

[RERE] – ATRenew Inc.
Q1 2024 Earnings Conference Call Transcript (Corrected)
Monday, May 20, 2024, 08:00 AM Eastern Time

Company Participants:

Kerry Chen, Founder, Chairman, CEO
Rex Chen, CFO
Jeremy Ji, Director of Corporate Development, Investor Relations

Other Participants:

Joyce Ju, BofA Securities
Jiajing Chen, CICC
Michael Kim, Zacks

Presentation

Operator:

Good morning and good evening, ladies, and gentlemen. Thank you for standing by and welcome to ATRenew Inc.'s first quarter 2024 earnings conference call. At this time, all participants are in a listen-only mode. We will be hosting a question-and-answer session after management's prepared remarks. Please note today's event is being recorded.

I will now turn the call over to the first speaker today, Mr. Jeremy Ji, Director of Corporate Development and Investor Relations of the Company. Please go ahead, Sir.

Jeremy Ji, IRD:

Thank you. Hello, everyone, and welcome to ATRenew's first quarter 2024 earnings conference call. Speaking first today is Kerry Chen, our Founder, Chairman, and CEO, and he'll be followed by Rex Chen, our CFO. After that, we'll open the call to questions from analysts.

The first quarter 2024 financial results were released earlier today. The earnings release and investor slides accompanying this call are available at our IR website: ir.atrenew.com. There will also be a transcript following this call for your convenience.

For today's agenda, Kerry will share his thoughts of our quarterly performance and business strategy, followed by Rex, who will address the financial highlights. Both Kerry and Rex will join the Q&A session.

Let me cover the Safe Harbor statements. Some of the information you will hear during our discussion today will consist of forward-looking statements, and I refer you to our Safe Harbor statements in the earnings press release. Any forward-looking statements that management makes on this call are based on assumptions as of today, and that ATRenew does not take any obligations to upgrade our assumptions on these statements.

Also, this call includes discussions of certain non-GAAP financial measures. Please refer to our earnings press release which contains a reconciliation of non-GAAP measures to GAAP measures. Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in RMB and all comparisons are on a year-over-year basis.

I'd now like to turn the call over to Kerry for business and strategy updates.

Kerry Chen, CEO:

(Speaking Mandarin) 各位投资者和分析师，大家好，欢迎各位参加万物新生集团 2024 年第一季度业绩电话会，我们很高兴能够与大家分享我们的最新进展，增长的核心驱动力，以及对战略方向的梳理。

(Translated) Hello everyone, and welcome to ATRenew's first quarter 2024 earnings conference call. We are very pleased to share with you our recent developments, pivotal growth drivers, and business strategies.

在收入层面，一季度总收入达成 36.5 亿元，达到收入指引区间的高端，同比增长 27.1%。其中，1P 产品收入贡献主要的增长驱动力，同比增长 28.5%至 33.1 亿元，后边会具体展开 1P 业务的增长驱动力；3P 平台收入为 3.4 亿元，实现 15.1%同比增长，平台收入连续两个季度恢复双位数增长，既有拍机堂和拍拍两个交易平台的业务增长，也有多品类回收的贡献，增加了公司层面的毛利和运营利润贡献。在利润方面，一季度的 non-GAAP 经营利润为 8,022 万元，对应的利润率同比提升近 70 个基点至 2.2%，同样实现了扎实的增长。

Let's begin with some first quarter financial highlights.

On the topline, our total revenues increased by 27.1% to 3.65 billion - the high end of our guidance. Net product revenues from 1P business continued to be the primary growth driver, increasing by 28.5% year over year to 3.31 billion. Later on, I will elaborate on the growth drivers of our 1P business. Net service revenues were 341 million, marking year-over-year growth of 15.1% and continuing its double-digit growth. This was attributable to the growth of PJT and Paipai Marketplace service revenues and multi-category recycling service revenues which contributes to the company's gross and operating profits. In terms of profit, non-GAAP operating income for the first quarter was 80.2 million, and our non-GAAP operating margin increased by 70 basis points year-over-year to 2.2%, representing meaningful improvements.

在战略上，万物新生坚持“场景+供应链”的二手行业核心发展逻辑。在回收场景端，坚持通过京东、苹果官方以旧换新、爱回收门店的最佳转化场景，低成本、高效率地锁定一手优质货源。我们通过场景获客，建立起品质和服务心智。在供应链端，我们持续通过自动化质检提升运营效率；通过标准化的合规翻新的开展，提升非标二手商品的标准程度，增加适合 toC 零售的货源供给。

Strategically, we remain committed to our core development principles, which focus on developing recycling scenarios and supply chain capabilities. On sourcing used products, we continue to leverage effective user conversion scenarios to secure first-hand high-quality supplies through JD.com, Apple's official trade-in program, and our offline AHS Recycle Stores. We acquire customers and build our brand through these scenarios. On the supply chain, we enhance operational efficiency through our next-level automated quality inspection systems. With compliant refurbishment, we also improve product standardization and customer access to more ample choices of like-new electronic products.

