

Yunji Inc. (YJ)
Q2 2023 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 for standing by, and welcome to Yunji's Second 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 second 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 second quarter 2023 earnings call. During the first half of this year, with consumption gradually and steadily recovering, a number of notable trends emerged. First, in terms of consumption habits, the post-pandemic surge in consumer mobility triggered a transition away from stockpiling of goods towards a preference for seasonal purchases. To capitalize on this, we will further enhance our supply chains, so that we are better equipped to address seasonal consumer demand. At the same time, we will optimize our marketing campaigns to sharpen their focus on holidays, seasonal transitions, and social trends.

In addition to this shift, we have also observed the resurgence of local community services in the consumption landscape, and the substantial support these services have drawn from national policies. The convergence of these two trends presents exciting opportunities for our gourmet food strategy. Over the course of the second quarter, we steadily rolled out our gourmet food products in local neighborhood groups and online and offline communities in certain second-and third-tier cities. Our private label meat products proved especially popular, gradually generating notable levels of repeat purchases.

During the second quarter, we have noted a trend where an increasing number of companies have adopted a “price wars” strategy as a way of stimulating consumption. It's crucial to highlight that Yunji adheres to a sustainable, healthy, and value-oriented strategy, rather than merely burning money by resorting to subsidies or adopting a low-price strategy.

Our prudent approach is centered around refining our operations, “saving” our funds for subsidies, and leveraging our highly-curated product range and economies of scale to offer users unparalleled value. The resounding success of our private label range underpins our confidence that we can offer users cost-effective products, without resorting to price wars.

Recently, SUYE, our private label beauty brand, marked its 13th anniversary. We celebrated this milestone by holding an event in Shenzhen, with the theme of China Peptide, New Attitude. During the celebration, SUYE unveiled its latest product, White Peptide 3.0, marking the dawn of a new era aimed at addressing the specific skincare needs of the Chinese people.

Importantly, SUYE has signed a strategic agreement with a leading domestic supplier of raw materials for cosmetics. Furthermore, SUYE recently released its “2023 Anti-aging White Paper”, and welcomed the first groups of customers to its offline experience store.

Recognizing the burgeoning market potential created by an aging population over the next decade, our private labels are continuously expanding their presence within the healthcare sector, delivering an enhanced consumption experience.

In line with our commitment to promoting healthy lifestyles, we actively encourage users to shoulder responsibility for their family's health, nurturing good habits and maintaining the well-being of every family member. As a result of these efforts, our healthcare brand, Qingziyang, maintained its strong momentum, with cumulative probiotics sales exceeding RMB200 million. In addition, our newly-introduced Coenzyme Q10 product sold out within the first 31 minutes of its launch.

Let's turn to our marketing initiatives. We are fully cognizant that in this age of information overload, we face a limited window for capturing users' attention. To optimize our use of this

precious time, it is essential to maximize the impact and efficiency of our connection with users by establishing an effective terminal. Crafting such a terminal necessitates an effective blend of high-quality content and timely distribution.

To meet the challenge of producing high-quality content, we harness the capabilities of our cutting-edge AI large-scale model technology. Going forward, we will intensify our content investment and explore innovative approaches, including AI digital-human livestreaming and collaborations with virtual presenters. We have already launched our digital-human livestreaming initiative, significantly reducing labor and materials costs.

Our private label products, especially those in the healthcare sector, naturally resonate with young mothers. In our experience, these products are more effectively promoted by service managers than by influencers. For marketing of healthcare products, we compete through specialized retail and more efficient information dissemination. By engaging in collaborative product research and development processes, we cultivate a more thorough understanding of our products.

Furthermore, by tracing product origins, we can generate richer and more authentic content. This high-quality content is then disseminated to thousands of service managers who, having undergone professional retail training, are able to engage in meaningful interactions with users.

Our service managers, equipped with the high-quality content we produce and the specialized training we provide, are able to address the majority of user inquiries. To further empower our service managers, we have developed an AI health advisor that they can consult to tackle more specialized inquiries. This model of specialized retail combined with AI technology is better aligned with the needs of Chinese households and local communities.

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.

