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Q1 2020 Yunji Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Kaye Liu** *Yunji Inc. - IR Director*

**Shanglue Xiao** *Yunji Inc. - Founder, Chairman & CEO*

**Chen Chen** *Yunji Inc. - CFO & Compliance Officer*

## CONFERENCE CALL PARTICIPANTS

**Andre Chang** *JP Morgan Chase & Co, Research Division - Analyst*

## PRESENTATION

### Operator

Good morning, and good evening, ladies and gentlemen. Thank you, and welcome to Yunji's First Quarter 2020 Earnings Conference Call. With us today are Mr. Shanglue Xiao, Chairman and Chief Executive Officer; Mr. Chen Chen, Chief Financial Officer; Mr. Hui Ma, Chief Strategy Officer and Chief People Officer; and Ms. Kaye Liu, Investor Relations Director of the company.

Now I'd like to hand the conference over to your first speaker for today, Ms. Kaye Liu, IRD of Yunji. Please go ahead, ma'am.

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### **Kaye Liu** *Yunji Inc. - IR Director*

Hello, everyone. Welcome to our first quarter 2020 earnings call. Before we start, please note that this call will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that's based on our current expectations and current market operating conditions and related events that involve known or unknown risks, uncertainties and other factors affecting the industry. These forward-looking statements can be identified by terminologies such as will, expect, anticipate, continue or other similar expressions. For a detailed discussion of these risks and uncertainties, please refer to our related documents filed with U.S. SEC.

Any forward-looking statements that we make on this call are based on assumptions as of today and expressly qualified entirely by cautionary statements, risk factors and details of the company's filing with SEC. We do not undertake any obligation to update this statement except as required on applicable law.

With that, I will now turn over to Shanglue Xiao, Chairman and CEO of Yunji.

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### **Shanglue Xiao** *Yunji Inc. - Founder, Chairman & CEO*

[Interpreted] Hello, everyone. Welcome to Yunji's First Quarter 2020 Earnings Call. First, I would like to say thank you on behalf of the company to all of the professionals and individuals fighting against the epidemic on the frontlines.

In the first quarter, despite the impact of the epidemic, we increased our GMV by 2.9% year over year to RMB 7 billion and generated a total of RMB 1.65 billion in revenues. Moreover, as a result of the updates to our membership enrollment system, we also grew the total number of the transacting members on our platform to 11.8 million for the 12 months ended March 31, 2020. These encouraging results continue to underscore the durability of our supply chain, allure of our value proposition for members and the progress we are making in executing our growth initiatives.

Though the epidemic did cause significant problems for all industry players in the market, we were able to endure those difficulties, which arose as a result of the related prevention control measures through close cooperation with our partners. When the market began to experience a significant shortage of epidemic containment materials, our deep partnerships with top emerging brands and publicly traded company in a fast-moving consumer goods industry enabled us to ensure a stable line of supply to our members.

In addition, some quality factories and emerging brands with quality production capability made temporary adjustments to their production lines and working hours during the period to ensure the production of epidemic containment materials and other essential goods.

Our partnerships with these players enabled us to secure priority in their supply of goods during the period. Moreover, our close cooperation with leading logistics providers helped to ensure the delivery of our goods to members in a timely manner.



Despite the epidemic's impact to our business and operations, we continued to grow our gross margin and make progress along the path to a stable level of profitability. Such results were largely due to our collaborations with emerging brands, which have further demonstrated the effectiveness of our supply chain refinement and a differentiation strategy.

On the supply chain front, we continued to work towards enhancing our partnerships with the top emerging brands to accelerate our supply chain differentiation and then drive our long-term growth. To date, we have established deep partnerships with over 30 top emerging brands in different industries. In forming these partnerships, we are very focused on selecting quality players, with all of our top emerging partners brands having annual sales in excess of RMB 100 million and then some even being publicly-listed on the domestic market.

Most of our partner brands sell different categories of the fast-moving consumer goods with high turnover and repurchase rates. And while we do offer these brands financial support, our backing is not only limited to financing. For example, we channel platform traffic to the products of the most emerging brands that we have developed through our incubation system as joint-venture brands.

Going forward, we believe that this partnership strategy will help us to secure higher quality Yunji-exclusive products, generate better platform sales, advance our platform's competitive advantages and fuel the growth of our revenue streams over the long term. In addition, we also plan on further differentiating our platform by remaining focused on exploration of more joint-venture brands and for the quality Yunji-exclusive products.

Notably, as a result of years of investment and incubation system, our private labels, Solo Life and the P&S have expanded on to other online platforms, including Tmall and JD. We believe that this trend has staying power and that our other private label will also actively broaden their platform networks to deliver their products to more consumers and grow their sales in turn.

