

THOMSON REUTERS

EDITED TRANSCRIPT

Q1 2019 Yunji Inc Earnings Call

EVENT DATE/TIME: JUNE 04, 2019 / 11:30AM GMT



CORPORATE PARTICIPANTS

Kaye Liu *Yunji Inc. - IR Director*
Shanglue Xiao *Yunji Inc. - Chairman and CEO*
Chen Chen *Yunji Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Eddie Wong *Morgan Stanley - Analyst*
Monica Chen *Credit Suisse - Analyst*
Andre Chang *JPMorgan - Analyst*
Wendy Huang *Macquarie - Analyst*

PRESENTATION

Operator

Good morning and good evening, ladies and gentlemen. Thank you and welcome to Yunji's First Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. We will be hosting a question and answer session after management's prepared remarks.

With us today are Mr. Shanglue Xiao, Chairman and Chief Executive Officer; Mr. Chen Chen, Chief Financial Officer; and Ms. Kaye Liu, Investor Relations Director of the Company.

I would now like to hand the conference over to our first speaker today, Ms. Kaye Liu, IRD of Yunji. Participants, please go ahead, ma'am.

Kaye Liu *Yunji Inc. - IR Director*

Hello, everyone, welcome to our first quarter 2019 earnings call. Before we start, please note that this call contains forward-looking statements. These forward-looking statements involve inherent risks and uncertainties that may cause actual results to differ materially from our current expectations. For detailed discussions of these risks and uncertainties, please refer to our latest documents filed with U.S. SEC.

Any forward-looking statement that we make on this call are based on assumptions as of today, and we do not undertake any obligation to update these statements, except if required under applicable laws.

These forward-looking statements are based on management's current expectations and observations that involve known and unknown risks, uncertainties and other factors that are not under the company's control which may cause actual results, performance or achievement of the company to be materially different from the results, performance or expectations implied by these forward-looking statements.

All forward-looking statements (inaudible) entirely by this cautionary statement, risk factors and details of the company's filing with the SEC. Yunji undertakes no duty to revise or update any forward-looking statements for select events or to [commence these] after date of this conference call.

On today's call, I will speak on behalf of our Chairman and CEO, Shanglue Xiao.

Shanglue Xiao *Yunji Inc. - Chairman and CEO*

(interpreted) Hello, everyone, and thank you for joining our first earnings call as a public company. After our successful listing on the NASDAQ, we are truly grateful for the public attention and investor endorsement we have garnered for our achievement today. We are confident that Yunji can leverage its groundswell to further pursue our mission to make commerce simpler and people's lives better.

As we continue our journey of building a closed-loop commerce network and [cultivating] a collaborative community of more members, better value and more productive connections, we can't suppress our excitement towards Yunji's growth potential.



We start 2019 with strong first quarter results as we achieve success in three areas, first, extended our membership base by launching a new membership model; second, increase our GMV through a better merchandising mix and the big data analysis; and third, optimize our supply chain network.

First, we launched a new membership model, as a result, we were able to expand our membership base substantially. Previously, a user had to purchase a membership package in order to become a member [and] to enjoy member benefits. Currently, we are expanding our membership base by allowing individuals that meet certain requirements to become members without purchasing membership package.

Under this model, users recommended by existing members who have accumulated purchases of more than RMB598 within three months automatically upgrade to members. On the current new membership model, the barrier to entry for users to become members is [lowered] significantly. More importantly, users are enticed to make repeat purchase to retain their member benefits, thus paving the way to becoming active and [loyal] members on our platform.

In addition to growing our membership base, we were also able to increase our member engagement and social sharing through innovative gamification, improved product curation, optimized product price and enhance user experience. With a growth of traffic and user activities on our platform, key opinion leaders such as the service managers were able to promote more products and facilitate more transaction, thus growing personal income [for] themselves, increasing social engagements both our platform at the same time.

As we explore new initiatives in both buying and new features in social sharing, and as we introduce a more unique merchandise mix with greater membership value, we are optimistic that those key opinion leaders will be able to attain a steady and increasing stream of income from our platform.

Secondly, through big data analysis and a better merchandising mix, we were able to increase our GMV by 93.7% in the first quarter. We continuously analyze a vast quantity of high [priority] data to assess member behavior and preference. In addition, we gathered real-time user feedback to enhance our merchandise mix.

For example, during this process, we discovered that fresh sales alone could not satisfy all aspects of our member demands. Consequently, we launched two new sales formats, namely the marketplace model and the supermarket sales to significantly enhance our merchandise mix.

