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Q2 2020 Yunji Inc Earnings Call

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CORPORATE PARTICIPANTS

Chen Chen *Yunji Inc. - CFO & Compliance Officer*
Kaye Liu *Yunji Inc. - IR Director*
Shanglue Xiao *Yunji Inc. - Founder, Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Ivy Liu *Crédit Suisse AG, Research Division - Analyst*

PRESENTATION

Operator

Good morning, and good evening, ladies and gentlemen. Thank you, and welcome to Yunji's Second 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.

Kaye Liu *Yunji Inc. - IR Director*

Hello, everyone. Welcome to our second 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 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 certain 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 take on this call are based on assumptions as of today and are expressly qualified entirely by cautionary statements, risk factors and details of the company filing with SEC. Yunji does 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.

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

[Interpreted] Hello, everyone. Welcome to Yunji's Second Quarter 2020 Earnings Call.

Despite the impact of the epidemic, we generated a total RMB 7.8 billion in GMV and RMB 1.49 billion in revenues during the second quarter as a result of our outstanding teamwork. In the second quarter, we also achieved a non-GAAP net profit for 3 consecutive quarters. Additionally, the upgrades we made to our membership enrollment system and also helped us to ramp up the total number of transacting members on our platform to 12.2 million for the twelve months ended June 30, 2020.

Ever since our IPO, as a leading membership-based social e-commerce platform, we are committed to building a platform that benefits all participants by continuously investing in our supply chain upgrade and community network optimization. First, I would like to provide an overview of the current development of our supply chain. In the first half year of 2020, many quality suppliers and leading manufacturers have found it difficult to adapt their businesses and grow their online traffic in the context of the new business environment. Retail businesses are having a hard time promoting their quality product and generating sales also, especially in comparison to those top e-commerce brands capable of producing engaging content and providing more differentiated products. Meanwhile, many users have experienced a consumption upgrade and are on the lookout for an increasingly broad range of quality products that they are able to purchase at attractive prices.

In light of these developments and in recognition of the increasing pain points, we have established our long-term strategy of supporting private labels and joint-venture brands on the supply side, utilizing our resources to empower service managers on the service side and refining our platform experience and user value proposition on the user side. This strategy has helped us to achieve cost-effective

business growth without compromising our margins and then generate favorable returns for our suppliers and our partners.

Now turning to our partnerships. On the previous call, we discussed our commitment to establishing deep cooperation with top companies in a fast-moving consumer goods industry to further diversify our supply chain. As such during the quarter, we continued to identify and resolve many of these companies' pain points. For example, one of our partner companies is a publicly traded skin care and cosmetic company with outstanding product design capabilities, patented technologies and excellent annual product sales. However, as a result of previously aiming its marketing efforts at the mid-to-low end of the market, it has not been able to successfully market its high-end products, nor grow its related sales on its own. We worked with this company to jointly develop a new medical aesthetic brand on the high end and provide target marketing solutions on our platform. These solutions were quite effective at helping the company to fill their marketing gap, allowing the company to reach the higher-end of the market and providing the company with the resources necessary to break its previous records for average transaction value as well as the profit margin.

Our ability to deliver these outstanding results is largely a product of our service managers, who were able to create and share highly-engaging content with our targeted users by utilizing their product's quality and efficient beauty effects. This arrangement was also quite beneficial for our service managers as these types of products produce a higher take rate and thus provide service managers with a good income. We have developed 3 light medical aesthetic products through this partnership to date. Moreover, as a result of our precision marketing capabilities, each of these products has achieved a positive user feedback rate above 95%.

Under our partnership program with top emerging brands and publicly-traded fast-moving consumer companies, we also partnered with some big brands that produce billions of RMB in the annual sales. Through these partnerships, we coproduced the product of quality equal to that of their existing product lines and ultimately fed these products into our crafted product curation model where we create more exposure for them through reducing similar types of products, so the introduction of these products at attractive price points has resulted in more profitable sales. Similarly, we recognize that selling those products provided by our incubated brands and differentiated supply chain has a higher profit potential than that of simply marketing and promoting other products from third-party brands. Looking ahead, as our supply chain continues to improve, we believe that this model will also help to boost our platform sales and materially improve our growth trajectory in return.

