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Q1 2021 Yunji Inc Earnings Call

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CONFERENCE CALL PARTICIPANTS

Ethan Yu *First Trust Group*

PRESENTATION

Operator

Good morning and good evening, ladies and gentlemen. Thank you, and welcome to Yunji's First Quarter 2021 Earnings Conference Call. With us today are Mr. Shanglue Xiao, Chairman and Chief Executive Officer; Chengqi Zhang, Vice President of Finance; and Ms. Kaye Liu, Investor Relations Director of the company.

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

Kaye Liu *Yunji Inc. - IR Director*

Hello, everyone. Welcome to our first quarter 2021 earnings call. Before we start, please note that this call will contain forward-looking statements within the meaning of Private Securities Litigation Reform Act of 1995 that are based on our current expectations and current market operating conditions and relate to events that involve known or unknown risks, uncertainties and other factors of Yunji and its industry.

These forward-looking statements can be identified by terminology 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 are expressly qualified in the entirety by cautionary statements, risk factors and details of the company's filing with SEC. Yunji does not undertake any obligation to update these statements except as required on applicable law.

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

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

[Interpreted] Hello, everyone, and welcome to Yunji's first quarter 2021 earnings call. We celebrated our 6th corporate anniversary on May 16, 2021. During this year's celebration featuring the theme, "Prime to Perform, and turn over a new leaf through enhanced strategies," I introduced our newly elevated business strategy to our employees and service managers. In today's fiercely competitive e-commerce industry in China, the top players have already established certain advantages through economies of scale with values focusing on more, faster, better and more cost effective.

As a leading membership-based e-commerce platform, we continue to strengthen our focus on product selection and refinement to better implement our supply chain differentiation strategy and provide customers with a more convenient e-commerce experience. We don't pursue undisciplined short-term sales growth. In fact, we focus on cultivating a megahit product flow by introducing quality products with greater appeal and better product market fit for our members.

To execute this new component of our strategy, we established a special working group for our megahit product supply chain. Led by our Executive President, Wei Ye, this working group was formed to leverage the team's exceptional capabilities in business development, content creation and product presentation to curate popular products, optimally present them to consumers, and produce and distribute associated content to customers for a comprehensive targeted sales approach. By the end of 2021, we aim to develop a portfolio of megahit products covering a variety of categories, featuring economical premium quality products.

In terms of our differentiated supply chain, we believe the potential for our primary vertical markets in health, cosmetics and food products present the greatest opportunities. These 3 categories are strongly aligned with the demand from our user base and provide

them with additional membership value. We train our service managers to ensure they are knowledgeable and experienced with products in these 3 verticals, empowering them to attract more customers through professional in-depth service. Meanwhile, we will also continue to develop new products that accurately target our key markets via our private label brand and joint venture brand initiatives.

Several of our private labels include our cosmetic brands, Solo Life and P&X; our food brands Li Ba Tian and Mars chef; and our health supplement brands, including SmartLife and Unibeauty. As of March 31, 2021, our weight loss supplement, SmartLife, achieved RMB 975 million in total sales. It took only a year from its launch for us to grow the SmartLife brand to a billion RMB in sales.

In the past few years, our private label brand successfully develops many popular products that are highly praised and endorsed by our members. Through these megahit products, we will be able to provide members with a more innovative and enhanced e-commerce experience. Furthermore, we are able to extend the commercial life cycle for successful products in health, cosmetics and food verticals by releasing additional product versions with new or enhanced features.

In addition to our longstanding categories of strength, we will also increase efforts in product review and development for categories where users' needs are relatively large, such as maternal and infant care as well as household products. Our household products brand, "The Meaning of Home," provides users with daily necessities such as paper towels, toiletries and cleaning products. We also host periodic promotions for this fast-moving consumer goods.

Regardless of the product category, product quality and safety are nonnegotiable when selecting products to introduce on our platform. A significant number of our users are mothers, who take care of their whole family. So we will continue to provide products that the whole family can safely consume.