Under the marketplace model, we partner with third-party retailers to provide users with a broader range of product selections such as apparel. On the supermarket sales model, we provide users with fast moving and more SKU products such as food to meet their daily needs. Both the marketplace and supermarkets sales formats have broadened the categories of products available on our platform, which in turn drove our GMV growth.

Also, big data analysis and real-time user feedback help us identify which brands our users prefer and source our product accordingly. For example, we identified that the apparel category, especially women's apparel, is very attractive to our member base, 95% of which are women. Because of the apparel category carries a large variety of brands, style, color, material and size, it lends itself well to frequent social sharing and an extensive user-generated content.

Consequently, we leverage our marketplace sales format for partnership with online and offline well-known brands such as Yinman and Handu Group and made a concerted effort in increasing the apparel products that are actually available on the platform so that we can enhance our member value and increase our user stickiness.

From a profitability perspective, apparel is also a worthwhile endeavor, price point, profit margin and purchase order value are all higher in the apparel category than other product categories, thus ensuring a good ROI of our business.

In addition, through data analysis and user feedback, we have discovered that the food category is conducive to cultivate our user loyalty, induce repeat purchase and increase user stickiness because food consumption is perennial, regular and frequent.



As a result, we enhanced the supermarket sales format and partner with a reliable food supplier. For example, we forged a strategic partnership with Xianfeng Fruit, which has a track record of providing fresh and abundant food selections to consumers throughout the country, to advance the supply chain management.

Besides this improvement, we also partner with additional innovative brands and quality manufacturers to upgrade our merchandising mix and drive our GMV growth. During the quarter, we utilized our quality evaluation system to identify [under-recognized] but innovative brands. The [primary results brands] leverage of credible social sharing to introduce their products [to our] robust member base and as a result, cultivated their product into highly sought after bestsellers on our platform.

For example, after we introduced a skincare product, EGF, on our platform, the [cumulative] GMV of EGF alone reached RMB160 million. Another example is that we formed a type of partnership with [Unifon], a non-invasive cosmetic surgery company, to design and produce exclusive products available on the Yunji platform.

A third example is that we've formed a partnership with Nestle Nutrition to be the exclusive platform of planning, launching and promoting one of its new baby formula products.

Last, but not least, we achieved substantial improvement in supply chain optimization during the first quarter. Such treatment is manifest in our efficient sourcing and distribution of agricultural products.

Through our quality evaluation system, we identify reliable but small regional agricultural producers, consolidating their distribution, streamlining their supply chain, certify their quality with our [Land] of Plenty label, unify their disparate brands into one reputable name and promote their products nationwide. For example, we conceived the Fruity Radish product category on our platform, [sourced such] (inaudible) foods [from] 22 origins and sold then to around 280 destinations.

In summary, by launching a membership model to expand our membership base by leveraging big data analysis and partnering with emerging brands to improve merchandising mix and by optimizing our supply chain network, we were able to grow our GMV, increase our revenue and generate income for operations.

More importantly, we were able to provide our users with a wider variety of products, offer our members with greater value and augment our unique and value for price market positioning. Going forward, we seek to become a global leading membership base, e-commerce platform, and a one stop shop for millions of households as an [entrepreneur] of the new era, we [resolutely uphold] our social responsibility to helping people to live better and to make the world a better place through continued innovation.

With that, I will now turn the call over to our CFO, Chen Chen, for a closer review of our financials.

Chen Chen Yunji Inc. - CFO

Thank you, Shanglue. Before I go through our financial results with you, please note that all numbers stated in the following remarks are in RMB terms unless otherwise noted.

Our GMV in the first quarter of 2019 increased by 93.7% year-over-year to RMB6.8 billion from RMB3.5 billion in the same period of 2018.

Our revenues in the first quarter of 2019 increased by 53.2% year-over-year to RMB3.4 billion. Revenue from the net sales of merchandise accounted for 95.1% of our total revenues and increased by 60.8% to RMB3.2 billion from RMB2 billion in the first quarter of 2018.

During the first quarter of 2019, we promoted our marketplace model, which contributed an increasing portion of our product sales, because the marketplace model recognize the revenue on a [net basis], our GMV growth outpaced our total revenue growth, as we seek to provide our members with more products of greater value at reasonable prices, we may further increase revenue contribution from our marketplace model going forward.

We achieved our revenue growth during the first quarter of 2019 primarily through increasing the number of orders and the a number of transacting members, so increasing net revenue from merchandise sales was partially offset by the decrease in revenue from membership program.

