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Q3 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*

PRESENTATION

Operator

Good morning, and good evening, ladies and gentlemen. Thank you, and welcome to Yunji's Third Quarter 2020 Earnings Conference Call. With us today are Mr. Shanglue Xiao, Chairman and Chief Executive Officer; Mr. Chen Chen, Chief Financial Officer; Ms. Hui Ma, Chief Strategy Officer and Chief People Officer; Mr. 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 for today, Ms. Kaye Liu, IRD of Yunji. Thank you. Please go ahead, ma'am.

Kaye Liu *Yunji Inc. - IR Director*

Hello, everyone. Welcome to our third 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 and unknown risks, uncertainties and other factors of Yunji and its industry. These forward-looking statements can be identified by terminologies such as will, expect, anticipate, continue or other similar expressions. For the detailed discussion of these risks and uncertainties, please refer to our related documents filed with the U.S. SEC.

Any forward-looking statements that we make 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 the 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, and welcome to the Yunji Third Quarter 2020 Earnings Call.

In the third quarter, we generated a total GMV of RMB 9.4 billion and total revenues of RMB 1.07 billion due to our promotion of fast-moving merchandise with high repeat purchase rates. And moreover, we also reduced our net loss by 14.9% year over year. And at the same time, the upgrades we made to our membership enrollment system helped us continue increasing the number of transacting members on our platform, which reached 13 million for 12 months ended September 30, 2020.

Yunji has been on the path to becoming a full-fledged membership-based social e-commerce platform for the past 5 years. Over the course of this period, we have made many changes and continued to explore new forms of membership to further improve the value of our membership model. As a result, we have not only provided our members with more benefit and a better e-commerce experience, but also better cultivated our members' growing passion for sharing. Meanwhile, we have also focused on helping our members to hone in their sales potential by providing them with additional sales training. By providing our members with education and training, we have further enriched members' knowledge of the different segments and enabled them to earn stable income as either streamers or group leaders in our community.

Since our IPO, as we strive to create a win-win value proposition for all participants in our ecosystem, we have continued to invest in upgrading our supply chain and then optimizing our community to become China's leading membership-based social e-commerce platform. More specifically, we have also continued to develop and introduce more megahit products into our communities by continuously optimizing our supply chain and discover more members with the sales potential through introducing more products that better simulate member sharing activities.

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In terms of specific product categories, we are very focused on beauty, food, and health supplements. As such, in order to better cultivate megahit products, we maintained ongoing investment into these private-label and joint-venture brands during the third quarter. As a result of these investments, many quality suppliers and the leading manufacturers have been able to adapt their business and grow their online traffic to persist in the face of an evolving business environment. In addition, these suppliers and manufacturers also provided our platform users with more premium products at attractive prices. For example, during this year's Double Eleven shopping festival, our private-label and joint-venture brands contributed nearly 20% of our total festival GMV. And moreover, during the third quarter, the GMV of our health supplement products sold exclusively on our platform exceeded RMB 500 million in comparison to other products with lower gross profit and less positive user feedbacks, these megahit products generating higher profits on our platform were endorsed by our members with the sales potential, and were celebrated by our users.

In our social e-commerce community, we have found that the strongest demand both members with sales potential and service managers is to earn additional income through part-time jobs. These individuals do not necessarily demand a diverse portfolio for supply categories nor an excessive number of product types. Instead, they are more interested in megahit products, reasonable profitability, professional product information training and convenient after-sales service. In order to meet such demands, we have built a highly refined and differentiated supply chain as well as professional training systems for both our service managers and our members with the sales potential.

Since as early as last year, we have made a significant progress in the cultivation of our fruit category supply chain, introducing multiple products to generate millions of RMB in sales. Meanwhile, this year, we have replicated our successful experience in the creation of popular high-quality fruit products in other product categories. In September, for example, we have launched a trial food group, wherein our members with the sales potential served as group leaders to make daily introductions to our platform users of 6 different delicious food products. As the same time, we also hired senior lecturers specialized in marketing and training to better train individuals in our social e-commerce community and further educate our members with sales potential on the food product category. This type of a targeted product category training has enabled members with sales potential to become experts in the field, while also enabling these same members to become trusted sources of information in eyes of the users. Consequently, our members have developed the ability to reach their targeted users more accurately as well as maintain high-touch relationships with these targeted users at the same time. As a result, we observed repeat purchases from more than 70% of platform users in September. This continues to demonstrate the strength of both our product quality and professional merchandising capabilities, which have helped to significantly improve the incomes of our members with sales potential since these members began serving as group leaders.

Beyond the food product category, we also launched community groups focused on the health and beauty categories in the quarter. Over the coming quarters, we will be sure to continue providing everyone with updates on our progress in developing these product committees.