[In addition to establishing a quality product portfolio, we continued exploring some new marketing. In the past, we mainly focused on utilizing traffic from our own platform to drive sales while exploring other opportunities on third-party platforms. We now apply more elements of content marketing and plan to leverage SNS, short-form videos, and third-party livestreaming platforms to subtly cultivate additional traffic for our products] (added by company after the call).

We are also acutely aware that today's consumers are dealing with significant information overload. Much of the information they are bombarded with daily is complex and lengthy. This shapes our approach to content development so that we can present concise and valuable product content that stands out and easily captures the attention of consumers.

Our next step is to help our service managers optimize product content production and share e-commerce experiences by leveraging multiple content forms, including images and short-form videos. This will ensure that a steady content stream is accessible on external platforms to promote our differentiated supply chain and products, broadening our brand influence.

We believe that our service managers are some of our most valuable assets, we execute training with the intent to provide service managers with a means to enhance their marketing skills, establish their own brand influence and live a better life through improving their financial means. We will also continue to diversify offline and online educational content offerings to provide service managers with additional opportunities to improve. We envision the future where our service managers are a multitalented group that can push sales, attract new users and professionally serve and manage customer groups.

With that, I will turn the call over to our [Vice President of Finance] (corrected by company after the call), Luke Zhang, to go through our financial results in the first quarter.

Chengqi Zhang Yunji Inc. - VP of Finance

Thank you, Shanglue. Hello, everyone. Before I go through our financial results, please note that all numbers stated in the following remarks are in Renminbi terms. And for the first quarter of 2021 while all comparisons and the percentage changes are on a year-over-year basis, unless otherwise noted. Starting in 2021, we committed to enhancing our supply chain differentiation strategy to include our new megahit products curation strategy and further development of our private label products.

We are focusing on the lifetime value of our customers and no longer emphasize GMV. We also remain committed to effective cost control and we further refined our membership management system and enhanced our employee structure. While our decision to forgo short-term sales gains in favor of more sustainable growth caused fluctuations in our quarterly sales, we believe these efforts will further drive our progress towards healthy profitability in the long run.

Now let's take a closer look at our financials for this quarter. In the first quarter of 2021, our total revenue was CNY 675 million compared to CNY 1.649 billion a year ago. Revenues from sales merchandise were CNY 572 million, and the revenue from marketplace business were CNY 95 million. As previously mentioned, the decline in total revenue was mainly due to our decision to improve our product curation strategy by implementing our megahit product pool initiative. The initiative focused on introducing products with stronger repurchase potential and great customer appeal.

Gross margin in the first quarter of 2021 was 35% compared to 30% a year ago. The improvement in gross margin was due to our supply chain differentiation strategy.

Turning to our operating expense. Fulfillment expense in the first quarter of 2021 was CNY 65 million compared to CNY 138 million a year ago. The decrease was mainly attributed to reduced warehouse and logistics expenses, which resulted from our improved logistics efficiency, lower merchandise sales and reduced personnel costs from staffing structure refinements.

Sales and marketing expense in the first quarter of 2021 were CNY 96 million compared to CNY 251 million a year ago. As a percentage of total revenue, sales and marketing expense in the quarter decreased to 14% from 15% a year ago. This decrease was in line with our long-term growth strategy and was mainly due to our reduction in member management fee as we improve our member management efficiency and decrease promotion expenses.

Technology and content expense in the first quarter of 2021 was CNY 38 million, or 5.6% of total revenues, compared to CNY 58 million, or 3.5% of total revenue, a year ago. The decrease was mainly due to the decrease in personnel costs as we further refined our staffing structure.

General and administrative expense in the first quarter of 2021 were CNY 74 million compared to CNY 75 million a year ago, mainly due to the decrease in share-based compensation expenses.

Overall, in the first quarter of 2021, total operating expense decreased to CNY 273 million, and the loss from operations was CNY 20 million. Net loss was CNY 4 million compared to CNY 13 million a year ago. Adjusted net income in the first quarter of 2021 were CNY 17 million compared with CNY 26 million a year ago. Basic and diluted net loss per share attributable to ordinary share in the first quarter of 2021 were both CNY 0.002 compared with CNY 0.01 in the same period of 2020.

