Yunji Inc. (YJ)
Q2 2022 Earnings Conference Call
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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, and welcome to Yunji's Second Quarter 2022 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.

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

Kaye Liu: Hello, everyone. Welcome to our second quarter 2022 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 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 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 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 it turn over to Shanglue Xiao, Chairman and CEO of Yunji.

Shanglue Xiao: (Speaking foreign language).

(Translated). Hello, everyone. Welcome to Yunji's Second Quarter 2022 Earnings Call. During the second quarter, we successfully navigated through the uncertainties and volatilities brought about by the challenging macro backdrop. Widespread resurgences of the pandemic and related control measures affected a number of major cities across China. In the face of these headwinds, we retained our focus on optimizing our platform's user experience while upholding our social responsibilities.

To ensure users received outstanding fulfillment services and timely delivery of urgently-needed orders, we nimbly and proactively deployed our logistics resources. For example, in some areas, we switched our express delivery service to those providers, such as SF Express, whose service remained unaffected by the pandemic. Furthermore, we optimized our inventory structure by transferring products between warehouses to ensure their ready availability for delivery to users.

At the same time, our supply side was also affected by macro headwinds to a certain extent. In particular, some products could not be released from customs or shipped out from factories in those regions severely affected by the pandemic. Unfortunately, this meant that these products weren't available for purchase on our platform during the originally-planned promotional period. Since June this year, the situation has greatly improved, and our supply and cross-border logistics chains have both gradually recovered.

Our private label products inventory has now been delivered, securing sufficient stock for merchandise sales during the next 2 quarters. Furthermore, we have taken preemptive measures to mitigate potential future Covid-related supply chain disruptions by increasing our inventories of the private label products and cross-border merchandise.

During the first half of this year, we adhered to our strategy of developing exclusive private label products, actively enriched our product offerings, and developed a variety of fresh user-centric products. Our big health brand continues to contribute to the diversification and enrichment of product categories.

During the first half of 2022, we developed more than 10 original new products for weight management, skincare, and body revitalization under our private label. These innovative products are scheduled to be launched in succession on our platform. Meanwhile, we upgraded our products' formulas with positive results. Our second-generation fruit and vegetable-pressed candy reaching the milestone of 5 million sales within 1 minute and 10 million sales within 20 minutes upon its launch on June 14, 2022.

On the cosmetics front, we carried out fresh content marketing and brand development initiatives for our private-label skin care brand SUYE. As part of these efforts, we appointed a popular Chinese female celebrity as the brand spokesperson for our new product line containing ingredients used in mesotherapy treatments. In addition, SUYE's marketing team produced a number of engaging short videos. These videos successfully boosted online and offline brand awareness and attracted beauty lovers from both our own and third-party platforms. We are confident that these augmented traffic flows will serve as a solid foundation for future product commercialization.

During SUYE's 12th anniversary celebrations, we launched a number of new skincare products that contain ingredients used in medical aesthetics under the SUYE brand, generating over RMB21 million sales during the anniversary celebration promotion.

Food is another strategic focus within our private label brand matrix. Our original brand concept for Gourmet Yunji was to enable our users to enjoy delicious food from all over the world without having to leave their homes. This concept was also vividly illustrated and amplified in our food category's short video marketing content.

China is a vast country with abundant resources, and each region possesses its own unique cuisine. We update our social media account on a weekly basis with videos themed around "sharing a dish from my hometown". This theme is designed to evoke viewers' nostalgia with "hometown tastes", while stimulating their interest in delicious food from diverse locations. Currently, each short video on our "Gourmet Yunji" official account on third-party platforms receives around 1 million views consistently.

We will continue to invest in content development on our own and third-party platforms. We are confident that our compelling marketing content will substantially improve brand awareness and create business value in the near and long term.

Meanwhile, the pandemic has brought about certain changes in consumer behavior and mindset. Faced with an uncertain macro environment, consumers are increasingly cautious with personal expenditures. As a result, market demand for discretionary products has declined. As a social e-commerce platform that maintains close relationships with its users, we aim to provide a valuable and trustworthy service that exceeds expectations. At the same time, we constantly strive to provide more attentive services to inspire consumers. As such, we have enhanced our own service system while launching more value-added services.

We upgraded service provision in our healthcare category's community groups by piloting a nutritional consulting service where users are provided with professional advice and feedback. For this pilot service, we designated professional nutritionists to cover each community group, and organized 9 livestreaming group classes with team of professionals and sports experts. During this period, 90.6% of the trial users were successfully retained and they engaged with nutritionists on a daily basis.

Looking ahead, in order to deliver ever-higher levels of service to our users, we will increase investment in the development of our service managers during the second half of this year. Having implemented various strategic initiatives to reduce costs, improve operating efficiency, and develop private label brand products over the past year, our gross margin has improved significantly. This improved gross margin enables us to increase service managers' income as an incentive to reward outstanding performance.

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.

During the quarter, we were once again faced with a resurgence of Covid-19 and associated lockdown measures in Shanghai and across the country. Compared to the same period last year, our repurchase rate remained relatively stable at 79% and our gross margin improved, even in the face of these headwinds. We intensified our focus on optimizing cost structures and developing our private label brands, enabling our business to navigate safely through the present macro uncertainties. Furthermore, we invested in our fulfillment partner base to ensure the delivery of products even within areas under strict pandemic control measures.

