

**Yunji Inc. (YJ)**  
**Q1 2023 Earnings Conference Call**  
**June 2, 2023 at 7:30 AM ET.**

**Speakers**

Shanglue Xiao, Chairman and CEO

Peng Zhang, VP, Finance

Kaye Liu, IR Director

**Analysts**

Ethan Yu, First Trust China

**Presentation**

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Yunji's First Quarter 2023 Earnings Conference Call.

With us today are Mr. Shanglue Xiao, Chairman and Chief Executive Officer; Mr. Peng Zhang, Vice President of Finance; and Ms. Kaye Liu, Investor Relations Director of the company.

As a reminder, this conference call is being recorded.

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

Kaye Liu: Hello, everyone. Welcome to our first quarter 2023 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 the 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 the U.S. SEC.

Any forward-looking statements that we make on this call will be 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 the SEC. Yunji does not undertake any obligation to update these statements except as required under applicable law.

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

Shanglue Xiao: (Speaking foreign language).

(Translated). Hello, everyone. Welcome to Yunji's first quarter 2023 earnings call.

I'm delighted to announce that we celebrated our eighth corporate anniversary on May 16, 2023. It has now been 3 years since the outbreak of Covid, and during the first half of this year, consumption has been gradually and steadily recovering. At the same time, consumers have been yearning for more fulfilling and enriching lives. During our anniversary celebration, with employees, partners, and service managers in attendance, we took the opportunity to announce an exciting new initiative.

Leveraging our brand and vertical community service competitive advantages, we will embark on a comprehensive exploration of gourmet food, beauty, and healthcare. We will delve into the interconnectedness of these categories and their role in enhancing quality of life.

In recent years, local community services have emerged as a new growth trend in the consumption sphere. In line with this trend, during March, we integrated our existing Food and Neighborhood Groups into our community e-commerce service Super Supply Chain. The service offers exclusive products to users, with a particular focus on the gourmet food category.

Super Supply Chain leverages Super Community Leaders to bring a wide selection of affordable gourmet food from all over the country and around the world to users' doorsteps. Under this model, every Super Community Leader is closely connected to users residing within a 500-meter radius, facilitating high-frequency interactions on a daily, or even hourly, basis. To encourage repeat purchases, the most popular products featured in the Super Supply Chain will subsequently become available for regular purchase.

Furthermore, we have set up an Innovation Department dedicated to expanding the reach of our community e-commerce service beyond our current community. This department will explore community e-commerce in untapped commercial areas and actively connect with new group leaders. Beyond expanding the scope of our service, these initiatives will build brand awareness, drive sales, and enable us to deliver more comprehensive local community services.

During recent offline events, I had the privilege of meeting service managers from all over the country. I was highly impressed by their professionalism, unwavering passion for beauty, and zeal for life. To further enhance our support for them, we are committed to developing and expanding our range of private label products that address both external and internal beauty needs. At present, our diverse portfolio of private label products encompasses natural supplements, body management, oral care, hair loss prevention, skincare, personal care, and more.

Going forward, we will actively explore further opportunities and possibilities in the realm of beauty, ensuring that we continue to meet the evolving needs of our users.

In line with our strategy of developing mass-market, private label products that cater to a broader range of families and their diverse needs, we recently launched a brand-new consumer product, "Everyday Light Oil". The product is a next-generation, healthy cooking oil with a Diacylglycerol content of over 50%, and a well-balanced composition of fatty acids. We developed the oil with the intention of making it an indispensable ingredient in Chinese cuisine, sparking a revolutionary change in the edible oil industry.

Recognizing that healthy cooking oil is a relatively novel concept, we employed a number of strategies to promote it as a new and healthy lifestyle choice to our community and among our users. These strategies include expert-led live presentations, offline events, and a combination of graphics, informative articles, and engaging short videos. Thanks to these efforts, “Everyday Light Oil’s” launch was a resounding success, with sales exceeding 5 million on its first launch.

A recent phenomenon is people’s increasing consciousness of the importance of boosting their own immune systems. Capitalizing on this trend, we are intensifying our efforts to develop healthcare products for our private label portfolio. These products empower individuals to pivot from a reactive healthcare approach to actively nurturing their health and well-being.

During the first quarter, we saw a significant surge in user demand for healthcare products, with Qingziyang probiotics and calcium tablets proving to be especially popular. We proactively responded to this growing demand by launching a number of new offerings, including the addition of krill oil to our product lineup.

On the marketing front, we energized community engagement in the first half of the year by holding a range of offline events, including salons, production site visits, and new product launch ceremonies. During the month of March alone, our activities garnered the participation of more than 2,000 service managers. Since February, we have organized a variety of events, including the Million Sales Legend Plan offline kick-off meeting in Changsha and visits to Xinjiang where our Youjiang private label milk is sourced.

For our Everyday Light Oil, we held a Thousand-Person Study Tour in Yunnan, giving participants a deeper understanding of the product. These events also foster mutual support and inspire individuals to embrace a healthy lifestyle, cultivating a stronger sense of belonging and collective pride among our service managers.

In line with our commitment to technological innovation, our research and development department is actively engaged in exploring and developing AI nutritionists, AI customer support, and AI community management. We aim to gradually roll out these initiatives during the second quarter, delivering a fresh experience and more efficient, round-the-clock services to our users and service managers. Upon their introduction, our AI nutritionists will provide personalized nutrition advice, ensuring that users receive tailored recommendations for their individual needs. By implementing AI customer service, we will rapidly and accurately deliver more efficient and personalized customer support.

Furthermore, AI community management will help us to gain deeper insights into the needs and preferences of our community, allowing us to promptly address issues as they arise. With tens of thousands of service managers and a vast collection of graphical, textual, and short video content, we possess an extensive set of resources that will serve as a robust training set for our AI-powered services. By fully leveraging these resources, we can apply AI more rapidly and effectively, and deliver higher-quality support and solutions to our users.