Finally, let's take a look at our cash and liquidity position. As of [March 31, 2021] (corrected by company after the call), we had a total of CNY 1.2 billion in cash, cash equivalents, restricted cash and short-term investments on our balance sheet. We will actively explore further investment opportunities in high-potential emerging brands. Looking ahead, we will commit to executing our supply chain differentiation strategy by upgrading our megahit product curation system and developing private label product to widen our economic moats and improve our profitability.

At the same time, we will remain disciplined in our cost control and allocate resources to areas where -- which are in line with our long-term growth objectives. While we recognize the intense level of competition in the industry, we also believe that the strategies we now have in place will serve as a solid bedrock for our sustainable growth and expansion going forward.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ethan Yu of First Trust Group Incorporated.

Ethan Yu First Trust Group

(foreign language) I will translate -- quickly translate for myself. I have 2 questions. The first question is about our private label business. In connection with the rapid growth of our marketplace business, what's the distinct market strategy for our private label products? In addition, could you please give us some comments on the differentiation between us and other private label e-commerce brands, like NetEase, Jingdong, et cetera?

And my second question is about the membership system. We have noted that the membership fee has been adjusted from CNY 398 to CNY 199 in the recent days. Beyond that, the company also has a series of enrollment incentives and new metrics of our membership system. We are wondering about the company's explorations or innovations on the membership enrollment system and what's our strategy to improve the quality of our members.

Shanglue Xiao Yunji Inc. - Founder, Chairman & CEO

[Interpreted] Thank you for your questions. I'm Mr. Xiao Shanglue, the CEO of Yunji, and I will take your questions. For your first question, for our private labels, we will be more focused on these 2 categories, that is health products and cosmetics because these 2 categories of products need more sharing and recommendation of our users. If people want to buy some health products, if there are new -- if there are no shopping curators, perhaps they don't know what to buy. And for cosmetics, most of the cosmetics are offline and people go buy these cosmetic products at department stores. And all these products have shopping curators, even if it is a very luxury brand.

So we can see that shopping curators are very necessary. So in this sense, we'd like to leverage our advantage of service managers of our community. This is very different from Yanxuan or Jingzao. What they sale the most are daily necessities. And their net profit is very low. And in this area, the competition is more fierce. So we hope that we can further leverage our advantage in community. And we can combine our advantage and further enhance the professional knowledge of our service managers.

In the future, we also hope to make further use of our strength in our own platform. And we also want to be settled in some major e-commerce platforms, such as Tmall and other video e-commerce platforms. And so after we have more traffic on our own platform, we will make further moves to other major e-commerce platforms.

And thank you for your second question. It is a very good question. We believe that we still have much room to explore to further enhance the value of our members. After our evaluation, we found that -- we decided to lower the benchmark of becoming a member of our -- of Yunji because we want to attract more target users. And based on that, we will devote more time and energy to ensure that our users can get the recommendation of the best products so that they can repeat purchase. Compared to enhance the quality of members, we believe that to further enhance the value of our members is more important.

We have reflected on the value of our members. In the past, we regarded Costco and Sam's as our examples. We also tried to select over 5,000 SKU products to recommend to our members. But after 2 to 3 years of practice, we found that this -- our consumers need more selected, more refined recommendations. So from this year, we plan that in the next 5 years, we will recommend products to our consumers in a more targeted and more refined way. We will recommend megahit products to them.

In the future, we will launch daily recommendations. And we will select the top 1 product from 1,000 products, so that our consumers and users can get a more refined recommendation. We will also learn from the good practices from other platforms, such as live streaming. We hope that we will quickly recommend and introduce the products introduced by the top streamers -- top 100 streamers and to share them to our members. In doing so, we will help our members to take time and they will have more choices of economical and quality products. So I believe in this way, we will further enhance the value of our members and attract more quality members. That's all.

Operator

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

Kaye Liu Yunji Inc. - IR Director

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

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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

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