回收场景是爱回收 1P 业务的壁垒，就三个主要来源看：第一，京东零售场景的以旧换新渗透率进一步提升，二手业务在京东受到的关注度持续提升。在国务院印发大规模消费品以旧换新行动方案的通知以来，我们看到一些城市推出了地方层面的行动方案，品牌厂商也积极发起补贴计划、推广以旧换新。京东发起了一项落实手机 3C 数码产品以旧换新的专项扶持计划，整合 30 亿元人民币加码以旧换新补贴，目标未来三年通过以旧换新撬动新品销售超 1000 亿。在该项目的落实过

程中，京东联合手机 3C 独家回收合作伙伴爱回收，共同加强端到端的供应链能力建设，持续优化以旧换新的服务流程与用户体验。一季度，京东来源的以旧换新回收额同比增长 43%。在京东的大力支持下，我们将共同加强战略联动。

Occupying these precise recycling scenarios fortifies the competitive edge of our 1P business. Firstly, JD.com continues to bring strong momentum to the growth of our product revenues. As JD pays greater attention to the second-hand goods business, our recycling and trade-in business penetrated further to JD's new product sales business. In addition, in March 2024, China's State Council released an action plan to promote large-scale trade-ins of consumer goods, and municipal action plans followed. Brand manufacturers are also enthusiastically participating by offering trade-in promotions. JD has announced the launch of a dedicated plan, promoting trade-in for consumer electronic products, which includes a RMB3 billion subsidy. The goal is to drive new product sales exceeding RMB100 billion in the next three years. To implement this initiative, JD has partnered with AHS Recycle, its exclusive used consumer electronics supply chain partner, to enhance end-to-end solutions and continuously optimize the service process and user experience related to trade-in. In the first quarter of 2024, the gross recycling transaction value of trade-in products sourced from JD.com increased by 43% year-on-year. Together with JD.com, we will continue to strengthen strategic cooperation.

第二，在苹果官方回收场景中，我们为苹果中国区官网及线下 47 家 APPLE STORE 零售店的用户提供有竞争力的报价，并通过苹果店员为用户提供简洁优雅的回收体验。用户参与换购、升级设备、还能省一笔，一举三得。由于苹果官方渠道特殊的报价机制和一些市场因素，去年四季度的运营对毛利率产生了一些负面影响。但从今年开始，我们优化了回收报价策略。我们相信，苹果在主流市场和用户心中的位置无可替代；我们将持续优化服务，通过成本可控的优质货源获取路径，以及对热门型号更高效的销售能力，获取稳健的经营利润。

For trade-ins originating from Apple's official program, we serve Apple's customers with competitive offers through Apple's official website and 47 Apple Stores in mainland China. At these flagship retail stores, Apple staff provide hassle-free trade-in services. Customers pay a smaller amount of money when buying a new device if they choose to trade in. It's a joyful way to upgrade electronic products. Due to Apple's unique pricing mechanism and some market factors, in the fourth quarter of 2023, it had a negative impact on our gross profit margin. However, since 2024, we have optimized our front-end bidding strategy. Our approach is rooted in Apple's predominant customer mindshare, especially in major cities in China. Looking ahead, we remain committed to optimizing our services by first obtaining high-quality products through more disciplined sourcing costs, and, second, improving sales efficiency for popular models. We believe these measures can ensure stable operating profits for the Apple business.

第三，在爱回收门店端，我们在一二线城市开设自营门店，以回收为主销售为辅，抓住一二线城市主流用户的回收变现需求；在三到五线城市开设联营加盟标准门店，以销售为主回收为辅，抓住下沉城市对于高品质二手产品的购买需求。简单来说，一二线城市回收为主，三五线城市销售为主。一季度末，我们的自营门店 711 间，联营标准店 557 间，门店业绩与 2023 年同期相比均实现有质量的增长，巩固二手手机 3C 业务大盘的一手货源获取能力。自营门店和联营标准门店始终是我们核心的服务用户、完成回收交付、确保用户体验持续提升的场景，也是主要的贡献门店端收入和运营利润的场景。对于与线下零售门店合作的店中店业态，今年我们对业务形态进行调整，转为机大侠商家模式或上门方式进行回收。店中店的调整减少了我们的门店总数，但对我们收入和利润的影响非常有限。