For our service managers, we provide more than just a job; we present a pathway to achieving a harmonious work-life balance. We are also committed to providing products and services that

enable our users to live more healthily. Moreover, we are dedicated to offering opportunities to ordinary individuals while making it easier for people to lead better and more fulfilling lives.

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

Peng Zhang: 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 are on a year-over-year basis unless otherwise noted.

After navigating the challenges of last year, we spent the first quarter of 2023 implementing a number of strategic upgrades to adapt to the post-Covid environment. Responding to shifting consumer trends, we refocused our private label product development to capture growing interest in immunity enhancement, allocating more resources for the cultivation of healthcare and nutritional therapy products. This initiative, combined with other efforts such as online repurchase reminders, contributed to an 80.2% repurchase rate during the quarter.

Meanwhile, our gross margin improved to 47.7% as our attempts to enhance user loyalty bore fruit. Despite pressure on our topline from our ongoing product mix refinement and optimization efforts, our net loss narrowed by 37.8% from the same period last year, and we recorded an operating profit for the quarter. We are confident that our emphasis on efficiency and our ability to respond to emerging consumer trends leaves us well-positioned for the future.

Now, let's take a closer look at our financials. Total revenues were 179 million, compared to 343 million a year ago. Revenues from sales of merchandise were 143 million, and revenues from our marketplace business were 33 million. This change was primarily due to our continued strategy to refine our product selection across all categories and optimize our selection of suppliers and merchants, which had a near-term impact on sales. Meanwhile, consumer confidence and spending power still have yet to fully recover.

Despite these challenges, we improved our gross margin to 47.7% compared to 44.2% a year ago. This was a result of sustained customer loyalty to our private labels and our effective product curation strategy.

Now, let's take a look at our operating expenses. Fulfillment expenses were 27 million, compared to 49 million a year ago. This was primarily due to reduced warehousing and logistics expenses due to lower merchandise sales, reduced personnel costs as a result of staffing structure refinements, and a decrease in share-based compensation expenses.

Sales and marketing expenses were 30 million, compared to 51 million a year ago. This was mainly due to a reduction in personnel costs as a result of staffing structure refinements, a decrease in member management fees, and reduced business promotion expenses.

Technology and content expenses were 13 million, compared to 24 million a year ago. The decrease was mainly due to a reduction in personnel costs as a result of staffing structure refinements, and reduced cloud server costs.

General and administrative expenses were 15 million, compared to 31 million a year ago. This was mainly due to reduced personnel costs as a result of staffing structure refinements, lower professional service fees, and a decrease in share-based compensation expenses.

Total operating expenses in the first quarter decreased to 85 million from 155 million in the same period of 2022. We recorded an income from operations of 1 million, compared to 2 million a year ago.

Net loss was 23 million, compared with 37 million a year ago, while adjusted net loss was 27 million compared with 31 million a year ago.

Basic and diluted net loss per share attributable to ordinary shareholders were both 0.01, compared with 0.02 in the same period of 2022.

Moving on to liquidity. As of March 31, 2023, we had a total of 568 million in cash and cash equivalents, restricted cash, and short-term investments on our balance sheet, compared to 669 million as of December 31, 2022. Our liquid assets were sufficient to cover our payable obligations, and we did not hold any long-term bank loans or debts on our balance sheet.

Looking ahead, we will take advantage of the post-Covid recovery trend by cultivating our private label products while continuing to emphasize operational efficiency. We will foster synergistic collaborations between our online and offline initiatives, with the goal of enhancing customer loyalty and attracting new users. These strategic approaches will lay a strong foundation for our future development and will position us to deliver long-term value to our shareholders.

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

## **Questions and Answers**

Operator: We will now begin the question-and-answer session. (Operator Instructions). Ethan Yu of First Trust China.

Ethan Yu: (Speaking foreign language). We have observed a rapid recovery in offline economic service and interstate mobility, but overall, the consumer confidence remains unstable. How does it impact your business? And what specific measures has the company taken?

Additionally, what specific initiatives have your company implemented, or plan to implement, to enhance our brand awareness of Yunji and our private label products?

Shanglue Xiao: (Speaking foreign language).

(Translated). Thank you for your question. Yunji believes in the connection between people both online and offline has its own advantages. Before the pandemic, Yunji operated with a marketing

model that combined online communities and offline salons. The offline salons helped bridge the gap between the company service managers and customers, fostering trust and providing a better experience with our products. This became even more important as we developed more private labels, as cultivating customer trust and education became paramount.

Our private labels adhere to the principle of providing consumers with peace of mind and high-quality products. We insist on sourcing directly from the place of origin, and have deep partnerships with leading companies and factories. This allows us to inspect and trace the production and processing of our goods. As the cities resume their flow, we have invited some top service managers to join us in exploring and learning, witnessing the birth of Made in Yunji manufacturing and sharing authentic experiences with vertical communities.

Furthermore, we are establishing a new brand center in Hangzhou, serving as a hub to display our private labels capabilities. We hope to attract more partner brands and incubate more private label products.

And therefore, for quite mature joint label products, we are going to make more education to our customers by the middle-level influencers from the top platforms. And we are going to take advantage of those offline media through the advertising and publicity of the products. Based on our existing customers and intensity of our customers from city to city, we're going to do the test then to do the promotion of the joint label products. And so for our publicity, we mainly will use four channels, the existing online channels and the self-made content and the mid-level influencers online, and also the offline media. Thank you for your questions.

Ethan Yu: Thank you. (Speaking foreign language). Thank you.

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

Kaye Liu: 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: The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.