

Yunji Inc. (YJ)
Q3 2023 Earnings Conference Call
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Speakers

Shanglue Xiao, Chairman and Chief Executive Officer
Yeqing Cui, Senior Financial Director
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 Third Quarter 2023 Earnings Conference Call.

With us today are Mr. Shanglue Xiao, Chairman and Chief Executive Officer; Mr. Yeqing Cui, Senior Financial Director; 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 third 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). Hello, everyone. Welcome to Yunji's third quarter 2023 earnings call. The third quarter is traditionally an off-peak season for e-commerce. We took

this opportunity to further develop and strengthen our business foundations, and continued to iterate on both the marketing and product fronts. We focused on a number of initiatives, including finetuning our market positioning, advancing development of new products, strategically adjusting the structure of our product offerings, and optimizing our supply chain capabilities.

In addition, we ramped up our marketing and hosted events to highlight product origins and unveil new products, laying the groundwork for our promotional sales in the fourth quarter. Notably, during September, our private label team relocated to a new office building with enhanced product display and presentation areas, allowing us to more effectively showcase our private label brands to our partners.

Guided by our ongoing strategic development, we conducted a comprehensive evaluation of Yunji's market positioning. Both Yunji and our private label brands have consistently maintained high repeat purchase rates. This positive trend has prompted us to reflect on how we can further enhance the value we deliver to our users and service managers.

Operating within a competitive market landscape, we remain firmly committed to offering high-quality, competitively-priced products that deliver outstanding value to our users. We believe that this commitment will generate higher revenues and strengthen our brand image, paving the way for our sustainable growth.

During this year's Double Eleven shopping festival, major e-commerce platforms engaged in aggressive discounting, and extended their promotions over the course of a month by using a variety of creative approaches. We chose to chart a different course, opting for a more straightforward promotional approach over a shorter timeframe.

For example, we successfully attracted and engaged users by leveraging product-themed days, direct discounts, and multi-item offers. This strategic focus enables us to coordinate our marketing efficiently and more precisely target dormant users, effectively drawing them back to our platform.

During our previous earnings call, we outlined our strategic initiative to enhance our supply chains and capitalize on consumers' growing appetite for seasonal purchases. Our approach has yielded impressive results, particularly in the food category. For example, by the end of August, our crab vouchers and crab gift boxes had emerged as go-to gifting choices for the Mid-Autumn Festival and National Day Holiday.

Importantly, we have successfully generated stable levels of daily sales without significant promotional spending. In the space of just one month, we sold over 400,000 crabs, generating revenue in excess of RMB13 million.

Now, I'd like to share some updates on Yunji's private label brands. While beauty remains our core focus, healthcare has emerged as a strong secondary area. This dual focus on beauty and health opens up exciting opportunities to explore cross-category collaboration, allowing us to create highly unique and differentiated products. For example, in September, our beauty brand, P&S, launched a sea buckthorn lip balm that was an instant hit, selling out within an hour on its

launch day. The lip balm's popularity sparked strong demand within our community groups for a further round of sales.

Sea buckthorn has proved to be a popular ingredient for our health brand, Baiyueshan. Following its launch, the lip balm has garnered a devoted following across both beauty and health categories, demonstrating the potential of cross-category collaboration. Building on the success of the lip balm, and aligning with the resurgence of traditional Chinese medicine culture, we've established an herbal skincare studio, and intend to introduce more cross-category products, such as face masks, to cater to the evolving preferences of our users.

Finally, I'd like to turn to a critical component of our success: our dedicated service managers. They choose Yunji because we offer a unique opportunity to strike a balance between their professional and family lives. Our innovative flash sales strategy empowers service managers to build mega-hit products or brands in a short timeframe, often within an hour. This allows them to rapidly generate sales and then return to their personal lives, freeing up time for self-improvement and to spend with their families.

In terms of personal development, we continue to prioritize the continuous learning and growth of our service managers. As part of this commitment, we launched a new education and training program in the third quarter. This initiative will not only refine their sales skills, but also foster broader thinking and cultivate more diverse interests, ultimately helping to create a more fulfilling family life.

With that, I will turn the call over to Mr. Cui, our Senior Financial Director to go through the financial results.

