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Q4 2021 Yunji Inc Earnings Call

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Chengqi Zhang *Yunji Inc. - VP of Finance*

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CONFERENCE CALL PARTICIPANTS

Journey Zhan - *Individual Investor*

PRESENTATION

Operator

Good morning and good evening, ladies and gentlemen. Thank you, and welcome to Yunji's Fourth Quarter 2021 Earnings Conference Call. With us today are Mr. Shanglue Xiao, Chairman and Chief Executive Officer; Mr. Chengqi 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 *Yunji Inc. - IR Director*

Hello, everyone. Welcome to our fourth quarter 2021 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 are 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 do not undertake any obligation to update these statements expect as required under applicable law.

With that, I will now turn over to Shanglue Xiao, Chairman and CEO of Yunji.

Shanglue Xiao *Yunji Inc. - Chairman & CEO*

[Interpreted] Hello, everyone. Welcome to Yunji's Fourth Quarter 2021 Earnings Call. Today, I will summarize our strategy execution during the past year and discuss the outlook for its continued implementation in the coming year.

We are acutely aware that consumers need to be more precisely targeted and segmented and given

greater peace of mind. At the same time, we realized that our service managers need to increasingly focus on serving our users. As such, we have launched our highly curated product selection, Yunji 99 special sales portal.

Yunji 99 portal displays no more than 99 cost-effective products per day, each of which is guaranteed to be in line with current trends, meet user needs and consistent with our high product selection standards. In addition, our product curation model allows us to more efficiently operate our platform and community groups.

During 2021, we cultivated our user mindset of "foods gather at Yunji". Going forward, we hope that our platform will be known for "quality products gather at Yunji" by effectively executing our product curation strategy, we guarantee that only products that reach the high standards necessary to be certified, Yunji quality products are launched on our platform. We always put quality first, carefully selecting superior products for our customers while saving them time and enhancing their shopping experience. By doing so, we are developing our user mindset of the quality products gather at Yunji.

Our private label strategy is crucial for us to achieve healthy profitability. We have made substantial progress developing our private labels, especially for our food-focused strategy. At the same time, we have fortified and extended our cosmetics and health care categories. With our food category as our focus, our dream is for our members to be able to eat delicious food from all over the world without having to leave their homes.

To allow our users to eat happily and safely, we have launched multiple new private labels such as purely meat positioned, "Li Ba Tian" and natural and nutritious, "Baiyueshan". Our private label foods are targeted at different user cohorts, but they share the same philosophy to make users feel safe when eating food, they can share with their whole family. The success of our selection of branded products is demonstrated by their high repurchase rate. To build on this success, this year, we will accelerate and enhance our development of new branded food products.

On the cosmetics front, we have successfully launched a number of new product lines for our SUYE brands. Additionally, several SUYE products are certified to be registered as a medical device by the National Medical Products Administration and can therefore be used in cosmetic surgery applications. SUYE new product lines will satisfy more diversified consumer needs and give them an increased feeling of assurance.

Under the SUYE brands, we have developed multiple new products by integrating new technologies from Switzerland and the USA. Among these, a hyaluronic-acid facemask was an instant hit, generating RMB 10 million in sales revenue within 15 minutes of its launch. Furthermore, we have a variety of new skincare and cosmetic products in the pipeline that are due to be launched in the next few months.

Now let's turn to our healthcare category. Based on our previous successful experience in weight management products, we have extended the concept of health products gathered at Yunji and

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upgraded our health care brand, "Qingziyang", which generates billions in sales per year. We further augmented our product offering matrix to better satisfy the health care needs of our female customers in 3 dimensions: weight management, skincare and body revitalization.

Multiple products have achieved tens of millions in sales within only a few months of their launch. We have always hoped that our private label product would also be available to purchase through external retail channels. During 2021, we prepared for and explored how our new and traditional private labels could be retailed on other platforms. This year, we will accelerate our pace and take the necessary steps to integrate our supply chain with main platforms, including, but not limited to, streaming platforms and e-commerce platforms.

We hope that the external platform traffic can be directed to our private community groups, further enhancing our brand awareness and competitiveness and in turn generating ever greater profit for us. The promotion of our private label brands is dependent on our service managers, and the vertical specialization that they bring to retail.

For a long time, we have been empowering women and helping them improve their lives. Over the past few years, we have been delighted to see that the lives of those of our service managers, who are mothers have become better and better. We see our service managers as entrepreneur and we hope to develop even more excellent entrepreneur by cultivating their capabilities in their specialized fields.

While we are dedicated to generating income for our service managers, we also provide professional knowledge training for those mothers. In addition, we promote a healthy and beautiful lifestyle which satisfies our service manager's material and psychological needs. The development of our verticals, especially food, cosmetics and health care enables us to further segment our community group.

Importantly, our increasingly segmented user groups and our emphasis on all the quality products gathered at Yunji will improve the promotional efficiency of our service managers.

With that, I will turn the call over to Mr. Chengqi Zhang, our Vice President of Finance, to go through the financial results.