Third, we further leverage our offline stores. We have opened self-operated stores in first- and second-tier cities that mainly focus on recycling, and standard jointly-operated stores in a broader mass market with a focus on retailing as well as recycling. As of the end of March, we had 711 self-operated AHS

stores and 557 standard joint-operated AHS stores. Both store formats have achieved quality growth compared to the same period in 2023. These standard stores ensure primary sources of product supply, and they are crucial user touchpoints as we provide recycling and trade-in services with a premium user experience. In addition, they generate revenue and operating profit at the store level. In contrast, for the shop-in-shop format that opens in offline retail scenarios, we have made some adjustments, migrating them to PJT sellers or using doorstep collection. The adjustment of shop-in-shop format has reduced the total number of our stores, but its impact on our revenue and profit is limited.

我们的多品类回收战略，促进门店经济模型的进一步优化，让我们能开出更多的主力门店，提升门店坪效和利润。自多品类战略于 2022 年上线以来，非 3C 品类的回收额保持高速的季度环比增长，更好地满足了消费者在当前时期处置闲置消费品、实现有效的回收变现的需求。今年以来，我们看到这样的需求还在显著增长。以一季度为例，多品类回收业务，即二手箱包腕表、黄金首饰、名酒等商品的回收交易额达 6 亿元，为 2023 年同期的 4 倍以上。

Our multi-category recycling strategy uplifts our store economics, allowing us to open more stores, especially those with higher sales per square meter and better profitability. Since the introduction of the multi-category strategy in 2022, the transaction value of non-electronics categories has grown rapidly quarter-over-quarter, as such strategy meets consumers' needs, nimbly, to dispose of idle goods, convert them into cash at hand in the current economic cycle. Since the beginning of this year, we have seen a significant surge in such user demand. For instance, the transaction value of our multi-category recycling business—including second-hand bags and watches, gold, jewelry, and fine liquor—quadrupled year-over-year to RMB600 million in the first quarter of 2024.

并且，我们的多品类回收业务本身盈利，发生在门店的多品类回收以平台业务模式开展，不仅模式轻，没有库存和资金风险，还为平均每家门店带来 7000 元/月的增量利润。作为一项亮眼的增量业务，多品类回收生长在用户对爱回收品牌的信任、强有力的门店前端履约能力、以及二手标准能力的基础上，是爱回收过去十年能力积累的体现。

再看品类交叉复购的数据，以奢侈品为例，奢侈品回收的成交用户中，18%的用户在 30 天内会完成其他品类的回收，我们相信拉长时间看转化率还会更高。从用户满意度方面，我们的黄金回收业务因为价格透明、渠道正规、有信任度，用户 NPS 净推荐值在所有品类中位列第一。

我们期待多品类回收业务在已有的门店网络中进一步开展，并助力我们新门店的进一步开设。我们相信多品类回收业务在 2024 年的交易规模将继续实现快速增长。

At the same time, the multi-category recycling business itself is profitable. Conducted under a platform business model, it not only has a light structure without the risk of inventory and price decline, but also brings an additional profit of RMB7,000 per month to each store. As a remarkable incremental business, multi-category recycling grows on the foundation of users' trust in the Aihuishou brand and strong performance of existing stores, and our capability of establishing industry standards in the pre-owned sector. It is a reflection of the accumulated capabilities of Aihuishou over the past decade.

Looking at cross-category orders, 18% of users who completed an order to recycle luxury products came back for other product recycling services within 30 days. We believe that the conversion rate can be further enhanced if we extend the timeframe. In terms of user satisfaction, our gold recycling business ranks first in all categories with a top net promoter score (NPS) due to transparent pricing, legitimate channels, and trusted brand.

We look forward to expanding the multi-category recycling within our existing store network and further promoting the opening of new stores. We are confident that the GMV of our multi-category recycling business will continue to achieve scalable growth this year.

再看我们的供应链能力，主要体现在：1P 通过合规翻新提升产品标准化程度，整体业务通过运营中心的质检自动化提升履约效率。今年一季度的产品收入中，合规翻新收入达 2.8 亿，占 1P 业务的比例进一步提升。我们在合规翻新的运营流程中进一步优化，基于丰富的一手货源，在比货选货过程中识别了满足消费者需求、等级成色具备提升潜力的机器。叠加我们在自有门店与官网开展的零售能力，整体 1P 销售收入中的 toC 业务占比提升至 24.5%。

Now, let's take a look at our supply chain capability from two aspects. Firstly, 1P business improves product standardization through compliant refurbishment. Secondly, the overall business enhances fulfillment efficiency through quality inspection automation in the operation centers. During the first quarter, our robust supply chain capabilities yielded solid results. Notably, the revenue from refurbished device sales was RMB282 million, further increasing its share in our 1P business. We have made additional improvements to our operational processes, expanded access to a wider range of product sources, and identified devices that are both popular among users and have the potential for improved quality. Adding to our retail offerings through AHS stores and AHS websites, the total retail sales revenue as a percentage of 1P product revenues jumped to 24.5%.

