diamond Equity Research

Market Opportunities and Segmentation Insights

Smart Purification Emergence: The dawn of smart purifiers, equipped with multi-stage purification and intelligent monitoring capabilities, caters to the rising living standards and expenditure capacities, particularly in burgeoning economies across Asia Pacific and the Middle East. This segment's growth is anticipated to be a cornerstone of market expansion in the forecast period.

Product Type Dynamics: The point-of-use filters dominate the market, acclaimed for their compact design and suitability for direct consumption applications. Innovations in reverse osmosis technology underscore a shift towards higher quality, space-efficient solutions, contrasting with the larger, more expensive point-of-entry systems designed for whole-house applications.

Application Analysis: The residential sector emerges as the primary market for water purifiers, driven by the daily water consumption patterns of households and the escalating demand for purified water amidst rapid urbanization. The necessity for clean water in domestic settings, from cooking and bathing to washing, is expected to fuel the demand for water purifiers, thereby ensuring the segment's dominance in the market landscape.

Competitive Overview

The competitive landscape of the global home water purifier market is characterized by the presence of key players such as PUR, Aquasana, Eureka Forbes Ltd., Kent RO System Ltd., and Brita GmbH, which are popular among consumers. However, these companies often lack IoT-enabled smart water purifiers, presenting an opportunity for innovative companies like Viomi to capture a significant market share. Viomi, as one of the few pure-play Chinese water purification companies, is well-positioned to leverage this substantial market opportunity and expand its presence internationally. Viomi's approach in this competitive landscape is defined by its technological innovations, expertise in the Chinese market, data analytics, research & development, and brand positioning. While challenges from competitors are ever-present, Viomi differentiates itself by emphasizing specialization, innovation, and customer satisfaction.

As of H1, 2024, Viomi has managed to secure a robust position in the smart home water solutions segment compared to seasoned market players. Viomi's water purifier strategy is designed to create a snowball effect in sales through a growing cumulative household user base, regenerating revenue streams across the product's lifespan. This strategy is set against the backdrop of a domestic water purification market in China with only 18% penetration, contrasting sharply with higher penetration rates (80%+) in developed regions such as South Korea, Japan, the USA, and Europe. The global market size for water purification is valued at over \$30 billion, with significant potential for Viomi's expansion both domestically and worldwide.

Viomi has significantly advanced its water purification technology, setting itself apart from many popular competitors that primarily offer traditional water purifiers. One of the standout features is the 24/7 remote monitoring capability via a dedicated mobile app. This app allows users to check water quality, usage, filter lifespan, and receive system performance reports in real-time. This constant access to detailed information ensures users are always informed about their water purification system's performance. Additionally, Viomi's purifiers also offer real-time water quality displays. The tap provides immediate visual feedback on water safety with color-coded indicators—blue for safe drinking water and yellow for unsafe water. The smart display shows real-time Total Dissolved Solids (TDS), water volume, filter lifespan, and other critical metrics. This is a major advantage over competitors' traditional purifiers, which often require manual testing and do not provide instant feedback.

Viomi also simplifies the filter replacement process with hassle-free features. Users receive proactive mobile reminders, can order filters online with a single click, and benefit from home delivery and easy DIY replacement options. This streamlined process minimizes maintenance effort and ensures the purifier continues to operate efficiently with timely filter changes, a convenience not typically offered by traditional systems. Moreover, Viomi's intelligent waterway self-cleaning technology significantly extends the lifespan of the filters, from 2 years to up to 10 years for Reverse Osmosis (RO) filters. This technology uses purified water for self-cleaning, protecting the RO membrane, and intelligently detects TDS levels, water temperature, and user habits to optimize the self-cleaning schedule. This feature not only reduces the frequency and cost of filter replacements but also maintains consistently high water quality, making Viomi's purifiers more economical and effective in the long run. These innovative features position Viomi's smart water purifiers as a superior choice compared to traditional purifiers offered by many competitors.

Viomi's smart water purifiers feature 24/7 remote monitoring, real-time water quality displays, easy filter replacement, and intelligent self-cleaning, offering superior efficiency and convenience over traditional purifiers

Industry and Consumer Trends Driving Smart Home Water Purifiers Adoption in China

