

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

Q4 2020 Yunji Inc Earnings Call

EVENT DATE/TIME: MARCH 22, 2021 / 11:00AM GMT

## CORPORATE PARTICIPANTS

**Shanglue Xiao** *Yunji Inc. - Founder, Chairman & CEO*  
**Chengqi Zhang** *Yunji Inc. - Vice President of Finance*  
**Kaye Liu** *Yunji Inc. - IR Director*

## PRESENTATION

### Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for participating. You may all disconnect now. Thank you.

Good morning, and good evening, ladies and gentlemen. Thank you, and welcome to Yunji's Fourth Quarter 2020 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 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 2020 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 or unknown risks, uncertainties and other factors of Yunji and its industry. These forward-looking statements can be identified by terminologies such as will, expects, 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 expressly qualified in the entirety by cautionary statements, risk factors and details of the company's filing with SEC. Yunji does not undertake any obligation to update these statements except as required on applicable law.

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

---

### **Shanglue Xiao** *Yunji Inc. - Founder, Chairman & CEO*

[Interpreted] Hello, everyone, and welcome to Yunji fourth quarter 2020 earnings call. In the fourth quarter, we generated a total GMV of RMB 11.7 billion and a total revenue of RMB 1.33 billion due to our ongoing development of a differentiated supply chain and upgrade merchandising mix. As a result of augmented users business and increased activities of platform service managers, the number of transacting members on our platform increased to 13.3 million for 12 months at the end of December 31, 2020.

2020 was a year of significant changes in terms of both the internal and external environment. At the end of the year, as usual, we will review our strategy and reflect on our achievements of the year.

In 2020, under an increasingly competitive e-commerce environment, we identified a suitable path for Yunji to develop differentiate supply chain, which can be leveraged to make more targeted, customized and specialized product offering. As technology evolved, many industries embraced this intermediation and our business model is not about arbitraging the product price differential among various e-commerce platform. Instead, we established our competitive strength through researching the optimal merchandising mix, engaging service managers to act as shopping curators and enhancing our users' shopping experiences. And our differentiated merchandise mix of the private label joint venture brands and emerging brands enjoys a longer product life cycle, can be constantly improved and may gradually developed into products and brands capable for generating tens of millions or billions of sales. Aligned with the improvement of our product offering, our community also became more active as our members and users have access to more materials about products to share and discuss in the community.

Over the course of 2020, our efforts in implementing supply chain differentiation and private-label development strategy have achieved the meaningful results. For example, one of our private labeled weight loss products joined Yunji million dollar sales product category

within half a year since its launch, as it has generated over [RMB 600 million] (corrected by company after the call) of sales. We will continue to improve these products according to user feedback and market demand to further improve our user satisfaction.

In February 2021, we also launched our first food-safety-focused present label called Li Ba Tian. Li Ba Tian launched its first product, Authentic grilled sausage, jointly with a renowned Food Research Institute in China called 5K Sausage research institution. And on both sides of the 2020 Chinese New Year holiday season, we started selling 2 new batches of the authentic grilled sausage, respectively. All of them sold out promptly upon market introduction. Besides food, we are also developing and promoting additional merchandising categories, including hair styling, personal care and health supplements.

Most of our service managers are either soon-to-be mothers or mothers of the children under the age of 12. We believe in the sales capability and creativity of these women when they work on our platform as service managers. By continuously improving our platform features, we provide our service managers with more competitive products to promote. In 2020, our service managers became substantially more active in sharing and promoting our products. In turn, they earned a better income and improved their own quality of life.

We mainly focus on 3 growth initiatives for our community marketing. First, we provide our service managers with products that are easier to spread and share online. These types of products can easily motivate the service managers to produce reach and unique content for them to attract more users. Second, we established communities for various product verticals and apply the targeted marketing and sales strategy. For example, we promoted our private label products in the beauty community and share different ways to cook Li Ba Tian grilled sausage in the food community. In the second half of the year of 2020 in the popular health supplement community, we provided the members with tips on maintaining healthy diet and improving their life habits. In the meantime, we also introduced weight loss products and health supplement products to help our members in the community become healthier and feel better about themselves. To help the sharing from our service managers to stand out as trustworthy content above numerous news feed, we provided service managers with professional training and training in core communication skills, industry expertise, the product origin, basics et cetera.

Third, we cultivated more content distribution channels, including short-form videos and live streaming sessions on our own and partnered platform. Therefore, service managers that are good at live streaming can generate more attention and income through live streaming about our products, while service managers who are good at sharing can earn commissions from promoting purchase transaction through sharing related live streaming rooms.

Through partnerships and collaborations, we actively channeled user traffic from third-party platforms to our own platform. For example, our private label beauty brand, P&S developed a joint label product in cosmetics through our collaboration with Moschino and established Italian luxury brand.