Our cash position remains strong enough for us to successfully steer through the current market downturn and adverse economic environment. We will continue to reward our shareholders through share buybacks.

Now, let's take a closer look at our financials. Total revenues were 284 million, compared to 571 million a year ago. Revenues from sales of merchandise were 237 million, and revenues from our marketplace business were 42 million. This decline in revenues was primarily the result of continued Covid outbreaks, particularly during April and May. The pandemic-related lockdowns disrupted our supply chain, with our third-party suppliers, merchants and logistics service providers being particularly affected. Consumers' willingness to spend was also impacted, with uncertain macro conditions fostering a desire among consumers to save rather than spend.

These factors combined to create merchandise shortages, logistical delays, and stagnating consumer demand, all of which negatively affected our operations during the first half of 2022. Their continued impact depends upon the future direction of the pandemic, and though we are seeing signs that the worst of the pandemic is behind us, we will remain vigilant and respond nimbly to further developments.

Despite these challenges, we improved our gross margin to 40.6% compared to 35.1% a year ago as a result of sustained customer loyalty to our private labels and an effective product curation strategy.

Now, let's take a look at our operating expenses. Fulfillment expenses were 43 million, compared to 50 million a year ago. This was primarily due to lower warehousing and logistics costs resulting from a reduction in the quantity of merchandise sold, as well as reduced service fees from third-party payment settlement platforms. These savings offset the heightened logistics costs that resulted from us maintaining our supply chain flexibility during the pandemic lockdown period.

Sales and marketing expenses were 58 million compared to 61 million a year ago, mainly due to the decreases in member management fees, which was partially mitigated by an increase in private label promotion expenses.

Technology and content expenses were 24 million, compared to 32 million a year ago. The decrease was mainly due to the reduction in personnel costs as a result of staffing structure refinements and reduced server costs.

General and administrative expenses were 32 million, compared to 43 million a year ago. This was primarily due to reduced personnel costs as a result of refinements to our staffing structure and professional service fees.

Total operating expenses in the second quarter decreased to 157 million from 187 million in the same period of 2021. We recorded a loss from operations of 30 million, compared to an income of 16 million a year ago.

Net loss was 25 million, compared with net income of 17 million a year ago, while adjusted net loss was 17 million compared with adjusted net income of 24 million a year ago.

Basic and diluted net loss per share attributable to ordinary shareholders were both 0.01, compared with basic and diluted net earnings per share attributable to ordinary shareholders of 0.01 in the same period of 2021.

Moving on to liquidity. As of June 30, 2022, we had a total of 645 million in cash and cash equivalents, restricted cash, and short-term investments on our balance sheet, compared to 743 million as of March 31, 2022. The decrease was partially caused by cash used in our share repurchase program. 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.

On March 17, 2022, we announced our 2022 share repurchase program. As of June 30, 2022, we have repurchased over 6 million American depositary shares, representing over 60 million Class A ordinary shares from the open market with cash for an aggregate amount of approximately $7 million. Furthermore, our board of directors has approved an extension of the repurchase program for another 6 months. We intend to continue to be opportunistic in repurchasing shares when we view our stock price as disconnected from the underlying fundamentals of the business.

While we faced significant macro challenges in the first half of 2022, we are confident that our resilient and flexible business model, updated supply chain, improved product curation, and optimized cost structure will power our growth regardless of future uncertainties. We have achieved solid progress and we expect to carry the optimized cost structure into the post-pandemic era, which we believe will bring long-term value to our shareholders.

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

Questions and Answers

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

Ethan Yu: (Speaking foreign language). Thanks for taking my question. As present, including the past June 18 promotion, GMVs via short videos and live streaming are growing rapidly. Could you share some color or views on this trend?

Shanglue Xiao: (Speaking foreign language).

(Translated). Thank you for your question. Live streaming is not a new format, and we have done a lot of attempts in recent years. For us, live streaming is more like content marketing than direct sales especially for private label promotion. Marketing comes in many forms, and we believe that highest-value group and supply chain are the cornerstones of the sales. In fact, content marketing is what Yunji has been doing since establishment, and we have focused on these areas a lot. Actually, either the photos or articles, they are the important channels for us to deliver the information, we have a group of the mother users and service managers who love to share shopping experiences.

Value is also a kind of content-sharing. Live streaming and short videos make sharing more vivid. We are more than welcome to explore live streaming and short videos as a sharing method to bring fancy content and shopping experience to users. Recently, “Gourmet Yunji” the official account on third-party platform has grown gradually, the account outputs interesting content every week, and has many short videos receive around 1 million views, consistently. Later, we will also try to organize live streaming sales on these accounts to promote private label products and “Yunji selected” high-quality supply chain. So, we hope that the high-quality content and efficient live streaming could add move value to the brand we served for our users. Thank you.

Operator: (Operator Instructions). Since there are no further questions at this time, I'd like to hand the conference back to 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 are looking forward to talking with you next quarter. Bye.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.