- 1. Aspiration-Driven Consumption Upgrade:** Economic dynamism in China, paired with rising disposable income, has ushered in a conspicuous consumption upgrade. As a result, there's an evident shift towards higher living standards. Chinese consumers, equipped with increased purchasing power, are exhibiting a strong inclination for products that are not just of high quality but also emblematic of their aspirations. These products often stand out due to their innovative features and functionalities.
- 2. Technological Openness and Adoption:** China's younger and more modern demographic, often referred to as the "new middle class", demonstrates a pronounced receptivity towards groundbreaking technologies, especially those rooted in Artificial Intelligence (AI) and the Internet of Things (IoT). Technologies such as voice activation and motion-controlled interfaces are becoming increasingly popular as consumers gain a better understanding of their practical applications in everyday life.
- 3. Product Innovation and Technological Advancements:** There is a continual wave of product innovations that are elevating the consumer experience by delivering enhanced functionalities for the modern home environment. Moreover, advancements in technology and a competitive market landscape have led to cost reductions in critical components like microchips, sensors, and networking infrastructure. This price decline is subsequently making smart home products more financially accessible to a broader audience.
- 4. Urbanization and the Quest for Convenience:** Rapid urbanization, combined with a globally connected environment and demanding professional commitments, means that the modern Chinese consumer leads a busier life than ever before. Consequently, there's a strong demand for solutions that can simplify daily routines, especially within the home environment. Consumers are not only seeking convenience but are also willing to invest in solutions that promise to elevate their domestic experience.
- 5. Demand for Intuitive and Future Proof Solutions:** Modern consumers place a premium on user-friendly interfaces and platforms that are both intuitive and affordable. Beyond the immediate benefits, there's a clear preference for solutions that are dynamic, adaptive, and capable of receiving updates to incorporate future functionalities. Such future-proofing ensures that consumers can leverage their investments for extended periods without the technology becoming obsolete.



Exhibit 6: Viomi’s IoT Based Water Quality Monitor. Source: Company Presentation

This emphasizes the enormous potential for Viomi to expand within its home market. However, the rapid growth in other regions, particularly North America and Europe, indicates a global appetite for Smart Water and other IoT solutions and suggests greater expansion opportunities outside of Greater China. The growth in IoT adoption over recent years has been notably substantial. The below exhibit highlights the increasing inclination towards Smart IoT devices, particularly after 2015. By 2025, IoT devices are anticipated to dominate a significant share of the global device market. For Viomi, this suggests a rising demand and an evident shift in consumer preferences toward smart home ecosystems. As the sector expands, the emphasis on product differentiation and ensuring compatibility will be pivotal for Viomi.