We also actively explored the live streaming channels. For instance, we partner with online celebrities called Luo Yonghao and Xiong Bao for 2 live streaming shows and a leading short-form video and live streaming platform in China. Both shows generated total sales of RMB 120 million. During the Double 11 Shopping Festival, we also partnered with Douyin, top selling celebrity Yige to promote our products and achieved RMB 50.19 million of sales through a single live streaming show.

Most of our users are women and mothers who take care of their whole family. We have always paid great attention to demands of this type of customer group and continue to cultivate our platform capabilities to service thousands of mothers. Based on their demands, we also developed high-quality products that the whole family could safely use and enjoy. On our platform these mothers, do not just buy a cost effective product but also a caring service, a product that we hope that they can enjoy at ease.

Moving ahead in the coming year, we will continue to do listing alongside the right members and communities and advance forward together. With that, I will now turn the call to our Vice President of Finance Mr. Chengqi Zhang, who will go through the details of our financial performance in the fourth quarter.

**Chengqi Zhang Yunji Inc. - Vice President of Finance**

Thank you, Shangleue. Hello, everyone. Before I go through our financial results, please note that all numbers stated in the following remarks are in the Renminbi term, and all comparisons are on a year-over-year basis, unless otherwise noted.

During the fourth quarter, we continued to focus on improving our margins by launching more private label brand products and to utilize our unique membership-based community to increase sales across different social channels. As a result, we continue to steadily improve our platform's operating efficiency during this quarter. With total operating expense decreased by 44%, and the loss from operations decreased by 54%.

Now let's take a closer look at our financials. Total revenue in the fourth quarter of 2020 was CNY 1.3 billion compared to CNY 2.4 billion in the same period of 2019. Our GMV for the fourth quarter of 2020 was CNY 11.7 billion compared to CNY 11 billion in the same period of 2019. Revenue from net sales of merchandise in the fourth quarter of 2020 were CNY 1.2 billion compared to CNY 2.1 billion in the same period of 2019.

Revenue from our marketplace business in the fourth quarter of 2020 were CNY 153 million compared to CNY 169 million in the same period of 2019. The trend in our total revenue and the GMV were in line with our ongoing efforts to improve both our internal operating efficiency and operating efficiency of our merchants as we continue to transfer business activities to our marketplace business model, while expanding our user coverage through innovative partnership with other platforms.

During the fourth quarter, the year-over-year decrease in our total revenue was mainly attributable to lower commission rates as a result of our efforts to protect platform membership value through providing subsidies to products from certain large brands in response to increased competition during the e-commerce shopping festival period. Besides, as we implemented our own coverage expansion strategy, our commission rates during the quarter was also affected by our increased promotion for the new partnership on other platform, such as live streaming events on our external live stream platform.

Revenue from our membership program in the fourth quarter of 2020 were CNY 40,000 compared to CNY 146 million in the same period of 2019. Revenue from our membership program consisted entirely of deferred revenue from prior paying members as a result of our decision to refine our membership enrollment system. Gross margin in the fourth quarter of 2020 expanded to 26% compared to 24% in the same period of 2019. This increase was due to our decision to introduce more private label products with higher gross margin on our platform during the quarter as well as our improved product mix and enhanced operating efficiency.

Now turning to our operating expenses. Overall, total operating expenses in the fourth quarter of 2020 decreased by 44% to CNY 368 million from CNY 662 million in the same period of 2019.

Fulfillment expenses in the fourth quarter of 2020 decreased by 52% to CNY 92 million. This decrease was mainly due to decreased warehousing and logistics expenses resulting from lower merchandise sales and improved logistic efficiency, decreasing third-party payment transaction fee due to the lower charge rates that we secured. Lower personnel cost due to a headcount reduction as well as decreased the share-based compensation expense, which include our previously recognized reversal of CNY 6 million in the share-based compensation expense.

Sales and marketing expense in the fourth quarter of 2020 decreased by 45% to CNY 167 million. This decrease was primarily driven by our reduction in management fee as a result of our improved member management efficiency, partially offset by higher business promotion expenses as a result of our increased business development activities in this period to attract more popular brands and the merchants to our marketplace business.

Technology and content expense in the fourth quarter of 2020 decreased by 41% to CNY 44 million, mainly due to reduced server costs as we secured a better contract term with our server provider as well as decrease the personnel costs as we refined our staffing structure.

General and administrative expenses in the fourth quarter of 2020 decreased by 26% to CNY 64 million, mainly due to the ongoing

refinement of our staffing structure. As a result, we reduced our loss from operating in the fourth quarter of 2020 by 54% to CNY 22 million from CNY 47 million in the same period of 2019.