Beyond these developments, we also continued to improve our community network, and explore a better social-sharing product system for promotion and marketing. In the second quarter, we began to explore developing a professional vertical community based on our insights on service managers' and members' interests and capabilities, which already generated some favorable results. Currently, we have established 2 professional vertical communities for food and health supplement categories and achieved high user engagement in both communities. For example, one of our health supplement products generating over RMB 500 million in GMV in just 2 months. Going forward, we plan to develop more vertical communities for different categories based on business demands. In the meantime, we also focused on improving the capabilities of our service managers and our vertical communities. For example, we cooperated with the top training institutions to bring in lecturers, experienced in marketing and training, to provide our service managers with highly relevant training sessions. In addition to boosting service managers' marketing skills, lecturing skills and management capabilities, these trainings also helped to improve the quality and authenticity of the product-related content produced by these service managers and increase engagement of the members in the same community with key service managers. We believe that this combination of the service manager upgrades, along with our promotion and marketing system improvements, will serve to further enhance the core competencies of our business model going forward.

As we advance throughout the remainder of 2020 and beyond, we remain confident that our highly effective marketing model will continue to drive long-term value through the integration of quality products, premium content and efficient content distribution.

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 our comparisons and percentage changes are on a year-over-year basis unless otherwise noted.

We continued to accelerate our business transformation and refine our membership enrollment system during the second quarter of 2020. In this quarter, an increasing amount of transactions were made through our marketplace business and are recognized on a net basis. In addition, competition through China's e-commerce industry continued to ramp up during the period as the larger industry players increased their spending on promotional campaigns and buyers subsidies during e-commerce midyear shopping festival. In line with our long-term goals, we decided to forego the distractions of such short-term gains and instead focused our attention on refining our operational efficiency and bolstering our brand awareness.

We continued to advance towards healthy profitability during the second quarter of 2020 as a result of these efforts as well as the progress made on other fronts, including supply chain and product differentiation. GMV in the second quarter of 2020 was CNY 7.8 billion compared with CNY 8.2 billion. GMV related to marketplace revenues in the second quarter of 2020 increased by 122.7% to CNY 4.9 billion from CNY 2.2 billion. Revenues in the second quarter of 2020 were CNY 1.5 billion compared to CNY 3.1 billion. Gross margin in the second quarter of 2020 improved to 29.1% from 22.2%. Non-GAAP net income in the second quarter of 2020 was CNY 20.1 million compared with a non-GAAP net loss of CNY 39.2 million. Such results reflect the successful execution of our new strategy described by our CEO, which leads to improved profitability in the near term and high-quality growth in the long run.

Let's now take a closer look at our financials. Revenues from net sales of merchandise in the second quarter of 2020 were CNY 1.3 billion compared to CNY 2.73 billion and accounting for 87.4% of our total revenues in the period. This decrease was due to the transfer of business to our marketplace business model, which was in line with our continuous efforts to improve our operating efficiency and the operating efficiency of our merchants. Revenues from -- our marketplace business in the second quarter of 2020 increased to CNY 159.6 million from CNY 53 million. This increase was driven by an increase in the number of quality brands and the merchants on our platform. It was also due to the higher take rates that we secured by strengthening our existing partnerships with brands and attracting new brands through our growing community influence.

Revenues from our membership program in the second quarter of 2020 were CNY 12.3 million and wholly consisted of the deferred revenue from prior paying members compared to CNY 267.6 million. This decline was in line with our long-term growth plans and due to the refinement of our membership enrollment system, which allowed users to register on our Yunji app as a member and enjoy membership benefits free of charge for 1 year. Gross margin in the second quarter of 2020 expanded to 29.1% from 22.2%. This expansion was primarily due to the additional sales of high-margin products, development of products from emerging brands and our own private label products. And the -- so increasing number of brands moving to our marketplace business from our merchandise sales format, which caused a shift in the proportion of sales from a gross basis to a net basis.