Our original membership program stipulates that the users had to purchase a membership package in order to achieve membership status and the [associated] benefits. During the first quarter, we were able to expand our membership base substantially through a new model under which a user can achieve membership status by meeting certain requirements, rather than purchasing a membership package.

Our gross profit in the first quarter of 2019 increased by 91.1% year-over-year. This growth was mainly due to our strategic expansions through our marketplace sales format and through selling more high margin products from a wider range of private label and emerging brands.

During the first quarter, we made more investments in marketing and technology, which allowed us to increase our platforms scalability and improve our user experience as they discover, [shop and share] products.

As a result, total operating expenses were RMB654.4 million in the first quarter of 2019 compared to RMB420.4 million in the first quarter of 2018, such increase was primarily due to two factors, first, more brands [finished] promotion activities during the first quarter; and second, a higher sales volume, which resulted in increasing warehousing and the logistics expenses, personnel costs, third-party payment transaction fees and the member management fees. We generated a RMB0.2 million of income from operations in the first quarter of 2019 compared to a loss of RMB77.8 million in the first quarter of 2018.

We reported a net income of RMB16.9 million in the first quarter of 2019 compared to a net loss of RMB81.7 million in the first quarter of 2018. We also generated a non-GAAP net income of RMB43.1 million in the first quarter of 2019 compared to a non-GAAP net loss of RMB70.1 million in the first quarter of 2018.

Basic and the diluted net loss per share attributable to the ordinary shareholders was RMB0.95 in the first quarter of 2019 compared to RMB0.86 in the same period of 2018. As of March 31, 2019, we had a total of RMB2.3 billion in cash and cash equivalents restricted to cash and short term investment on our balance sheet.

Our sizable cash holdings allowed us to expand our membership program, deepen our member engagement investing in our platform improvements, and forge additional strategic partnerships with value added merchants and the suppliers as the volume of products sold via our platform increases, we should be able to secure more competitive deals with our partners, provide more attractive product offerings to our users, and then facilitate more transactions between our users and our partners.

So this concludes our prepared remarks for today. So, operator, we are now ready to take questions. And our CEO will respond to questions in Chinese and we will do the translation.

QUESTIONS AND ANSWERS

Operator

Certainly, Sir. (Operator Instructions)

We have our first question from the line of Eddie Wong from Morgan Stanley. Please go --

Eddie Wong Morgan Stanley - Analyst

(interpreted) Thank you for taking my question. I have three questions. Firstly, it's about the competition. We noted that BABA in last month launched a socially membership base, a social e-commerce called Taoxiaopu. Just wanted your view on the competition after such leading e-commerce platform tapped into the membership of the e-commerce industry, this is the first question.



And second question, is that you mentioned the proportion of private label and emerging brands in first quarter of this year, actually improved year-over-year. So what's your target for this proportion of private label and emerging brands in terms of GMV in second quarter this year, and onwards?

And third question is about the second quarter so far, can you give us some more color about what the GMV or member growth in the second quarter so far?

Kaye Liu Yunji Inc. - IR Director

Let me translate first. Shanglue Xiao, our CEO will answer the first question and then our CFO will answer second and third questions.

Shanglue Xiao Yunji Inc. - Chairman and CEO

(interpreted) Firstly, we welcome this competition which is high quality and we notice that Ali had this Taobao. But we think the mainstream e-commerce platform, their connection with customers and the reaction is a lack of reaction. Also their connection is one compared to other -- several and centralized. And so we think it will not [bring] a lot of competitions. Also the traditional e-commerce platform cannot efficiently reach their customers. That's why Ali -- although Ali discovering this social incumbent stage, we think the impact on us is not so big. And also we will do ourselves and create more and better value and also we have 95% of our customer are women and they are very like food and [apparel].

And in the first quarter, we enhanced our supermarket sales format to meet the high frequency daily needs of our members and form more quality partnership and increase interactions with our member.

And let's take an example. In 2019, we worked very close relationship with the second biggest fruit manufacturer Xianfeng Fruit and millions of supply of chain and we [sold] their products (corrected by company after the call) with their efficiency, logistics network and in different season to serve the fruit nationwide.

And the second example and third example, it maybe Zhouhe Duck and Three Squirrels, and we transfer and promote their product -- food through Tier 1 to Tier 5 cities. And then -- and also for apparel in the first quarter, we have partnership with online and offline, a lot of apparel manufacturers and so on.