在运营效率层面，一季度的 non-gaap 履约费用率为 8.3%，较 2023 年同期费用率下降了 0.8 个百分点，主要得益于运行一年以来，华南自动化运营中心效率的持续打磨提升。Non-gaap 销售费用率为 6.1%，同比下降 1.4 个百分点，主要得益于苹果官方回收业务没有营销费用，规模占比的提升，降低了自营业务的平均推广费用率；在平台业务层面，数字化客户管理工具加强应用，平台业务的客户关系维护和推广费用得到了有效的节约。

In terms of operational efficiency, our non-GAAP fulfillment expense as a percentage of revenue for the first quarter was 8.3%, a decrease of 0.8 percentage points from the same period of 2023. This was mainly due to cost-efficiency improvements at our Southern China Dongguan automated operation center over the past year. Our non-GAAP selling and marketing expense as a percentage of revenue was 6.1%, a year-over-year decrease of 1.4 percentage points. The reduction in promotional expenses is mainly due to the growth of our trade-in business with Apple, which operates independently of our marketing efforts. For our platform business, we are gradually increasing the utilization of digital customer management tools. This approach helps us to reduce expenses associated with customer relationship management and promotional expenses on the platform.

展望长期，我们将坚定地耕耘好二手手机基本盘，通过多品类回收战略提升用户的体验和认知；探索更高频、更刚需的服务场景，解决用户更多回收服务的痛点，建立用户心中的“回收第一品牌”，长期打造消费者端循环经济的一站式解决方案。

In the long term, we are committed to reinforcing the foundation of pre-owned smartphones and consumer electronics business. Through a multi-category recycling strategy, we aim to improve user experience and increase brand awareness for Aihuishou. We will focus on addressing users' pain points in recycling services by exploring more high-frequency and essential recycling scenarios, aiming to establish ourselves as the top-of-mind brand in consumers' minds. Ultimately, our goal is to create a one-stop circular consumption solution for consumers.

首先，持续加强回收端的场景覆盖和渗透率提升，提升用户对于回收和以旧换新的认知。中国每年有 4 亿台的手机、平板、笔记本及其他产品的出货量，因为回收渗透率低，仍有使用价值的旧机闲置量还在增长。在场景渗透中，我们将以旧换新业务能力更好地嵌入电商和品牌的新机销售场景，共同服务用户的回收换新需求，以实现长期的业务规模增长。

First, we will cover more recycling scenarios, improve the penetration rate, and raise user awareness of recycling and trade-ins. Due to low recycling rate, the 400 million units of new smartphones, tablets,

laptops, and other consumer electronics that are shipped in China annually indicate a growing supply of idle devices with use value. As part of our ongoing efforts, we integrate our trade-in services into new product sales scenarios on e-commerce and brands' official platforms. By doing so, we cater to users' demand for product renewal and realize sustained growth in the long term.

第二，在当前消费环境下，抓住用户在线上线下二手购买需求增长的业务发展机会。我们一季度 1P 业务的 toC 零售收入，通过拍拍严选京东渠道、直播新媒体渠道、爱回收门店和爱回收官网取得了超过 80% 的同比增长。商家端对于高品质二手商品的需求同样旺盛，对此，我们基于拍机堂的商家服务能力，探索更多的线下机会点。比如，通过新机零售商家分散下沉的零售触点铺开我们的零售货源，进一步提升我们自营货源的 toC 销售占比。

Second, seize the opportunity in the current consumer environment with an increasing demand for used products, online and offline. In the first quarter, we achieved over 80% year-over-year 1P-toC sales growth through Paipai on JD.com, live streaming platforms, AHS stores, and official websites. Meanwhile, as business owners' need for ready-for-retail products increases, we explore more opportunities based on the existing B2B service capabilities. For instance, the dispersed retail touchpoints of new phone retailers can help us expand our sales channels and increase the proportion of toC sales from our self-operated supply.