Let's now move to our operating expenses. Fulfillment expenses in the second quarter of 2020 decreased by 56.5% to CNY 129 million. This decrease was mainly attributable to, first, reduced warehousing and logistics expenses caused by lower merchandise sales and increased logistics efficiency; second, reduced third-party payment transaction fees due to lower commission rates; and third, lower personnel costs as a result of headcount optimization. Sales and marketing expenses in the second quarter of 2020 decreased by 32.7% to CNY 228.4 million, which was attributable to the decrease in member management fees as we continued to improve the efficiency of our member management operations. Technology and content expenses in the second quarter of 2020 decreased to CNY 58.6 million from CNY 91.6 million. The decrease was mainly due to our realization of better contract terms with our server provider, which helped to reduce our server costs as well as partially due to the decrease in personnel cost as a result of head count optimizations.

General and administrative expenses in the second quarter of 2020 increased by 8.1% to CNY 70.7 million or 4.8% of total revenues from CNY 65.4 million. This increase was mainly due to, first, increased share-based compensation expenses resulting from new grants of share-based awards; and second, increased professional service fees, including auditor and attorney fees, which were partially offset by reduced personnel costs as a result of headcount optimization. Overall, total operating expenses in the second quarter of 2020 decreased by 38.6% to CNY 486.6 million from CNY 792.9 million. This reduction was due to our ongoing improvements to logistics efficiency, increased member management efficiency as a result of enhanced service manager relationships and our ability to secure better terms with our partners.

Loss from operations in the second quarter of 2020 were CNY 45.2 million, including share-based compensation expenses of CNY 37.6 million compared with CNY 103.9 million. Net loss in the second quarter of 2020 was CNY 17.5 million compared with CNY 4.5 million.

Adjusted net income in the second quarter of 2020 was CNY 20.1 million compared with an adjusted net loss of CNY 39.2 million. Basic and diluted net loss per share attributable to ordinary shareholders in the second quarter of 2020 were both CNY 0.01 compared with CNY 0.28 in the same period of 2019.

Now let's also take a look at our cash and liquidity positions. During this quarter, our ability to maintain a healthy level of working capital despite the macro headwinds and uncertainties in the period enabled us to support our operational liquidity demands. As of June 30, 2020, we had a total of CNY 1.7 billion in cash and cash equivalents, restricted cash and short-term investments on our balance sheet. Looking ahead, we plan to continue accelerating the development of both our marketplace business and the merchandise sales business. At the same time, we also aim to leverage our competitive value proposition for users, service managers and quality suppliers in order to explore new initiatives and other partnerships with strong synergistic potential. Going forward, we believe that such efforts will enable us to not only enhance our core financials at a steady pace, but also ramp up our overall profitability, setting the stage for high-quality growth in the long run.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

And also to ask questions, please ask your question in Chinese first, then immediately translate it in English.

And your first question comes from the line of Ivy Liu from Crédit Suisse.

Ivy Liu *Crédit Suisse AG, Research Division - Analyst*

(foreign language)

I'll quickly translate myself. So could management share more color on Yunji's current strategies on merchandising capability, especially with regards to those self-owned brands and JV brands?

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

[Interpreted] (inaudible) our commodity supply chain has more been contributed by the connection with the B-end consumers and our member consumers. So we're going to invest our labor force and resources in the development of the private label and the joint venture brands.

And so for the product high in margin and a high in the repurchase rate, we are going to promote more private labels in the healthcare and cosmetic and the food.

And as for the medium-level margin and the medium-level repurchase rate products, we are going to cooperate with some publicly-traded company to the more joint venture brands.

And for one of the joint venture brands we promoted this year, it's called the Xianwushuang Egg, and then it has been quite popular among the consumers, and the repurchase rate has been 50%.

And today, we just launched a new product that is called [Anzhiai facial cutton towel] (corrected by company after the call), and the GMV for today has reached RMB 1 million.

And also, we can see such a partnership model has been quite popular among our upstream products like those JV brands and private labels.

And also, it will promote the values for our members because they are longing for those products, good in price and high in quality. And also, it will generate more values for our service managers because they also want to promote such popular products in high quality and also they would like to increase their income.

And also, we can see the partnership within the China high-quality manufacturing companies and the mainstream consumer product companies will be the main strategy for our supply chain.

Thanks for your question. Thank you.

Operator

(Operator Instructions)

There were no question at this time. I'll hand back to the management for closing.

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're looking forward to talking with you next quarter. Bye.

Operator

That does conclude our conference for today. Thank you for participating. You may all now disconnect.

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

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