So, domestic [clothing] brand, so, online/offline now need new channels for their sales in order to meet their challenges of different channels, these brands are willing to create different products series depending on this different sales environment. And for the demand side is more concerned about clothing style and other factors such as discoverability and whether price is okay. Our efficient and low cost channels are welcomed by the supply side and also the demand side.

At the same time [fruit] (corrected by company after the call) allow us to promote high-frequency product on a weekly basis. In the past, we were only able to promote high-frequency product on monthly base. Through clothing, we will introduce -- continuously introduce high-frequency products and it creates additional competitive barrier. And now, the supply side face a lot of pressure and use a limited -- reputation and promotion. We can provide them high efficiency and low cost solution. And we can show you some examples like Yinman and Handu Group, we help them to achieve for single day, tens of millions of sales and also for the men suit, also we work with [GXG].

Also we want to provide our members more and better value so we commit to working with well-known brands, quality factories and [emerging] brands to develop exclusive offers and create the unique member value. These exclusive items can cumulatively increase member commissions and have a positive impact on our gross margin.

And also in Q1, we have a good result on this, which maintain our member values. And let's take Uniform like as an example, the peak sales of [units] is 116 million sales and we work with Uniform to have exclusive products called [SCH] product, also the new product of Uniform achieved 140 million sales.

And also we are continuously discovering the perfect model that's most suitable for us. And when the value we provide is sufficient

enough, we may start charging members annual fees to shop in different product categories, and provide them value add service. Also we are also exploring how to charge our merchants advertising fees to have a better traffic distribution mechanism.

Thanks for your question and we think what we will do is to create more value to our members and create more efficiencies and more solution to our merchants.

Chen Chen Yunji Inc. - CFO

Okay. So, let me take the second and third questions. So, gross margin in Q2 increased compared to Q1 2018 and also our operating margin increased compared to Q1 last year. This is due to we sell more private label in the emerging brands products. So average margin for the private label product is around 60% to 70% and the emerging brand is in average is 30% to 40% of the gross margin. So our target is to keep increasing the exclusive partnership with certain emerging brands, to ask them to provide us more exclusive products for us to sell.

So, and for the Q2 GMV and the members currently we find that both the GMV and the member in Q2 still increased quickly compared to post Q1 2019 and the Q2 2018. And at current stage, we are more interested in expanding the number of products category, on our platform in order to satisfy the growing demand of our membership base. So we are committed to selecting and working with the better [suppliers] as possible. So by focusing on these different areas, we are confident in our ability to increase membership value going forward as our CEO just stated. And by doing that, we are also very confident that we can change our leading position in social e-commerce industry.

Operator

Thanks. Shall we move to next question? Thank you, sir. Can we move to the next question now?

Kaye Liu Yunji Inc. - IR Director

Yes.

Operator

Okay, Ma'am. We have our next question from the line of [Monica Chen] from Credit Suisse. Please go ahead.

Monica Chen Credit Suisse - Analyst

(interpreted) I will translate my questions. So, I have two questions. Number one is about the member growth target for this year. And within Q1, we added 1.6 million new members. So within that how many are from purchase member package? How many are from the new model? And for the full year, do we have more initiatives, more social features to drive the member growth?

My second question is about the margin profitability. So we see we have delivered a good profit for Q1 and then [we] improved business model mix and more contribution from the marketplace business model. So should we expect that we can achieve a full year profits for 2019? And what should we think about the long-term and normalized in net margin for our membership-based e-commerce model?

Chen Chen Yunji Inc. - CFO

Thanks, Monica. I will take these questions first and Mr. Xiao can make a further responses.

And for your first question, during the Q1, we increased -- our number of the members increased to 1.6 million, so within that 1.6 million, 30% of them are from the purchase membership package. The other are from the other invitation mechanism such as to become the trial member first then reach certain spending requirement and convert to the permanent member. And the other members are directly invited by the members who have already meet certain spending requirements and will give some certain free permanent member invitation code and they can send this code to their friend to convert their friend to become the members.

So 30% of them are through the purchasing the membership package. And going further and we expect that within this year, a portion of our new members [through] purchasing the membership package will be -- will also be around 30% and the remaining 70% will through the new method of the member conversion approach including the trial member converted to the permanent member and we'll still have



some certain new approach, but we cannot discuss now. So we will disclose it later in Q2 earnings call, Q3 earnings call.