第三，在端到端供应链能力基础上，进一步发挥合规翻新业务的价值产出，提升货品的等级。以内部能力建设，锁定更多适合合规翻新整备的机器，进行更多品牌、商品、型号的功能和外观的标准化提升。在销售层面，既支持 toC 销售，也丰富拍机堂的 toB 销售优质货源供给，综合提升合规翻新业务对主营业务毛利率的贡献。长期以场景+供应量获得更多市场份额。

Third, leverage compliant refurbishment capabilities to enhance the grade of 1P recycled products. We anticipate organic growth in the proportion of compliant refurbishment income within our product revenues. By building more in-house capabilities, we expand the coverage of product categories, brands, models, and functions, etcetera. On the sales side, we open the supply of those products to support both B2C sales and enrich the high-quality supply to business owners on PJT Marketplace. Overall, this shall contribute to improving the gross profit margin of our 1P business. In the long term, we aim to gain more market share through a combination of scenarios and supply chain capabilities.

以上，将是我们的长期可持续发展的有效路径。

In conclusion, we are confident in our strategic paths for effective and long-term sustainable development.

下面请公司 CFO Rex 介绍一下财务情况。

Now I'd like to turn the call over to our CFO Rex for financial updates.

Rex Chen, CFO:

Hello, everyone, we are pleased to report another profitable quarter under non-GAAP measures, on revenues that once again reached the top end of our guidance.

Now let's take a detailed look at the financials. Please note that all amounts are in RMB and all comparisons are on a year-over-year basis unless otherwise stated.

In the first quarter, total revenues increased by 27.1% to 3,651.1 million, primarily driven by the strong growth in net product revenues. Net product revenues increased by 28.5% to 3,309.8 million, while net service revenues were 341.3 million, representing an increase of 15.1%.

Growth in net product revenues was primarily driven by an increase in the recycling channel expansion and sales of pre-owned consumer electronics through both online and offline channels. Of which, sales of 1P refurbished devices totaled 282.4 million, representing a year-on-year increase of 94.8%.

The increase in service revenues was primarily due to an increase in service revenues generated from PJT Marketplace and our multi-category recycling business. The overall transaction value of marketplaces increased consistently with service revenues, and the take rate of our marketplaces was 5.41% in the first quarter of 2024.

Now, let's discuss our operating expenses. To provide greater clarity on the trends in our actual operating-based expenses, we will also discuss our non-GAAP operating expenses, which better reflect how management views our results of operations. The reconciliations of GAAP and non-GAAP results are available in our earnings release and the corresponding Form 6-K furnished with the SEC.

Merchandise costs increased by 30.9% to 2,947.8 million, in line with the growth in product sales. Gross margin at the group level was 19.3% in the first quarter. Gross margin for our 1P business was 10.9%.

Fulfillment expenses increased by 16.3% to 309.8 million. Excluding share-based compensation expenses, which we will refer to as "SBC" from here on, non-GAAP fulfillment expenses increased by 16.3% to 303.4 million. Under the non-GAAP measures, the increase was primarily due to an increase in personnel expenses as we conducted more recycling and transaction activities compared with the same period of last year. Non-GAAP fulfillment expenses as a percentage of total revenues decreased to 8.3% from 9.1%.

Selling and marketing expenses increased by 7.5% to 321.3 million. Excluding SBC expenses, and amortization of intangible assets and deferred cost resulting from assets and business acquisitions, non-GAAP selling and marketing expenses increased by 3.6% to 224.5 million, primarily due to an increase in expenses related to marketing activities. Non-GAAP selling and marketing expenses as a percentage of total revenues decreased to 6.1% from 7.5%.

General and administrative expenses decreased by 3.4% to [73.8 million]. Excluding SBC expenses, non-GAAP G&A expenses increased by 1.2% to 58.1 million, primarily due to increases in office-related expenses. Non-GAAP G&A expenses as a percentage of total revenues decreased to 1.6% from 2.0%.

Technology and content expenses increased by 5.9% to 50.2 million. Excluding SBC expenses, and amortization of intangible assets and deferred cost resulting from assets and business acquisitions, non-GAAP technology and content expenses increased by 7.6% to 45.5 million. The increase was primarily due to an increase in personnel expenses in connection with the ongoing upgrade of the Company's operation center and systems. Non-GAAP technology and content expenses as a percentage of total revenues decreased to 1.2% from 1.5%.

As a result, our non-GAAP operating income was 80.2 million in the first quarter of 2024, representing a significant increase of 80.6% year-on-year. Non-GAAP operating profit margin was 2.2%, compared to 1.5% in the first quarter of 2023.

As of March 31, 2024, cash and cash equivalents, restricted cash, short-term investments, and funds receivable from third-party payment service providers totaled 2.6 billion. Our strong cash position safeguards a sustainable growth outlook.

