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Q3 2021 Yunji Inc Earnings Call

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## CORPORATE PARTICIPANTS

**Chengqi Zhang** *Yunji Inc. - VP of Finance*  
**Kaye Liu** *Yunji Inc. - IR Director*  
**Shanglue Xiao** *Yunji Inc. - Chairman & CEO*

## CONFERENCE CALL PARTICIPANTS

**Ethan Yu**

## PRESENTATION

### Operator

Good morning, and good evening, ladies and gentlemen. Thank you, and welcome to Yunji's Third Quarter 2021 Earnings Conference Call. With us today are Mr. Shanglue Xiao, Chairman and Chief Executive 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 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 third 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 related to events that involve known and unknown risk, 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 latest document 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 entirely by cautionary statements, risk factors and details of the company filing with the SEC. Yunji do not undertake any obligation to update these statements, expect 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. - Chairman & CEO*

[Interpreted] Hello, everyone. Welcome to Yunji's third quarter 2021 earnings call.

During the second quarter of this year, we successfully launched our highly curated product selection, Yunji 99 Special Sales Portal. The Yunji 99 portal enabled us to improve the focus on our service and help our members to save time when selecting megahit products. Following over 1 quarter's effect promoting Yunji 99, we have seen a steady improvement in sales per display. In addition, our live streaming business on the Yunji platform, or on third-party live streaming platforms, is gradually getting on track. We are now streaming more than 100 live programs focused on food, beauty and cosmetics, apparel and other topics every week, effectively driving sales and members' time spent on our platform.

During this year's Double 11 Shopping Festival, Yunji 99 curated many megahit brands and products. It's worth mentioning that many of these brands and products come from ourselves and the co-developed brands.

Under our Yunji 99 strategy, during the next phase of our development, we will focus on the food category. We hope that in the near future, our users will become aware that on Yunji's platform, they are able to try food from all over China.

During this year, I visited agriculture product places of origin across the country, tasted a famous local cuisine, started culinary innovation and gained a greater understanding of the most cutting-edge nutrition, extraction and preservation techniques. These experiences have made me even more determined that the food will be Yunji's top category.

Our dream is for our members to be able to eat delicious food from all over the world without leaving home. At the same time, eat healthily to become more beautiful.

Let me expand further on the food category. We have recently been testing some of our own meat brands, including Li Ba Tian and Mars Chef in August of this year, and Yunji teamed up with China A-share listed milk powder, superbrand Beingmate to launch a new private label Super Milk Power and launched a nutrition powder for children, focusing on the nourishment and health of children over 6 years old and catering to the requirements of parents.

Furthermore, based on consumer demand and market research, we have launched more healthy food products, private labels. Products such as Baiyueshan's wolfberry puree and pear paste to have proved to be megahits once they reach the shelves, over one million sales. We have been exploring and developing these products with better formulas, more advanced material processing techniques and nutrition preservation techniques.

We successfully transformed the agricultural raw materials into mid- and high-end food products that are easier to preserve and more convenient to eat. Our Li Ba Tian brand pure meat grilled sausages have been widely acclaimed and repurchased by members since their launch at the beginning of this year.

Promoting healthy food is not the only way to let our members eat more healthily. We continue to adhere to establishing our private label brand matrix and continue to focus on 3 categories, food, supplements and cosmetics, while also meeting the diverse household daily needs of the users.

Since the establishment of our private label, Unibeauty in 2018, we have been committed to caring for the health of our members in a more professional manner, continuously upgrading product formulas. Our newly launched probiotics and protein powders have been well received by consumers. We have already developed a second generation of our private label's megahit fruits and vegetables pressed candy.

This second-generation product is based on user feedback and leverages, technological innovation to deliver a better taste with a better product design and a more advanced product formula.

Moreover, we are about to upgrade our evergreen brand Solo Life so as to enrich its brand image. We also plan to launch a new professional product line with hyaluronan in the formula. As such, we will provide better services and products to our members, allowing members to enjoy more refined caring services in a safer and more secure environment.