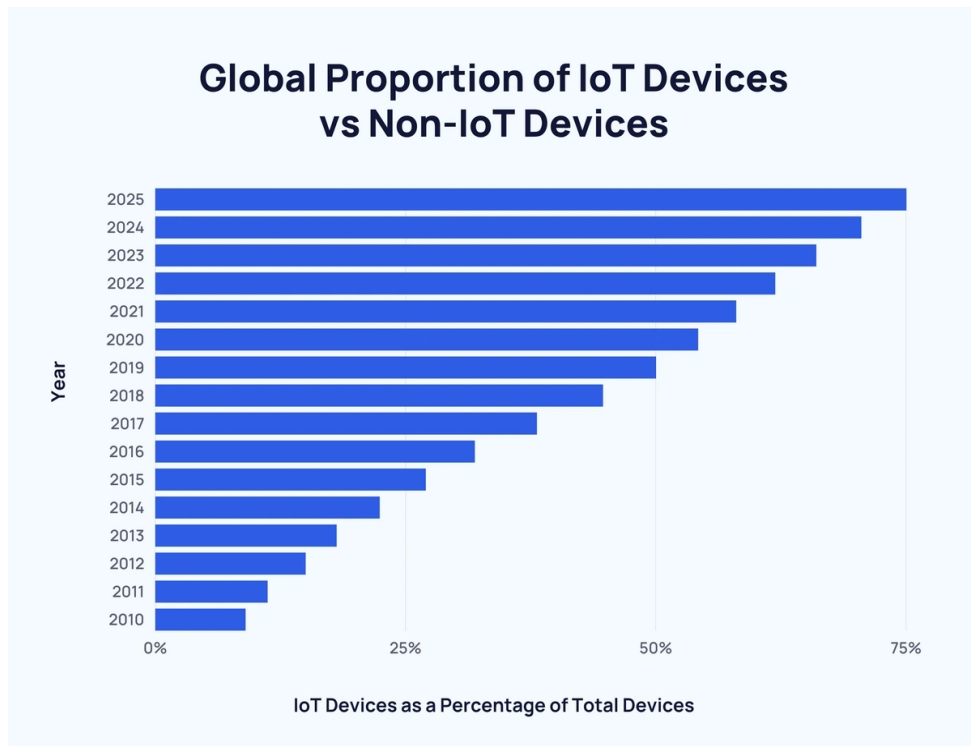


Exhibit 7: Global Proportion of IoT Devices. Source: IoT Analytics

Appendix

Income Statement	FY2022 A	FY2023 A	FY2024 E	FY2025 E	FY2026 E	FY2027 E
Net sales	3,232,731.0	2,493,386.0	2,041,934.8	2,073,305.2	2,876,998.5	3,617,350.8
Cost of sales	(2,495,638.0)	(1,923,866.0)	(1,459,983.4)	(1,451,313.6)	(2,013,898.9)	(2,514,058.8)
Gross profit	737,093.0	569,520.0	581,951.4	621,991.5	863,099.5	1,103,292.0
Operating expenses						
General and administrative Expenses	(121,702.0)	(81,508.0)	(79,635.5)	(76,712.3)	(106,448.9)	(133,842.0)
Selling and marketing expense	(614,887.0)	(401,766.0)	(316,499.9)	(310,995.8)	(431,549.8)	(542,602.6)
Research & development expense	(299,950.0)	(222,911.0)	(179,690.3)	(165,864.4)	(230,159.9)	(289,388.1)
Total operating expenses	(1,036,539.0)	(706,185.0)	(575,825.6)	(553,572.5)	(768,158.6)	(965,832.7)
Other income, net	22,135.0	17,510.0	30,629.0	31,099.6	43,155.0	54,260.3
Income from Operations	(277,311.0)	(119,155.0)	36,754.8	99,518.6	138,095.9	191,719.6
Interest income and short-term investment income, net	10,368.0	29,893.0	22,155.0	18,969.4	20,328.7	20,100.8
Other non-operating income	2,487.0	1,664.0	-	-	-	-
Income (loss) before income tax expenses	(264,456.0)	(87,598.0)	58,909.9	118,488.1	158,424.6	211,820.3
Income tax (expense) benefit	(18,174.0)	(1,735.0)	(5,891.0)	(29,622.0)	(39,606.2)	(52,955.1)
Net earnings including noncontrolling interests	(282,630.0)	(89,333.0)	53,018.9	88,866.1	118,818.5	158,865.3

Exhibit 8: Income Statement Snapshot (in RMB thousands). Source: Diamond Equity Research

Risks Profile

- **Regulatory Risks and Governmental Influence in China's Market:** Viomi Technology's primary presence in China subject it to certain legal and operational risks. The Chinese government's ability to significantly influence businesses, coupled with potential changes in the country's economic, political, or social conditions, could adversely affect the company's performance. Further, the company is domiciled in the Cayman Islands; the perception of the Cayman Islands as a tax haven may lead to reputational risk, scrutiny from international regulators, and potential changes in tax treatment.
- **Competitive Landscape and Challenges:** Viomi Technology Co. operates in a competitive market, contending with smart home solution providers, internet firms, and traditional appliance brands. The vast resources and established presence of some competitors pose threats to the company's market share and profitability, potentially leading to reduced revenues and challenges in sustaining growth.
- **Dependency on Xiaomi:** Viomi Technology Co. maintains a significant reliance on its strategic partnership with Xiaomi, which stands as its primary customer. Many of Viomi's products are also marketed via Xiaomi's e-commerce platform, Youpin. Alterations in this partnership, whether due to contract changes, decreased promotional efforts from Xiaomi, or external challenges affecting Xiaomi's reputation, could negatively impact Viomi's operations. Additionally, as Xiaomi holds a stake in Viomi, potential conflicts of interest could arise, potentially hindering business opportunities and strategic decisions.
- **Product Innovation and Expansion Risks:** Viomi Technology Co. hinges on its ability to innovate and adapt to consumer preferences. Key challenges include significant R&D investments, supply chain management, and maintaining quality. Delays in product development or misjudging user demand can strain resources and tarnish the brand's reputation. As Viomi delves into new product areas, it grapples with unfamiliar markets, potential product liability claims, and the need for aggressive pricing, which might impact profitability.
- **Data Privacy and Cybersecurity Concerns:** Viomi Technology Co. faces intricate Chinese and global data privacy and cybersecurity laws. Despite their protective measures, evolving regulations, especially in China, could increase costs. As they eye global expansion, diverse international regulations pose challenges. Non-compliance risks penalties and damage to their reputation and business.
- **E-Commerce and Store Reliance for Viomi Technology Co.:** Viomi Technology Co. depends on third-party e-commerce platforms, like JD.com and Tmall, for sales. Any cooperation changes or issues could impact their business. Additionally, Viomi's offline stores are operated by third-party partners. Misalignments or disputes with these partners could affect Viomi's brand and financial health. Replacing or resolving partner issues may be costly and time-consuming for the company.

- **Third-Party & Open-Source Risks for Viomi:** Viomi relies on third-party tech, including voice recognition from AISpeech and iFLYTEK. Some suppliers are on the U.S. Entity List, posing export and branding challenges. If licensing issues arise, it could delay or alter products. Additionally, Viomi's use of open-source software can lead to licensing complications, potential legal disputes, and business disruptions.

This list of risk factors is not comprehensive. For a full list, please refer to Viomi Technology's latest prospectus and/or annual filings.

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