Now turning to the business outlook. For the second quarter of 2024, we anticipate total revenues to be between RMB3,670 million and RMB3,770 million, representing an increase of 23.8% to 27.2% year-over-year. Please note that this forecast only reflects our current and preliminary views on the market and operational conditions, which are subject to change.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Joyce Ju from Bank of America.

Joyce Ju: (Speaking Mandarin) 管理层晚上好，也恭喜公司这个季度报了一个非常不错的业绩，然后也非常感谢管理层接受我的提问。我的第一个问题是，我们最近也看到了国家和地方政府印发了推动大规模消费品以旧换新的各种行动方案，我们也了解到这方面的政策推动可能为公司后续会带来一些成长的推动，可不可以请管理层针对这些有力的政策对我们的未来收入的增长，包括对我们整个销售额增长的贡献，以及增长路径进行分析和解读？特别是能不能量化一下具体影响规模可能有多大？第二个问题是，[公司]今年也给出了 24 年的收入指引，想了解一下在 24 年的收入指引当中，爱回收自己的渠道 - 京东和苹果，分别预计是怎样的增长贡献，这当中的假定条件是什么，然后平台服务收入方面在 24 年应该怎样去预测，会有怎样的增速状况？

I'll translate for myself. My first question is, we have seen this year the national and local governments have issued action plans to promote large-scale replacement and trade-in of consumer products, which could potentially benefit growth of the Aihuishou. Could management help us understand the potential impact on sales and revenue, especially some quantitative colors?

Secondly, we note there are multiple growth drivers contributing to the company's 2024 revenue guidance. Can management walk us through the key drivers of the guidance? What's the growth assumption behind each of the drivers, such as Aihuishou's home channel, JD.com, and Apple, respectively? Also, what will be the growth outlook for the service revenue in 2024?

Kerry Chen: (Speaking Mandarin) 我们认为，2024 年主要增长动力，来自于收入贡献占比达到 90% 的 1P 自营业务。

其中，在主营回收业务层面，我们预期 2024 年全年仍有显著超出消费大盘的同比增速。主要三点，首先，主要来自于我们受到用户信赖的爱回收门店，在核心商圈商场的线下触达。2024 年我们会继续自营门店的开设，提升自营门店的服务和产出。

第二，在京东主站精准的新品零售场景，结合京东和品牌对以旧换新的专项补贴投入，进一步鼓励消费者参与回收，提升我们目前个位数的京东渠道以旧换新服务渗透率。

第三，通过与一系列领先的消费品品牌的协同，合作以旧换新，为用户增加权益，提升爱回收小程序的活跃度和到店转化率，转化更多用户到二手手机 3C 回收和多品类业务上。通过以上的场景，源源不断地为我们带来优质的回收和以旧换新货源。

在苹果官网和旗舰店的回收场景的中，我们今年平衡回收报价与型号获取，预计全年实现约 10 亿元人民币的收入增量。

在平台业务方面，我们进一步提升拍机堂“行业货源中心”的能力，开放平台能力，提升零售端解决方案的能力，为拍机堂所服务的 60 余万行业商家、通讯连锁、以及夫妻老婆店打通自营二手优品的零售销路。通过为行业、为商家创造更多价值的方式，实现服务收入的健康增长。

(Translated) We believe that our primary growth driver in 2024 will continue to be our self-operated business, which contributes approximately 90% of our total revenues. Domestically, we expect the annual growth rate of our core self-operated business to significantly outpace the broader consumer market in 2024. This is for a few reasons.

First and foremost, our growth is fueled by our consumer-trusted AHS stores, which are strategically located in malls within prime commercial areas. We continue our growth with dozens of new self-operated store openings in 2024 while improving the services and output of our stores.

Second, we are boosting our recycling penetration rate, which is currently in the low single-digits, through precise recycling scenarios integrated into new product sales on JD.com, supported by trade-in subsidies from the platform and brands.

Third, by collaborating with a series of premium high-frequency consumer brands, we bring more benefits to our users. We are upgrading the AHS mini-program which offers richer and more day-to-day scenarios for users to visit our stores and try our second-hand consumer electronics and multi-category recycling services. These scenarios consistently provide us with high-quality product sources.

In our collaboration with Apple's official trade-in program, we balance the pricing mechanism and target models at the recycling end. In the full year 2024, we anticipate the product revenue coming from Apple trade-in program to increase by approximately RMB1 billion.

For our open platform business, we have enhanced the full-service offerings for over 600,000 merchants, including professional business owners, electronic product franchisees, and mom-and-pop store owners on PJT Marketplace. These enhancements include empowering our users with retail business solutions and ample sources of retail supply, which consolidates our 1P high-quality secondhand products. By generating additional value for both merchants and the industry, we are driving healthy growth in service revenues.