Turning to our efforts to cultivate our user mindset of foods gather at Yunji, we are leveraging the short video and live streaming e-commerce phenomenon by promoting our private labels in different forms and with unique content on both our Yunji platform and third-party live streaming platforms.

Yunji Food and third-party live streaming platform generated traffic are interconnected through our [private labeling] and a differentiated supply chain strategy, enabling us to generate huge profits while simultaneously promoting Yunji Food content.

Finally, in order for our service managers to generate more stable income and to create common prosperity by promoting our private label products, we have been refining our operations in specialized retail systems with a particular focus on specialized training.

In order to further develop our food category, we have trained food intelligence officers. Our food intelligence officers undertake a variety of training courses, such as creating balanced meals, knowledge of place of origin of agriculture products and cooking methodology before being officially onboarded by us.

While this training can help our service managers to improve their own eating habits, it will also leverage their knowledge to help our members to really enjoy food and further cultivate our members' mindset to live healthier lives.

In addition, under the health vertical category, we are establishing a dietitian development system and three to seven-star dietitian courses to help our service managers become more professional.

With that, I will turn the call over to Mr. Chengqi Zhang, our Vice President of Finance, to go through the financial results.

**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 all comparisons and percentage change are on a year-over-year basis, unless otherwise noted.

Starting this year, we're committed to enhancing our supply chain differentiation strategy, upgrading our product selection with our new megahit product curation strategy and refining our membership management system. More specifically, we launched a series of private label products with our differentiated supply chain.

Our branded products have received a great reception from the market, reflected by our high repeat repurchase rate, which reached 80.6% in the 12 months ended September 30, 2021. In addition, we continued to further improve our efficiency and the employee structure, focusing on sustainable long-term growth. After several quarters of adjustments, our refined operations have resulted in significant improvements in profitability despite some fluctuations in our quarterly sales.

During this quarter, we recorded an operating income of 18 million compared with an operating loss of 24 million a year ago. In addition, we are delighted to see that our strategy of cultivating our self- and co-developed brands has achieved a certain level of progress as evidenced by the addition of strategic investors. As such, we recognized 110 million other nonoperating income from the investment in a fast-growing dairy brand company during this quarter. Our net income in the third quarter was 61 million compared with a net loss of 44 million a year ago.

Now let's take a closer look at our financials. Total revenues were 438 million compared to 1,067 million a year ago. Revenues from sales of merchandise was 366 million and revenue from our marketplace business was 65 million.

We further optimized our selection of suppliers and merchants in accordance with our renewed long-term growth strategy, which caused the near-term revenue decreases in both our marketplace business and merchandise sales during this quarter. Nevertheless, our gross margin and operating efficiency both improved substantially, demonstrating the success of this strategic shift.

Importantly, we recorded a significant increase in gross margin to 43 percent compared to 30 percent a year ago.

During this quarter, we improved our operating efficiency by carefully selecting quality suppliers and products and focusing on our differentiated supply chain and megahit product of offerings, especially our private labels and exclusive products. A combination of these efforts produced the corresponding gross margin improvement.

Turning to our operating expenses. Fulfillment expenses were 41 million, or 9.3% of total revenue, compared to 91 million or 8.5% of total revenue a year ago. The decrease was mainly attributable to reduced warehousing and logistics expense resulting from lower merchandise sales, reduced personnel costs due to staffing structure refinement and service fees charged by third-party payment settlement platforms.

Sales and marketing expenses were 60 million compared to 159 million a year ago. As a percentage of total revenues, sales and marketing expenses were reduced to 13.7% from 14.9% in the same period last year. The decline was due to improvements we made in our member management efficiency, which led to decreases in business promotion expense and the member management fees.

Technology and content expenses were 29 million or 6.5% of total revenues, compared to 42 million or 4% of total revenues a year ago. The decrease was mainly due to improvement we made in our staffing structures that led to a decrease in personnel costs as well as decreasing server costs.

General and administrative expenses were 65 million or 14.8% of total revenues, compared to 52 million or 4.9% of total revenues a year ago. The increase was mainly due to an increase in share-based compensation expenses.