Yeqing Cui: 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 third quarter of 2023, our operations remained relatively stable, and we used the opportunity to reinforce our core operational processes. Key to this effort has been the enhancement of our inventory management practices. We now have a robust, comprehensive strategy that covers our private label product development, sales scheduling, and management of stock inflows and outflows.

At the same time, we actively monitor different product categories on a weekly or monthly basis to ensure inventory is kept at optimal levels. This strategic focus on inventory management has been instrumental in optimizing our use of assets and effectively managing cash flow. We believe this new approach lays a solid foundation for our sustainable development within a constantly shifting, dynamic market.

Now, let's take a closer look at our financials. Total revenues were 145 million, compared to 239 million a year ago. Revenues from sales of merchandise were 114 million, and revenues from our marketplace business were 29 million. The changes were primarily driven by ongoing refinements to our product range across all categories. This, coupled with the optimization of our supplier and merchant network, resulted in a short-term impact on sales.

Despite these challenges, our gross margin remained relatively solid at 45.7%. This was due to sustained customer loyalty towards our private labels and our effective product curation strategy.

Now, let's take a look at our operating expenses.

Fulfillment expenses were 26 million, compared to 37 million a year ago. This was primarily driven by a decrease in warehousing and logistics expenses stemming from lower merchandise sales, and reduced personnel costs due to staffing structure optimizations.

Sales and marketing expenses were 30 million, compared to 47 million a year ago. This was primarily a result of a decline in member management fees and decreased business promotion expenses.

Technology and content expenses were 14 million, compared to 17 million a year ago. The decrease was mainly due to a reduction in personnel costs resulting from staffing structure optimizations.

General and administrative expenses were 28 million, compared to 38 million a year ago. This was mainly due to a decline in share-based compensation expenses.

Total operating expenses in the third quarter decreased to 98 million from 139 million in the same period of 2022. Loss from operations was 30 million, compared to 18 million a year ago.

Net loss was 35 million, compared with 38 million a year ago, while adjusted net loss was 34 million compared with 30 million a year ago.

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

Turning to liquidity. As of September 30, 2023, we had a total of 555 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 continue to proactively explore investment opportunities with the aim of enhancing our supply chain capabilities.

To summarize, we took crucial steps towards achieving our long-term strategic goals during the third quarter. Our diligent efforts to enhance our inventory management mechanisms, and our decision to prioritize a sustainable and effective asset management approach, were integral to this progress.

Going forward, we will continue to drive ongoing efficiency improvements, ensuring that our company remains resilient and adaptable. This approach positions us to effectively meet future challenges and seize opportunities as we navigate the ever-changing economic landscape.

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

Questions and Answers

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

Ethan Yu: (Speaking foreign language). Could you share more color on the specific plans and the next positioning for our Health business segment?

Shanglue Xiao: (Speaking foreign language).

(Translated). Thank you for your question. Yunji Health is Yunji's forward-looking strategy for the next 10 to 20 years. And in the next 10 to 20 years, we know that in China, we are going to have 620 million Chinese people over 50 years old and above. And you can take it as our secondary curve, and 95% of our consumers are women, among which 86% of them are mothers. A key characteristic of this group is their key focus on health, particularly as the primary guardian of the well-being of the both elderly family members and children.

Actually, in China's car industry, we do not lack different models of the SUV, but we lack the SUV with six seats. Similarly, in China's health industry, we do not lack the online and offline supermarkets. But in the next 20 years in China, we lack the health supermarket.

Yunji Health can be likened to a Sam's Club for the health domain, including the healthy food. Also, those food with a focused on health and with a primary emphasis on household scenarios, or like those functional food. And it gathers diverse health products from various brands and categories to meet the personalized health needs of the different family members.

While many associate health with dietary choices, we advocate for a healthy lifestyle encompassing aspects like the sun protection, skincare, hair care and cleanliness. Yunji aspires to be a comprehensive health steward for all aspects of life. Thank you for your question.

Ethan Yu: (Speaking foreign language). I have no more questions, thank you.

Operator: As there are no further questions at this time, I'd like to hand the conference back over 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're 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.