Beyond supply chain improvement, we also further developed our social-sharing promotion systems for products. For example, during the first quarter, we continued to cultivate our local community services, which we had previously shared with everyone on the last call. This location-based online-offline integrated service system helps to increase neighborhood connections while enabling users to access more products in a more convenient manner. When the activity of users became restricted during the outbreak as a result of users' fixed locations, our product promotion target shifted to each community and every neighbor. By leveraging the stable supply of epidemic prevention products and daily essential products from our partners, along with our reliable logistic network, we were able to continue to support our members to reach community users and provide community users with a consistent flow of critical goods throughout the period.

We have also started to invest in e-commerce live streaming to increase sales. During the period, we onboarded a group of service managers with the appropriate sales skills and performance capabilities to serve as streamers in the different streaming rooms of our platform. After establishing these streaming rooms, we directed other service managers experienced in social sharing to introduce the rooms to members. Importantly, if a member has completed an order through one of those streaming rooms, both the streamer and the service manager who refers the member to the streaming room receive a sales commission. To further develop this social-sharing and community-based live-streaming system going forward, I plan on hosting my own live-streaming sessions once a month with other streamers on our platform. In fact, on the night before Yunji's May 16th annual celebration, I made my live-streaming debut on the Yunji platform, accumulating a total transaction volume of more than RMB 50 million for the session.

In summary, 2020 marks Yunji's fifth year of business operations. We are quite pleased to see that the company remains committed to achieving its goals, and continues to advance towards establishment of a fully-mature membership-based social-sharing e-commerce platform.

As we enter into our sixth year of business, we will remain committed to addressing market demands by exploring new initiatives while also avoiding those reckless investments that are not in line with our long-term growth plan. Finally, as we advance beyond this important company milestone, we also plan to leverage our momentum to further improve our inclusive, differentiated and quality-focused platform offerings.

These assets should allow us to not only refine the Yunji experience that we provide to tens of millions of members on a consistent basis, but also enable us to unleash the growth potential of our community to increase shareholder value over the long term.

With that, I will turn the call over to our CFO, Rex Chen, to go through our financial results.

**Chen Chen Yunji Inc. - CFO & Compliance Officer**

Thank you, Shanglue. Hello, everyone. Before I go through our financial results, please note that all numbers stated in the following remarks are in RMB terms and all comparisons and percentage changes on a year-over-year basis unless otherwise noted.

In the first quarter, we experienced major challenges from the COVID-19 pandemic along with the rest of the world. This was particularly true in our operations' networks, which includes our suppliers, third-party merchants, third-party logistic sales providers and other business partners. As a result of the temporary shutdowns, delays in operations and other challenges, our GMV growth was negatively impacted in this quarter. Such impact was partially offset by the higher transaction volume of our marketplace business, which recognizes revenue on a net basis.

In the first quarter of 2020, our GMV increased by 2.9% to RMB 7 billion from RMB 6.8 billion. Revenues in the first quarter of 2020 were RMB 1.6 billion compared to RMB 3.4 billion. Gross margin improved to 30.4% from 19.3%. Our non-GAAP net income in the first quarter of 2020 was RMB 26.1 million compared to RMB 43.1 million.

These first quarter results are the product of the operational refinements we made for different suppliers and customers as well as our improved operational efficiency. Notably, we improved our operational efficiency by: first, concentrating our merchandise platform resources onto those products capable of enhancing our competitive differentiations, such as Yunji-exclusive products; and second, channeling quality supplies to our marketplace platform to boost their product exposure.

Let's now take a closer look at our financials. Revenue from net sales of merchandise in the first quarter of 2020 were RMB 1.45 billion, accounting for 87.7% of our total revenues in the period, compared to RMB 3.22 billion. This decrease was due to the transfer our business to our marketplace business model, which was in line with our continuous efforts to improve our operation efficiency.

Revenue from our marketplace business in the first quarter of 2020 increased to RMB 158.1 million from RMB 3.4 million. The increase was driven by an increase in the number of quality brands and the merchants on our platform as well as higher take rates, which we secured with existing brands through strengthened partnerships. Notably since the second quarter of 2019, the take rate of our marketplace business has continued to grow for the past 4 consecutive quarters.

Revenues from our membership program in the first quarter of 2020 were RMB 25.1 million compared to RMB 156.6 million. The decrease was due to the refinement of our membership enrollment system, which allowed users to register on our Yunji app as a member free of charge and enjoy membership benefits for 1 year.

Gross margin in the first quarter of 2020 expanded to 30.4% from 19.3%. This expansion was mainly attributable to the increased sales of higher-margin products, the development of products from emerging brands and our own private labels and the shift in the proportion of sales from a gross basis to a net basis, which was due to the increasing number of brands moving from merchandise sales to our marketplace business.

