

Yunji Inc. (YJ)
Q3 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 for standing by, and welcome to Yunji's Third 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.

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, IRD of Yunji. Please go ahead, ma'am.

Kaye Liu: Hello, everyone. Welcome to our third quarter 2022 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 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 Third Quarter 2022 Earnings Call. We once again faced a volatile and uncertain macro environment during the third quarter. Against this backdrop, we dedicated ourselves to improving our capabilities while reinforcing our business sustainability. We launched a variety of initiatives including enhancing our service provision, augmenting our private label product development process, and optimizing our inventory structure. This timely and agile response has elevated our resilience and put us on the path to sustainable high-quality growth.

In addition, we took advantage of the e-commerce sector's usual third quarter off-season to further evolve our innovative technology and upgrade our services. At the same time, we deepened our exploration of e-commerce's potential by focusing on our megahit products and driving the use of short videos as our main consumer-marketing tool.

Let's take a look at our product selection strategy. Consumers are switching away from well-known global labels and are purchasing a more diverse range of brands. We responded to these emerging trends by realigning our product selection strategy to focus on high-quality domestic brands at competitive prices and megahit products in livestreaming channels. Through continual analysis of our core users' consumption habits and pricing preferences, we have maintained a relatively high repurchase rate, despite the current macro headwinds.

Furthermore, by refining the details and accuracy of our product descriptions, we foster the mindset of carefully-considered purchase decisions, allowing us to successfully maintain a low product return rate.

On the marketing side, “Entrepreneur-oriented” has always been one of our core values, especially when it comes to empowering women to launch businesses and enhance their lives through self-improvement. In the current environment where employment prospects are uncertain, we further invested in our service managers by developing innovative features that make sharing increasingly convenient, efficient, and fun. Furthermore, we reinforce their confidence in their chosen career by encouraging them to work hard and earn more. As a result of these initiatives, our service managers' sales conversion rates have steadily increased.

Turning to our marketing promotions. Following the in-depth preparation during the third quarter, we officially launched our “Yunji Dynamic Showcase” for service managers. The showcase blends traditional graphical marketing content and livestreaming, creating short promotional videos for featured products. By integrating this innovative marketing tool with our platform service guarantee, we deliver affordably-priced, high-quality products to consumers while providing brands with a low-cost solution to promote their products more efficiently and accurately.

“Yunji Dynamic Showcase” plays a key role in helping our service managers to sharpen their focus on serving our users. The showcase features a wide product selection selected from our private labels, our range of gourmet food, and trending megahit products from the top-100 livestreaming channels. Our service managers can explore the showcase's products, choose those they are interested in, and synchronize them with the My Showcase function. Our innovative one-click function allows service managers to effortlessly generate product-related content to share with users or on social media.

On the one hand, our technological innovation improves service managers' efficiency by saving them time and energy. On the other hand, it makes it easier for them to generate sales, allowing service managers and young mothers to boost their incomes through our platform. We are confident that “Yunji Dynamic Showcase” leveraging of short video marketing will foster users' sharing behavior and increase user engagement time.

This year, the impact of Covid-19 will probably be the most severe we have seen since the pandemic began. This is especially true when it comes to our fulfillment services. In the near-term, the situation remains severe, and the turbulence will weigh on consumption and the macro economy. Amid these challenges, there are also reasons for optimism and opportunities for growth. We still hear many positive voices, and our users continue to value their health, still love to eat delicious and nutritious food, and will always enjoy cultivating hobbies.

The driving force behind the development of our private label brands has always been our users' desire for a healthy and beautiful life. We have made substantial progress in developing our private labels and their popularity continues to grow. During the recent 11.11 shopping festival, they were the most in-demand brands in the cosmetics and healthcare categories on our platform.

Our healthcare brand introduced a slew of new offerings, including liver and kidney care products, augmenting our product matrix to better satisfy the health care needs of our users. For example, our France Damiana Leaf tablets garnered over RMB10 million sales in a single day during their initial and follow-up rounds of sales.

We have continued to innovate and iterate in our gourmet food category by introducing more flavors and a wider choice of products. These unique offerings range from family staples, such as rice, to Chinese liquor for business banquets, allowing us to capture the full spectrum of user demand.

To better satisfy users' diverse food preferences, we have expanded our gourmet food private label product matrix. Our offerings now include well-known products, such as European-style bread, and novel items that our service managers promote and introduce to our users. For example, Baiyueshan freeze-dried sea buckthorn powder was originally a niche health food, largely unknown to our users. Thanks to our promotional efforts, it became a sensation, generating over RMB5 million in sales during its launch day.

During the third quarter, our tech-empowered private label SUYE celebrated its 12th anniversary. Since 2016, SUYE has partnered with a Dutch company to research peptides and develop a wide variety of anti-aging products that better meet people's skin care needs. Notably, these products contain professional ingredients typically found in medical aesthetics. We were delighted to see that SUYE generated over RMB 21 million in sales during its anniversary month, showing high user demand for quality products that deliver innovative and effective anti-aging solutions. SUYE has become the go-to choice for women's anti-aging products, and the cornerstone of our private label beauty brands strategy.