谢谢。

Thank you for your question.

Operator: (Operator Instructions). Jiajing Chen with CICC.

Jiajing Chen: (Speaking Mandarin) 感谢管理层接受我的提问，我这里有三个问题。第一个问题是能不能请公司分享一下长期的利润目标，以及具体怎样去实现？第二个问题是看到公司这两个季度整体和 1P 的毛利率都是有一些承压的，请问我们之后要如何去未来毛利率的趋势？管理层对目前的综合现金储备情况会有一些评价吗？ I have three questions. The first question is what is the company's long-term profit goals, and what's the path to achieve that? The second question is we saw some pressure on the overall gross profit margin and 1P gross profit margin. How do you see the trend of the gross profit margin in the future? The third question is what is your comment on the cash position?

Rex Chen: Thank you for the questions. To answer the first question, about gross profit and operating profit. First of all, we prioritized the evaluation of the non-GAAP operating profit margin, which has been improving over the past quarters. We are currently in the educational stage of consumers' recycling

mentality. We serve users at better prices on the recycling side. The related costs of markup coupons at the recycling end are included in our merchandise costs, which affects the gross profit of our product revenues. But we will comprehensively balance our sales and marketing expenses in order to improve our operating profits. The promotion of 1P recycling affects our costs instead of expenses and it's common characteristics of the second-hand recycling industry.

(Chinese translation for clarity.) 回答第一个问题，关于毛利和运营利润。首先，从公司经营角度，我们更注重公司层面 non-GAAP 经营利润率这一指标的提升，整体反映了我们持续经营业务的盈利能力。我们当前处于消费者回收心智的教育阶段，在回收端以更好的价格服务用户，相关的加价券营销直接计入商品成本的提升，影响到产品毛利；但我们会综合平衡销售费用的支出，以取得运营盈利。1P 回收推广进成本项而不是费用项，是二手回收行业的特点决定的。

Looking specifically at the first quarter, the group's overall gross profit margin was 19.3%, an increase of 0.6% from the fourth quarter. 1P gross profit margin was 10.9%, an increase of 0.3% from the fourth quarter. Excluding the negative impact of sales of overseas inventory, the gross profit margin of our core recycling business has increased steadily, with a quarter-over-quarter increase of 1.6%.

In the medium to long term, the path to improving our non-GAAP operating profit margin mainly comes from three aspects. First, compliant refurbishment. We improve product standardization through our supply chain to gain more profits. The gross profit margin of compliant refurbished products has remained stable above 20% for several consecutive quarters.

Second, increase the proportion of retail sales revenue as we have established end-to-end coverage. For online channels, JD.com supports reasonable product standards adjustment on Paipai and we list more products with a broader price range to meet buyers' demand. For offline channels, retail sales through our stores rapidly increased by 21% compared with the previous quarter, as more consumers from medium to lower-tier cities are happy to visit our stores, not only for recycling but also for buying used products.

Third, the scale effect further advanced the efficiency of our operating expenses through the amplification of transaction volume, and comprehensively brings an increase in non-GAAP operating profit margins.

In the first quarter of 2024, there was an Other Loss below [Income from Operations]. Looking at the full year 2024, we expect a limited impact on our net income. Regarding this particular Other Loss, in Q4 2023, we subscribed to shares of an ecosystem enterprise's Hong Kong IPO. Impacted by market conditions, its stock price experienced downward pressure in Q1, resulting in a [temporary] loss in our Other Losses.

具体看一季度，集团整体毛利率 19.3%，环比四季度提升 0.6%；1P 毛利率为 10.9%，环比四季度提升 0.3%。排除海外清库的负面影响，我们的主营回收业务大盘的毛利率稳中有升，环比提升 +1.6%。中长期看，我们 non-GAAP 运营利润率的提升路径主要来自于：1) 合规翻新，通过供应链提升产品标准化，增加利润。合规翻新产品的销售毛利率连续多个季度稳定在 20%以上；2) 端到端进一步覆盖，从更多 C 端回收，到更多 C 端销售。在线上，京东支持拍拍标准合理下探，上架更多低价的优质商品，满足更广泛的用户购买要求；在线下，我们门店渠道的销售业绩快速提升，中低线城市的消费者除了习惯到爱回收手机，也越来越到爱回收门店选购严选二手产品。一季度，门店渠道的 toC 销售业绩环比增长 21%；3) 规模效应带来的费用分摊，通过交易规模的放大，进一步优化运营费用的效率表现，综合带来 non-GAAP 经营利润率的提升。