Chengqi Zhang Yunji Inc. - VP of Finance

Thank you, Shanglue. Hello, everyone. Before I go through our financial results, please note that all numbers stated in the following remarks are in renminbi terms and all comparisons and percentage changes are on a year-over-year basis, unless otherwise noted. During the fourth quarter, we sustained our strategy of optimizing our product range and carefully curating our products as we continue executing our megahit product pool program, which focus on expanding our offering of exclusive products and private labels. .

It's worth mentioning that as we accelerate the development of our new products and the improvement productivity, our private label have made a substantial progress allowing us to realize sustained

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profitability. In addition, our private labels received an excellent reception from the market and proved to be a great success. This success was reflected by our high repeat repurchase rate, which reached 80% in the 12 months ended December 31, 2021.

As a result, we recorded operating income of CNY 4 million and a net income of CNY 58 million during the first quarter compared with operating loss of CNY 20 million and a net loss of CNY 77 million a year ago. This is our fourth consecutive quarter of non-GAAP measure profit and the first year turning growth to profit.

Now let's take a closer look at our financials. Total revenue was CNY 471 million compared to CNY 1,327 million a year ago. Revenue from sales of merchandise was CNY 389 million and the revenues from our marketplace business was CNY 74 million. Adhering to our long-term growth strategy with a focus on profitability, we will refine our selection of merchants and suppliers, resulting in near-term decrease in both our marketplace business and the merchandise sales.

Importantly, our gross margin improved significantly to 40% compared to 26% a year ago. This increase was due to our continued successful execution of our long-term growth strategy and the introduction of more private label products with higher gross margin on the platform and enhance the operating efficiency.

Turning to our operating expenses. Fulfillment expenses were CNY 47 million compared to CNY 93 million in the same period of the last year. This decrease was mainly attributable to reduced warehousing and logistic expenses resulting from lower merchandise sales, reduced personnel costs due to staff restructure refinement and the decreased service fee charged by third-party payment settlement platform. Sales and marketing expense decreased to CNY 78 million from CNY 167 million in the same period of last year. The decrease was due to reduced business promotion expense and member management fees.

Technology and content expense were CNY 26 million compared to CNY 44 million in the same period of last year. The decrease was mainly due to a reduction in server costs and personnel costs as we refine our staffing structure. General and administrative expenses were CNY 44 million compared to CNY 64 million a year ago. This decrease was primarily due to reduced personnel cost as a result of head count optimization. Total operating expenses in the fourth quarter decreased by 47% to CNY 196 million from CNY 368 million in the same period of last year.

We recorded our income from operating of CNY 4 million as compared to a loss of CNY 20 million a year ago. Net income was CNY 58 million compared with a net loss of CNY 77 million a year ago. Adjusted net income was CNY 71 million compared with adjusted net loss of CNY 63 million a year ago. Basic and diluted net income per share attributable to ordinary shares were both CNY 0.03 compared with basic and diluted net loss per share attributable to an ordinary share of CNY 0.04 in the same period of 2020.

Moving on the liquidity. As of December 31, 2021, we had a total of CNY 1 billion in cash and cash

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equivalents, restricted cash and short-term investments on our balance sheet. Our accounts payable reduced to CNY 255 million as of December 31, 2021, compared with [CNY 502 million] (corrected by company after the call) as of December 31, 2020. Our liquid assets was sufficient to cover our payable obligations and we did not hold any long-term bank loans or debt on our balance sheet.

As you have probably noticed, capital market has underperformed recently. However, we remain confident in the company's further growth perspectives. We have received a proposal from the Board, we today announced a share repurchase program under which the company may repurchase up to USD 20 million of its shares over the next 6 months.

Looking ahead, we will continue to execute our strategic upgrade of carefully curation of products through our product pool initiative, introduction of more products with strong repurchase potential and cultivation of private label and the exclusive products. We remain confident that our strategy to focus on profitability will drive and sustain our business growth over the long term. This concludes our prepared remarks for today.

Operator, we are now ready to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Journey Zhan who is an individual investor.

Journey Zhan - Individual Investor

(foreign language) Let me quickly translate myself. We have observed downturn in the consumer market and a fierce competition in the second half of the year, and would like to ask whether Yunji is also affected by the economic downturn. Could you share some news and the future strategies?

Shanglue Xiao Yunji Inc. - Chairman & CEO

[Interpreted] In 2021, we have started to work with many advanced manufacturing of companies in China to explore more new quality products. Our products are mainly in such areas as food, health care and cosmetics. And we have explored more quality products that have a large market in China and that are also cost effective. With all these products, we have further tackled the influence of the downturn of the economy.

We believe that in the next 10 years, the Chinese consumers will have a greater demand to further upgrade their consumption. For Yunji, on our supply chain, we will continue to explore more quality products that are also cost effective. And we believe that this will meet the demand of nearly 1/3 of Chinese families. At the same time, we will also make 10 years as a cycle to further explore more quality and cost-effective products and to make greater contribution to meet the consumers' needs.

Operator

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 Yunji Inc. - IR Director

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

This concludes today's conference call. Thank you for participating. You may now disconnect.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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