The macro environment continues to present challenges that demand our careful attention and adaptability. Consumer sentiment and purchasing power still need additional momentum before they completely recover. Meanwhile, consumer preferences are evolving swiftly. Based on our existing marketing data, our strategic pivot towards healthcare and nutritional products has yielded promising results. This shift has not only aligned us with changing consumer preferences, but also bolstered our financial performance.

We are dedicated to expanding our product selection and nurturing our private label offerings, ensuring that we stay at the forefront of market trends and maintain a competitive edge.

We remain committed to optimizing our cost structure and enhancing operational efficiency. By doing so, we will fortify our resilience against economic fluctuations, reinforce our capacity to weather uncertainties, and prosper regardless of the economic cycle.

Now, let's take a closer look at our financials. Total revenues were 167 million, compared to 284 million a year ago. Revenues from sales of merchandise were 131 million, and revenues from our marketplace business were 34 million. The main drivers behind the changes were our consistent improvements to our product range across all categories, coupled with the optimization of our supplier and merchant network, which led to a short-term impact on sales.

Despite these challenges, we improved our gross margin to 51.6% compared to 40.6% 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 30 million, compared to 43 million a year ago. This was primarily due to decreased warehousing and logistics expenses because of lower merchandise sales, and lowered personnel costs due to staffing structure refinements.

Sales and marketing expenses were 33 million, compared to 58 million a year ago. This was primarily a result of streamlining staffing structures, leading to reduced personnel costs, along with a decline in member management fees and decreased business promotion expenses.

Technology and content expenses were 14 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.

General and administrative expenses were 33 million, compared to 32 million a year ago. This was mainly due to a higher allowance for credit losses, partially mitigated by lowered personnel costs resulting from staffing structure refinements, as well as a decrease in share-based compensation expenses.

Total operating expenses in the second quarter decreased to 111 million from 157 million in the same period of 2022. Loss from operations was 12 million, compared to 30 million a year ago.

Net loss was 42 million, compared with 25 million a year ago, while adjusted net loss was 40 million compared with 17 million a year ago.

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

Moving on to liquidity. As of June 30, 2023, we had a total of 586 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. In the near future, we are proactively exploring investment opportunities aimed at enhancing our supply chain capabilities.

To conclude, amid mixed macro environment dynamics, we are pleased to witness the growing synergies between offline and online retail opportunities during the post-Covid area, which we believe provide an excellent opportunity for us to develop our private labels. As we continue to

optimize our cost structure, we are confident in our ability to thrive amidst a variety of economic cycles.

I would also like to let you know that I have submitted my resignation, and my last working day will be August 25, 2023. I have chosen to step down due to personal reasons, and my responsibilities will be transitioned to Dean, our senior financial director. My journey with Yunji has spanned 5 years, during which I have experienced significant personal growth. I have full confidence in Dean's exceptional abilities in managing complex financial operations and strategic planning. To ensure a seamless transition, I will continue to serve as a consultant.

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.

Ethan Yu: (Speaking foreign language). The Chinese government has repeatedly given some policies to stimulate offline transactions. I'm wondering what's the management's perspective on this issue, and does it have any impact on our business?

Shanglue Xiao: (Speaking foreign language).

(Translated). Thank you for your question. We are delighted to see consumers gradually regaining their vitality and pursuing a better life. We firmly support national policies, and hope to contribute to the recovery of offline consumption. Currently, we have made adjustments in line with consumer trends, such as increasing the supply of seasonal new products, enhancing sales tailored to specific scenarios, and improving our ability to fulfill services.

Furthermore, we have hosted various offline events, including origin tracing activities and salon gatherings, allowing our service managers to gain a deeper understanding of the products. This, in turn, makes our product descriptions more authentic, persuasive and enhances the consumer experience.

Yunji is more than just an online sales platform. We have many private labels, which provide us with greater flexibility. Our sales reach extends beyond the online market, as we managed a network of 100,000 service managers across cities nationwide, which correspond to a robust local sales team. We look forward to exploring new possibilities in the offline realm in the future. Thank you.

Operator: This concludes our question-and-answer session. 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 look 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.