一季度我们在运营利润以下出现 Other loss，全年来看，对我们净利润的影响有限。

关于我们的 Other Loss，我们在 Q4 认购了一家与战略协同的生态链企业的港股上市发行时的股票，Q1 这家企业的股价受市场环境的影响有波动，是暂时的亏损。

To answer your second question, in terms of net cash, at the end of March, we prepared RMB295 million of inventory in advance to meet users' purchasing needs during the second quarter. We sold the majority of them and received payment in the second quarter. As a result, it appears to be a time difference. In addition, regarding Apple's trade-in business, we have 45 payable days as mentioned last quarter. And thanks to our efficient second-hand consumer electronics turnover capabilities, this business has a limited impact on our cash flow. If we extend the time horizon, our operating cash flow will be consistent with the steady growth of our non-GAAP operating profit.

回答第二个问题：在净现金层面，我们在 3 月末的时候，为迎接用户在 Q2 期间的购买需求，提前准备了 2.95 亿元的商品，这部分存货在 Q2 已大部分完成销售回款，在 Q1 季度末是一个时间差异。苹果官方以旧换新业务，我们有 45 天应付账期，得益于我们高效的二手 3C 周转能力，该部分业务对现金流基本没有太多负面影响。

拉长时间来看，我们的目标是努力使经营活动现金流和 non-GAAP 经营利润的趋势一致，实现持续、稳健的优化。

Thank you for the question.

谢谢。

Operator: (Operator Instructions). Michael Kim from Zacks.

Michael Kim: First, just in terms of capital management, I'd be curious if you could provide some perspective on capex needs going forward, specifically as it relates to plans to continue to upgrade your operations centers and open new offices. And then second, just kind of stepping back, what's the plan to increase shareholder returns, particularly as it relates to share repurchases?

Rex Chen: We invest in our operation capabilities instead of investing heavily into assets. Our business is in a light asset model. Regarding our capex, we expect RMB100,000 per new store opening. For stores with multi-category recycling offerings, the capex per store will be relatively higher. For joint-operated stores, the capex are handled by our local partners.

On the processing end, as part of our long-term development strategy, we continue to enhance the automated inspection and grading capabilities of our regional operation centers. The existing operation centers in Dongguan and Changzhou have incurred approximately RMB30 million each in capex for automation upgrades. Currently, these two operation centers support 40% of the quality inspection demand for second-hand consumer electronics nationwide. During daily operations, they maintain flexibility in capacity utilization without operating at full capacity.

Regarding corporate finance activities, in March, we announced a twelve-month buyback plan to purchase up to US\$20 million of our ADSs, following consultations with our board of directors. In the long run, we will also consider distributing dividends at the end of this year depending on our profitability. We will closely monitor efficient capital deployment into our operations and remain committed to developing our scenarios plus supply chain capabilities.

We remain open to innovative investments that support our core business development, and adhere to profit-driven strategies that deliver sustainable value to our shareholders and users.

(Chinese translation for clarity.) 我们的业务，是一个重运营投入，但不是重资产的业务，整体上看我们业务是资产比较轻的。对于每年的新增资本投入，在前端业务层面，根据每年新增的自营门店数，单店对应约 10 万的投入；多品类门店的单店投入要更高一些；而对于联营标准店，门店资产由合作方承担投入。

在处置端，我们长期发展路径上，持续提升运营中心的质检和定级的自动化能力。目前已有的东莞和常州两个运营中心，在实现自动化升级的过程中，每个运营中心有约 3,000 万元人民币的投入。现阶段，两个运营中心支持全国二手 3C 货量 40%以上的质检需求，日常运营期间没有满负荷运作，在产能使用率上保持柔性。

在资本市场层面，我们于 3 月宣布了额度为 2000 万美元为期 12 个月的回购计划，在董事会的指导下制定并调整执行方案。长期来看，基于全年利润达成情况，我们于年底将考虑讨论分红。我们高度关注经营层面资金有效率地使用，坚定投入到二手循环经济“场景+供应链”的基础能力建设。对有助于主营业务发展的创新，比如更多的回收品类、更好的用户服务——保持积极探索，并基于更规模的运营利润释放，为股东和用户创造长期价值。

Operator: [Due to time limit of today's conference call], I'd like to hand the conference back to our management team for closing remarks.

Jeremy Ji: Thank you all again for joining us today. A replay of today's call will be available on our IR website shortly, followed by a transcript. If you have any additional questions, please feel free to email us at ir@atrenow.com. Have a nice day.

Operator: This conference is now concluded. Thank you for attending today's presentation. You may now disconnect.