

**Yunji Inc. (YJ)**  
**Q4 2022 Earnings Conference Call**  
**March 20, 2023 at 07:00 AM ET.**

**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 Fourth 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 fourth 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 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 fourth quarter 2022 earnings call. During the fourth quarter, we successfully weathered the challenges posed by Covid-related restrictions and the subsequent easing of these measures. In October and November, Covid controls exerted downward pressure on our order volume. Then, in December, our order fulfillment capabilities were negatively impacted as the country battled a surge in Covid cases. Although we have observed signs of a broader macro stabilization and recovery, there remain some lingering weaknesses in household income and private consumption. Nevertheless, we are confident that our optimized cost structure will enable us to navigate through the market downturn with agility and flexibility.

At the same time, our enhanced capabilities and business resilience leave us well-positioned to seize opportunities when the market recovers. Fortified by these solid foundations, we remain cautiously optimistic as we look to the future.

I'd like to summarize this year of ups and downs. During 2022, we continued to iterate our initiatives on both the product and marketing sides. For our healthcare brand, we introduced a wide array of fresh offerings covering weight management, skincare, and body revitalization, allowing us to better meet diverse consumer needs. The driving force behind our R&D and production processes was a focus on creating high quality, healthy, and natural products. Our efforts were extremely well-received by our users, with several of the new products each generating over RMB10 million in sales during a single sales event. Driven by these unique and innovative offerings, user mindset of Yunji healthcare continues to gradually form.

Turning to our skin care brand SUYE. By refreshing and refocusing our content marketing and private label brand promotion initiatives, we further developed and strengthened the brand through public traffic. Leveraging social media and our own user community, we boosted user interaction by generating attention-grabbing, helpful content, thereby further enhancing user experience and our brands' reach.

For our highly-curated product selection, we successfully launched our upgraded Yunji Selected quality certification system, an integral component of our Gourmet Yunji strategy. With its main focus on the gourmet food category, the stringent certification assures consumers that products are of the highest quality. One year after the system's launch, our platform has accumulated a wide range of well-loved products that are regularly repurchased by our users. Powered by these flagship "Yunji Selected"-certified products, our repurchase rate reached an impressive 81.8% in 2022.

Let's take a closer look at our marketing efforts. We continued to innovate on and refine our vertical community service experience. At the same time, we have launched additional value-added services. For example, we enhanced members' perks by providing them with professional health information and nutritional advice, boosting their loyalty and satisfaction. Building on this, we upgraded our consumer-marketing tool from graphical marketing content to a short video format, generating exponential growth in high-quality content. By integrating this tool with our innovative features that make sharing more convenient, we create a heightened brand exposure and allow our service managers to promote products more efficiently and accurately.

Looking further into 2023, we have already engaged in extensive strategic planning on both the product and marketing sides. On the product side, we are witnessing an evolving consumption trend where increasing numbers of e-commerce companies are competing in a subsidy war, cultivating consumers' mindset of purchasing low-price products. On the other hand, consumers are generally becoming more price sensitive and spending more cautiously, even as they demand higher-quality products and seek value-for-money experiences. Against this backdrop, we are confident that our private label strategy delivers a unique consumption experience that goes beyond low prices.

Following the easing of Covid-related restrictions in the fourth quarter, consumers became more health conscious and increased their spending in the health category accordingly. In line with this trend, this year we are focusing on exploring the healthcare and nutritional therapy categories to further enhance the stickiness of our private label products. Our efforts to date have yielded positive results, with the proportion of our total sales accounted for by healthcare products increasing. Importantly, both our legacy and newly-launched products proved popular with users, helping us maintain a healthy gross margin.

As previously mentioned, the recovery of consumption is a cyclical process, and we have seen the travel sector rebound most rapidly. On the marketing channel side, our goal for this year is to expand channel penetration and build more people-to-people connections. Over the past 3 years, external constraints prevented us from regularly holding offline promotional events. This, coupled with the limited number of sales managers able to attend these events, impacted our consumer mindset and brand exposure. As the external situation has recovered, we have resumed our program of offline marketing events. For example, in February, we successfully held the Million sales legend Plan offline kick-off meeting in Changsha. During the meeting, we teased and launched items from our new range of products.

I also took this opportunity to have a number of fruitful one-to-one discussions with some of the service managers and mothers in attendance. At present, we are further energizing our offline marketing by running a 30-cities-in-100-days offline promotional campaign. At the same time, we will attract public traffic and boost awareness of our private label brands by rolling out more offline experience stores where consumers can explore and enjoy our products.