During the quarter, on the marketing front, we also continued to make meaningful progress in both the establishment of innovative marketing channels and the utilization for diverse content formats, such as short-form video and live streaming, which have enabled us to better present and promote those products sourced from our quality supply chain. Going forward, we plan to further leverage our supply chain's competitive advantages in cost control and operational efficiency, establish collaborations with top- and the mid-tier streamers to introduce more products to our e-commerce community, and provide support and resources to more of those joint-venture brands and emerging brands with high-growth potential.

In summary, we continued to bolster the competitive advantages of our differentiated supply chain, while further optimizing our membership-based ecosystem during the third quarter. Looking ahead, we plan to continue exploring those new models and marketing formats capable of creating win-win arrangements for our members, suppliers and users alike. At the same time, we will prioritize the execution for those new initiatives, which will further propel our advancement towards our long-term goal of a healthy profitability.

And with that, I'll hand the call over to our CFO, Rex Chen, to go through our financial results.

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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 the percentage changes are on a year-over-year basis unless otherwise noted. In light of the increasing competition in the industry, we decided to forgo the distractions of such short-term gains and instead focus our attention on refining our operational efficiency and bolstering our brand awareness. In the quarter, we collaborated with regional agriculture providers to create innovative products and further promote the revitalization of our rural areas, and made our live streaming show debut. As a result, we continued to steadily advance towards a healthy profitability during the third quarter of 2020 and reduced our net loss to RMB 43.6 million from RMB 51.3 million.

Let's now take a closer look at our financials. Our total revenues in the third quarter of 2020 were RMB 1.1 billion. Revenues from net sales of merchandise in the third quarter of 2020 was RMB 0.92 billion compared to RMB 2.47 billion and accounting for 85.2% 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 in the third quarter of 2020 increased to RMB 130.4 million from RMB 86.3 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 both strengthening our existing partnerships with brands and leveraging our growing community influence to attract new brands to our platform. Revenues from our membership program in the third quarter of 2020 were RMB 4.9 million compared to RMB 206.7 million and wholly consisting of deferred revenues from prior paying members, in line with our long-term growth plans. This decline was due to the refinement of our membership enrollment system, which allowed the users to register on our Yunji app as members and enjoy membership benefits free of charge for the year.

Gross margin in the third quarter of 2020 was 29.5% compared to 17.8%. This increase was due to the higher gross margin megahit products that we introduced in the quarter, our improved subsidy structure, and the enhanced operating efficiency.

Now turning to our operating expenses. Fulfillment expenses in the third quarter of 2020 decreased by 55% to RMB 90.5 million. This decrease was mainly due to first reduced warehousing and logistic expenses as a result of lower merchandise sales and increased logistic efficiency; second, reduced third-party payment transaction fees due to lower commission rates; and third, lower personnel costs due to headcount optimization.

Sales and marketing expenses in the third quarter of 2020 decreased by 42.9% to RMB 158.9 million, driven by the decrease in member management fees as we continued to improve the efficiency of our member management operations.

Technology and content expenses in the third quarter of 2020 decreased by 53% to RMB 42.3 million from RMB 90.1 million. This decrease was mainly due to our realization of better contract terms with our server provider, which helped to reduce our server costs and partially due to a decrease in personnel costs as a result of headcount optimization.

General and administrative expenses in the third quarter of 2020 decreased by 18.6% to RMB 51.8 million or 4.9% of total revenues from RMB 63.7 million. This decrease was mainly due to our continuous efforts in headcount optimization.

Overall, total operating expenses in the third quarter of 2020 decreased by 46% to RMB 343.6 million from RMB 636.4 million. This decrease was driven by our continuous improvements to logistics efficiency, our ability to secure better partnership terms, and increased member management efficiency, which resulted from our continual improvements of service management relationships. Loss from operations in the third quarter of 2020 decreased to RMB 24.4 million from RMB 118 million. Net loss in the third quarter of 2020 decreased to RMB 43.6 million from RMB 51.3 million. Adjusted net loss in the third quarter of 2020 was RMB 36.4 million compared to RMB 24.9 million. Basic and diluted net loss per share attributable to ordinary shareholders in the third quarter of 2020 were both RMB 0.02 compared to -- was RMB 0.02 in the same period of 2019.

Now let's also take a look at our cash and liquidity positions. During the quarter, our ability to maintain a healthy level of working capital despite of macro headwinds and uncertainty in the period enabled us to support our operational and liquidity demands. As of September

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30, 2020, we had a total of RMB 1.2 billion in cash and cash equivalents, restricted cash and short-term investments on our balance sheet.

Going forward, we will continue to drive the development of both our marketplace and merchandise sales. With this, we also plan to leverage the strength of our value proposition for users, service providers, and suppliers to launch new initiatives and develop more cross-business synergies through the forging of partnerships. Looking ahead, we remain confident that these growth strategies will enable us to bolster our core financials at a steady pace, augment our overall profitability, and continue laying the foundation for our healthy growth and future profitability over the long term.

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

Operator

(Operator Instructions) There are no questions at this time. I would like to turn the call back to 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.

Operator

Ladies and gentlemen, that does conclude the conference for today. Thank you for your participation. You may now disconnect your lines.

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

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