And for your second question for the margin, for the net margin, for the industry, so as you can see we achieved the net profit and also the positive operating margin in Q1, but currently we are still focusing on to narrow our operating losses and eventually breakeven over the next few quarters. So, we believe through -- we'll keep increasing the value to our members and by doing that we can check to more members and the more surprise to come [to Yunji] and by doing that we believe current year our net loss will be smaller than our original forecast. And I think the long-term margin for the industry will be around 3%.

Shanglue Xiao Yunji Inc. - Chairman and CEO

(interpreted) And for the long-term progress, we think to provide better value is our key strategy. And we target to let them [buy] to meet their 60% or 70% of household daily needs. And so like education, travel and food, we will rapidly introduce more merchant like this. And for the middle class, we only have around 7 million, 9 million members, but our target is around 30 million, even more maybe 100 million. And our mission and our further discovery is also based on this. I think it's our chance to have efficiency connection in this environment and we will also continuously strengthen our merchandise mix.

Operator

Thank you. We have our next question from the line of Andre Chang from JPMorgan. Please go ahead.

Andre Chang JPMorgan - Analyst

(interpreted) My question is about or after the recent listing, the company will have more resources. So I wonder whether there will be more spending investment in the marketing and sales, et cetera ,to drive the growth in the next few quarters. Also following [Rex's] answer to Monica's question, whether that means that the growth and profit will be more delicate balance in the next few quarters, so that's why the company will not be very in a hurry to make a profit in the short term? Thank you.

Chen Chen Yunji Inc. - CFO

Okay. Thank you. So I will take this question. So for the funds based through the IPO, we may spend some of them on the advertising to increase our brand recognition, but within our present budget not to buy additional traffics. So we will remain prudent in our spending while carefully judging each investment to maximize ROI -- and we believe our net margin will not be adversely impacted by doing these advertising activities to increases our brand recognition.

And also another capital spending for us is to -- in our current stage is to invest some money in the emerging brands to secure some -- to sign the exclusive cooperation with us. So we would do some equity investment in the good emerging brands to secure some to work with us.

So by doing that, we believe to do the equity investments in certain good emerging brands, we can get more good private label in the emerging brands product to increase our gross margin. And also as I just stated, also we will do some advertising. We will [control] -- [ROI] also control the total amount. So we do not think the advertising activity will adversely impact our net margin.

Operator

Shall we move to the next question, Sir?

Kaye Liu Yunji Inc. - IR Director

Okay. Yes, please.

Operator

(Operator Instructions) We have the next question coming from the line of Wendy Huang from Macquarie. Please go ahead.

Wendy Huang Macquarie - Analyst

(interpreted) I'll translate my questions in English. So first question is a follow-up question on the last question, the management talked about we will continue to invest in the emerging brand. Could you share some of the investment criteria's behind to invest these brands?

And the second regards the revenue contribution from the marketplace, does the company have a target in three to five years time [phase] regards the contribution percentage from marketplace revenue. Thank you.

Chen Chen Yunji Inc. - CFO

Thank you, [Ali]. So when we do the investment, we will not touch the [hotter] deals in the market. For example, if emerging brands they work very closely with for example Xiaomi or NetEase and their valuation is very high, so we will not do the investment for these deals. Instead, how we select the project is that we will select the brands, whose sale for example more than 5 million monthly sales. So for these emerging brands, we will send our investment team to do the -- to do certain [DD] works and if the DD works is okay and these brands can accept we investment them in a comparable low investment price, we'd do the investment.

So our investment philosophy is to -- only to find the target through our own platforms if these brands have certain -- to meet certain sales targets, certain monthly targets in our platform, we were starting to look into these targets.

And for your second question is that -- okay, so for the marketplace model, because the marketplace model can provide our members more products and more product category for their select and to [fulfill] their daily needs. So our marketplace model increased very fast, even faster than we expected during the beginning of this year. So at the current state, we cannot forecast the portion of the GMV or revenue contributed by the marketplace model for next two or three years. But our current estimation is that marketplace model can at least contribute more than 30% of total GMV of this year.

Operator

Thank you. Thank you so much. Ladies and gentlemen, I would now like to hand the conference back to our management. Kindly take over for any ending remarks.

Kaye Liu Yunji Inc. - IR Director

Yes, thank you everyone for joining us today and if you have any questions, please contact the IR team of Yunji. Thank you.

Operator

Thank you so much, Ma'am. Ladies and gentlemen, that concludes our conference for today. Thank you for your participation. You may all disconnect now.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS THOMSON REUTERS'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019 Thomson Reuters. All Rights Reserved.