Looking ahead, we are confident that the current challenges will be transitory. As I just mentioned, we see clear reasons for optimism, and we were encouraged by China's recently-

optimized Covid-19 controls. People will always want a better life, and we stand ready to serve more and more families going forward.

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 third quarter, we faced a volatile macro environment and ongoing pandemic controls, both of which presented challenges to our business. In response, we further refined our product selection and optimized our relationships with suppliers, sacrificing near-term sales while building a solid foundation for our company's long-term success.

Our repeat purchase rate remained stable at 79%, and we once again improved our gross margin. Beyond this, operating expenses and total cost of revenues both declined as we continued to optimize the cost structure of our business.

We finished the quarter in a healthy cash position, and this, combined with our persistent focus on efficient operations, will allow us to continue to weather an unpredictable market. Going forward, we will continue to reward our shareholders through share buybacks.

Now, let's take a closer look at our financials. Total revenues were 239 million, compared to 438 million a year ago. Revenues from sales of merchandise were 197 million, and revenues from our marketplace business were 38 million. This decrease was primarily due to the Company's continued strategy to refine its product selection across all categories and optimize its selection of suppliers and merchants, causing near-term decreases in sales.

Consumers' willingness to spend on discretionary products in 2022 has also declined compared with that in the same period of 2021.

Despite these challenges, we improved our gross margin to 49.4% compared to 43.2% 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 37 million, compared to 41 million a year ago. This was primarily due to reduced warehousing and logistics expenses due to lower merchandise sales, and decreased service fees charged by third-party payment settlement platforms.

Sales and marketing expenses were 47 million compared to 60 million a year ago. This was mainly due to the reduction in personnel costs as a result of staffing structure refinements, and a decrease in member management fees. These reductions were partially offset by an increase in private label promotion expenses.

Technology and content expenses were 17 million, compared to 29 million a year ago. The decrease was mainly due to the reduction in personnel costs as a result of staffing structure refinements and reduced cloud server costs.

General and administrative expenses were 38 million, compared to 65 million a year ago. This was primarily due to reduced personnel costs as a result of refinements to our staffing structure, lower professional service fees, and a decrease in share-based compensation expenses.

Total operating expenses in the third quarter decreased to 139 million from 194 million in the same period of 2021. We recorded a loss from operations of 18 million, compared to an income from operations of 18 million a year ago.

Net loss was 38 million, compared with net income of 61 million a year ago, while adjusted net loss was 30 million compared with adjusted net income of 76 million a year ago.

Basic and diluted net loss per share attributable to ordinary shareholders were both 0.02, compared with basic and diluted net earnings per share attributable to ordinary shareholders of 0.03 in the same period of 2021.

Moving on to liquidity. As of September 30, 2022, we had a total of 571 million in cash and cash equivalents, restricted cash, and short-term investments on our balance sheet, compared to 645 million as of June 30, 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.

Despite the persistent challenges of today's macro environment, we are confident that our efforts to optimize costs, refine our business model, improve product curation, and ensure high-quality service for our users will serve us well now and into the future. We have made steady progress in our quest for long-term, stable growth, and we will continue to adjust our business strategies to offer maximum value to our shareholders.

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). Let me make a quick translation. Recently, there has been a lot of news about China easing the Covid policy. Could you comment on this trend, and tell us more about what management will the company do to grab this opportunity of a possible recovery in consumer or upcoming recovery consumption?

Shanglue Xiao: (Speaking foreign language).

(Translated). Thank you for your question. The recovery of the epidemic has uncertainty and certainty. First of all, in terms of certainty, we believe that the most difficult time of the epidemic is about to pass. In terms of the uncertainty, as a comprehensive e-commerce platform, Yunji has a wide customer base from the first-tier cities, such as Beijing, Shanghai and Guangzhou, to remote areas such as Xinjiang and Inner Mongolia. We believe that the recovery of consumption will not be explosive, but an orderly, slow and uneven recovery based on regions and the product categories.

From the supply chain side, the supply chain of our private label is relatively easy to grasp. And we will flexibly adjust the production and the marketing strategies of various categories according to the recovery situation. For the third-party supply chain, as a highly curated platform, our high-quality Best-seller pool can quickly adapt to the market changes.

For the perspective of the market habits, I think that after 3 years of the epidemic, consumers' panic will not fade away so quickly. And the stocking demand for the necessities may still exceed demand for the discretionary products in the short-term. In addition, global economy depression this year, and are not only affected by the epidemic, but also factors such as climate change and international relations. In the long run, we still believe in users' yearning for a better life. We will enhance our business and management capabilities, and maintain a healthy financial position to cope with the challenges and opportunities brought by the macro environment. Thank you.

Ethan Yu: Thank you. I've got no more questions. Thank you.

Operator: Thank you. And ladies and gentlemen, 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 are looking forward to talking with you next quarter. Thanks. Bye.

Operator: This conference has now concluded. Thank you for attending. You may now disconnect.