Net loss in the fourth quarter of 2020 was CNY 77 million compared to CNY 5 million in the same period of 2019. But adjusted net loss in the fourth quarter of 2020 was CNY 63 million, compared to adjusted net income of CNY 25 million in the same period of 2019. The year-over-year decrease was primarily attributed to our income tax expense of CNY 44 million in the fourth quarter of 2020 compared to an income tax benefit of CNY 5 million in the same period of 2019. It was also due to a net financial loss of CNY 7 million in the fourth quarter of 2020 compared to the net financial income of CNY 39 million in the same period of 2019.

Basic and diluted net loss per share attributable to ordinary shareholders in the fourth quarter of 2020 were both CNY 0.04.

Now turning to our cash and liquidity position. In order to satisfy the ongoing demand of our operations, we continue to maintain a healthy level of working capital. As of December 31, 2020, we had a total of CNY 1.3 billion in cash and cash equivalents, restricted cash and short-term investments.

Looking ahead, we remain focused on growing our marketplace and the merchandise sales model, extending our differentiated supply chain, forgoing more partnerships and enhance our social community. Such efforts will help to fortify our financial performance, augment our total profitability and fuel the sustainable growth of our operations 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) We have the first question from the line of Terence from First Group -- First Trust Group.

### Unidentified Analyst

(foreign language)

This is Terence from First Trust Group. I have a few questions. My first question is, as we can see the increase in the proportion of Yunji's Marketplace business, so what's the separate percentage of your mainstream brands, emerging brands and private labels? And how would you optimize the marketed metrics? My second question is based on the transformation toward the marketplace business, what will be the company's target for the future? My last question is, we noticed the transaction members continue to grow. So would you please share some color on your monetization plan?

---

### Shanglue Xiao Yunji Inc. - Founder, Chairman & CEO

[Interpreted]

So thank you for your questions. And today, most of our products are coming from the mainstream brands, and only 10% are our private labels. And then as for the expectations, we hope that as our business grows, and we hope that we could increase the percentage of the product of the mainstream brands to 60%. And because we know that it is quite expensive for those mainstream brands to attract traffic online. So later, we hope that those mainstream brands are going to provide our exclusive products, and they have our cooperation plans and for those exclusive brands from those mainstream brands, and the price is going to be quite cost-effective for our platform. And also, we would like to bring more interest to our members of our platform.

So altogether, we are working on the private labels and mainstream products. And we hope that by our efforts in the next 3 years, we could increase the percentage of the mainstream brands products to 60%. And among the 60%, 20% will be the exclusive products. And for the private label products, they are going to account for 20% of our products.

And then for your second question, we know that currently, in China, we have 150 million mothers and then we hope that we could have our products help them to improve their quality and hope that we could have 1/3 of those mothers as our members. And we know that

currently, for our platform, we hope that we can not only focus on those mainstream brands. Also, we could promote those emerging brands and together with the manufacturing, all together, we could serve more families and bring better life for those families.

So for those customers, we hope that we could bring to them more cost effective products and a better service experience. And we hope that they could just feel comfort in our platform when they are buying our products compared to other platforms.

And also, we find that a large group of our customers and our members, actually, they have a lot of wishes. For example, they would like to change their destiny and increase their income and generate more social value for themselves and also share the responsibility together with their spouse. So for such group of customers, we hope that we could provide them the professional service and also provide them the platform. So as they could be a professional or expert in their differentiated area. And for example, if for a member or sales manager, they could have a better knowledge in the cosmetic or beauty product then 90% of the people around this person, it is going to -- she is going to be a professional. And so the same is for the professionals in the health care products. So we are going to -- we could, in this way, help them to increase their income and give them the internet-based employment.

And also, in the past several years, and we thought we have provided too large number of SPU or products for those group of sales managers. And then we find out they are -- they were busy promoting the products, but they still could not get much income. So in the last 2 or 3 years, we have find out only by providing the professional knowledge for this group from the sales managers, can they become the professionals in their differentiating area. And so we are going to provide them more mega-hit product and also provide the professional training so they could become the professional service manager in their differentiated aided area. So they are going to have more interaction with their fans and the users and increase their sales and income.

Thank you for your question.

---

**Operator**

(Operator Instructions) Thank you. As there are no further questions, I would like to hand the call back to our presenters for any closing remarks. Thank you.

---

**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 look forward to talking to you next quarter. Thanks. Bye.

---

**Operator**

Thank you. Ladies and gentlemen, that does conclude your conference for today. Thank you for participating, and you may all disconnect now. Thank you.

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

---

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Briefs are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT BRIEFS REFLECTS REFINITIV'S SUBJECTIVE CONDENSED PARAPHRASE OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT BRIEF. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2021 Refinitiv. All Rights Reserved.