Total operating expenses in the third quarter decreased to 194 million. As a result, we recorded an income from operations of 18 million as compared to a loss of 24 million a year ago. Our adjusted income from operations was 33 million compared to adjusted loss from operations of 17 million a year ago.

Net income was 61 million compared with a net loss of 44 million a year ago. Adjusted net income was 76 million compared with adjusted net loss of 36 million a year ago.

Basic and diluted net income per share attributable to ordinary shares were both 0.03 compared with basic and diluted net loss per share attributable to ordinary shareholders of 0.02 in the same period of 2020.

Moving on to liquidity. As of September 30, 2021, we had a total of 1 billion in cash and cash equivalents, restricted cash and short-term investments on our balance sheet. Our accounts payable reduced to 298 million as of September 30, 2021, compared with 502 million as of December 31, 2020. Our liquidity assets were sufficient enough to cover our payable obligations, and we did not hold any long-term bank loans or debt on our balance sheet.

Going forward, we will continue to execute our megahit product curation strategy, expanding our range of private label products, further enhance our operating efficiency and leverage our differentiated supply chain to continue driving our long-term growth and profitability.

We remain confident that our strategic directions and operational solution will continue to deliver sustainable and healthy growth for our shareholders in the long term.

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

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## QUESTIONS AND ANSWERS

### Operator

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

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### Ethan Yu

(foreign language) Let me do a quick translation. Could you give us more details about our private label product incubation and featured actions to differentiate them from our -- from other competitors?

I've also noticed that the company has made some achievements in investment. Could you please share more colors about the company's investment strategy and expectations?

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### Shanglue Xiao Yunji Inc. - Chairman & CEO

[Interpreted] So thank you for your question. And we hope that we could make more efforts to promote the Yunji mindset to the C-end customers.

During the past several years, we have kept contact and a close cooperation with our service suppliers. So we help them to make profits in their cooperation with us. And these are going to be our external communication strategies, and we will continue to execute this strategy in the future.

And also, we have noticed that in such serious competing e-commerce industry, if you're going to keep a stable development, you have to have a good communication with the customers. And we have done the survey for the T1 e-commerce platforms. We find that currently no first-choice food delicacy platforms for our customers. So we hope that we could make more efforts on this area. So when the customers will like to buy the food delicacy, they will choose Yunji as their first choice platform.

And also, we have found out about the food delicacy, the word of mouth is more important than the brands themselves. And also, here in

Yunji, we have a large number of the members who are going to promote our platform and the food to other customers.

So for Yunji, we will try hard to be the first choice for the customers if you're going to buy the delicious food and also, we're going to cooperate more with our sharing members and the service providers so as to make more -- and promote more delicious food brands through our cooperation and R&D to our users.

So that is our first priority. We are going to make Yunji the first choice for our customers for the selection of the delicious food and also the food is going to be our first category.

So in addition to the food development and also in the food category, we know that the word of mouth is more important than the brand itself. In addition to that, we're going to do know that we have a quite mature cultivation and training system for the cosmetics and the supplements. And especially in those two areas, we need the service and professional service for the users.

And so in Yunji, the private label development, we are going to have a 1 plus 2 strategy. For this one, it is in the food. This is going to be the priority for our private label development. For the two, that is in the cosmetics.

In addition to the supplements, we are going to promote the products plus the service strategy for those two areas. And we know currently in Yunji, our supply chain is quite open. So probably we have a limited development of the private labels. And also, we have noticed that there emerged many emerging brands supported by the new media development.

So we not only want to cooperate with such emerging brands, but also we would like to invest in those brands so as to have the long-term development.

And in conclusion, in another 5 or more years, we're going to make more contribution for the development of the membership-based social e-commerce platform. And also, we are going to focus on three areas for development of the private labels: The food, the cosmetics and the supplements. Thank you for your question.

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**Operator**

(Operator Instructions) As there are no further questions at this time, I will now like to transfer the call back to management for any closing remarks. Please go ahead. Thank you.

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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 any further questions, and we're looking forward to talking with you next quarter. Bye.

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**Operator**

Thank you. That concludes the conference for today. Thank you for your participation. You may all disconnect your lines now. Thank you.

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

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