Let's now move to our operation expenses. Fulfillment expenses in the first quarter of 2020 decreased by 49% to RMB 138.1 million. The decrease was mainly attributable to a decreased warehousing and logistic expenses resulting from our improved logistic efficiency and the shift in brands from merchandise sales to our marketplace business.

Sales and marketing expense in the first quarter of 2020 decreased by 4.4% to RMB 251.7 million, which was attributable to the decrease in member management fees as we continued to improve the efficiency of our member management operations. The decrease was partially offset by the increase in business promotion expense to attract more popular brands and the merchants to our marketplace

business.

Technology and content expenses in the first quarter of 2020 decreased to RMB 57.9 million from RMB 58.7 million. The decrease was mainly due to our realization of better contract terms with our server providers, which helped to reduce our server costs, and was partially offset by increased personnel costs. We also continued to invest in research and development of talents while further optimizing our staffing structure to enhance employee performance through share-based awards in the period. We expect the personnel costs to decrease in the second quarter.

General and administrative expenses in the first quarter of 2020 increased by 21.5% to RMB 75.2 million, or 4.6% of our total revenues, from RMB 61.9 million, which was mainly due to increased share-based compensation expense resulting from new grants of share-based awards. After excluding the impact of share-based compensation expenses, general and administrative expense in the first quarter of 2020 increased by 8.6% to RMB 46.1 million from RMB 42.5 million.

Overall, our total operating expenses in the first quarter of 2020 decreased by 20.1% to RMB 522.9 million from RMB 654.4 million. This reduction was a result of our ongoing improvements to logistics efficiency and operating efficiency, which we achieved by improving our service manager relationships and subsidy allocation in support of those brands and suppliers meeting our criteria as well as our ability to secure better terms with our partners.

Loss from operations in the first quarter of 2020 was RMB 6.1 million, including share-based compensation expense of RMB 39.3 million, compared with an income from operation of RMB 10.7 million. Net loss in the first quarter of 2020 was RMB 13.2 million compared with a net income of RMB 16.9 million. Non-GAAP net income in the first quarter of 2020 was RMB 26.1 million compared with RMB 43.1 million. Basic and diluted net loss per share attributable to ordinary shareholders in the first quarter of 2020 were both RMB 0.01 compared with RMB 0.95 in the same period of 2019.

Now let's also take a look at our cash and liquidity positions. In light of the COVID-19 outbreak, we continued to focus on maintaining a healthy level of working capital to meet our operational liquidity demands. As of March 31, 2020, we had a total of RMB 2 billion in cash and cash equivalents, restricted cash and short-term investments on our balance sheet.

Looking ahead, we will continue to improve our platforms' operating efficiency. We'll leverage our strong cash position and differentiated merchandise sales offerings to bolster the competitiveness of our value proposition for users and connect our massive user base to quality supplies.

During this period of uncertainty in the market, these efforts will help us to sustain our competitive advantages, boost the quantity and the efficiency of transactions on our platforms, enhance our brand value to grow our user base and the supplier network, and continue to advance along the path towards healthy profitability.

This concludes our prepared remarks for today. Operator, we are now ready to take the questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Participants are requested to first ask your questions in Chinese and repeat in English following. (Operator Instructions)

Our first question comes from the line of Andre Chang from JPMorgan.

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### Andre Chang JP Morgan Chase & Co, Research Division - Analyst

(foreign language) My question is about the second quarter progress so far. After the COVID-19 pandemic has gradually eased, I'd like to know the business recovery trajectory in terms like GMV, revenue growth as well as the membership progress.

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**Chen Chen Yunji Inc. - CFO & Compliance Officer**

Thank you, Andre. I will take this question. And by the end of May, we see the trend of the recovery of both the GMV and the revenue, but the growth rate is still not as fast as we -- our forecast. This is because our focus in this year is to provide a more differentiated SKUs and products to our members. So we are more focused on the profitability and the differentiated items we can provide to our members. Because as you can see, all the other platforms they offer a lot of products with a low price and to compete with faster delivery. But as to why our members will come to Yunji is because we can provide some -- our private label products with better quality but with a reasonable price. And also, as our CEO just stated, we are focused on the deeper cooperation with the best emerging brands all over China. And most of these brands are in the fast -- I mean the fast-moving consumer categories. So we see in -- by the end of May, we see a recovery of the both GMV and revenue and our profitability continue to grow in Q2.

So we -- I think this is -- I think this matched our CEO statement that we will pursue the healthy growth in the future.

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**Operator**

(Operator Instructions) As there are no further questions, I'd like to hand the conference back to the management team for the closing remarks.

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**Kaye Liu Yunji Inc. - IR Director**

Thank you for joining us today. Please do not hesitate to contact us if you have further questions, and we look forward to talking with you next quarter. Thanks.

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**Operator**

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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