The number of our service managers has now grown to 110,000. We continuously strive to improve the management of our service managers and provide them with more convenient and timely services. As such, we are developing more handy tools and features, implementing efficiency-boosting technology, and increasing the level of support they receive internally.

2023 is a year of transition, but also a year full of opportunity. We will be with our customers every step of the way to help them smoothly navigate the post-pandemic era. At the same time, we will support and help our service managers to seize fresh opportunities in the specialty retail industry.

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.

We faced a volatile macro environment during the fourth quarter, with pandemic-related restrictions in October and November, and Covid's spread following their relaxation in December. Navigating through the pandemic, we gained valuable experience as we continued to refine our product selections, develop our private labels, optimize our product mix, and explore new business opportunities.

Importantly, our repeat purchase rate increased to 81.8% and our gross margin increased to 40.9% during the quarter.

At the same time, we adapted to the macro environment by further optimizing our cost structures and adhering to our prudent cost control strategy. Thanks to these efforts, we delivered significant efficiency improvements, with our operating expenses decreasing by 22% year-over-year. Our strong cash position and healthy financial condition provide the foundations for the further development of our business.

Now, let's take a closer look at our financials. Total revenues were 289 million, compared to 471 million a year ago. Revenues from sales of merchandise were 241 million, and revenues from our marketplace business were 43 million. This decrease was primarily due to our continued strategy of refining our product selection across all categories and optimizing our selection of suppliers and merchants, causing near-term decreases in sales. Changes in consumers' consumption confidence and habits during the Covid-19 pandemic also contributed to the decrease. Despite these challenges, we maintained a stable gross margin at 40.9% compared to 39.6% a year ago. This was 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 32 million, compared to 47 million a year ago. This was primarily due to reduced warehousing and logistics expenses due to lower merchandise sales. Sales and marketing expenses were 59 million compared to 78 million a year ago. This was mainly due to the reduction in personnel costs as a result of staffing structure refinements, a decrease in member management fees, and a decrease in marketplace business platform promotion expenses.

Technology and content expenses were 17 million, compared to 26 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 services costs.

General and administrative expenses were 45 million, compared to 44 million a year ago.

Total operating expenses in the fourth quarter decreased to 153 million from 196 million in the same period of 2021. We recorded a loss from operations of 33 million, compared to an income from operations of 4 million a year ago.

Net loss was 38 million, compared with net income of 58 million a year ago, while adjusted net loss was 31 million compared with adjusted net income of 71 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 December 31, 2022, we had a total of 669 million in cash and cash equivalents, restricted cash, and short-term investments on our balance sheet, compared to 571 million as of September 30, 2022. During the fourth quarter, we refined our operations and optimized our working capital cash flow. 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 cultivate our range of private label products and introduce more novel offerings with strong repurchase potential and customer appeal. As we navigate through the current macro challenges, we will further refine our cost structure while exploring new opportunities driven by consumption recovery in 2023. We are confident that our resilient business model and innovative strategies will deliver long-term 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: We see that there are several competitors in the market starting to engage in subsidy war. I'm just curious about what is Yunji's view on this? And would you consider entering the 10 billion subsidy campaign like JD and PDD in the future?

Kaye Liu: Let me quickly translate this question. (Speaking foreign language).

Shanglue Xiao: (Speaking foreign language).

(Translated). Firstly, the consumer purchasing power is still slowly recovering, and the 10 billion subsidy program can indeed bring tangible benefits to consumers. We acknowledge the value of the subsidies to consumer market, especially in some standard product categories, such as mobile phones and electronics, and some impulsive consumptions scenarios. And the price is, of course, a very important element in consumption decisions, but the demand for product quality, customer service and product features still is quite important and strong.

We don't believe in blindly subsidizing prices. Our goal is to establish a mindset among our consumers that our products are not only affordable, but also unique with high quality. Rather than offering price subsidies, we focus on providing value-added services and maintaining the quality of our products, so that our customers feel that their purchases are worth it. And actually, we believe the initiatives of the government is more important, that is to have the transition from high-speed development to high-quality development.

We have a variety of private labels in healthy food, beauty and gourmet food categories, complemented by professional vertical communities for one-stop shopping and marketing. This gives us a strong cost control and our operational capabilities over product quality, pricing and services. We provide users with a high-value experience without relying on 10 billion subsidy. Thank you for your question.

Ethan Yu: Thank you.

Operator: Okay. Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to management for any 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: Thank you. This concludes today's conference call. You may now disconnect your lines, and have a wonderful day.