

**[RERE] – ATRenew Inc.**  
**Q2 2022 Earnings Conference Call Transcript (Corrected)**  
**Wednesday, August 24, 2022, 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:**

Bonnie Liu, China Renaissance  
Ronald Keung, Goldman Sachs  
Joyce Ju, BofA Securities

**Presentation**

**Operator:**

Good morning and good evening, ladies and gentlemen. Thank you for standing by and welcome to ATRenew Inc. Second Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. We will be hosting a question-and-answer session after managements' 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 second quarter 2022 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.

Our second quarter 2022 financial results were released earlier today. The earnings release and investor slides accompanying this call are available at our IR website at [ir.atrenew.com](http://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 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 2022 年第二季度业绩电话会。

(Translated) Hello, everyone, and thank you for joining us on our second quarter 2022 earnings conference call.

今年二季度是自从 2020 年初新冠肺炎出现以来，外部环境最为复杂、公司运营层面最具挑战的一个季度。首先，从前端城市的业务开展看，我们的 1P 回收业务的核心城市在 Q2 受到了严重影响：上海、北京等多个大型城市，尤其是上海，出现持续 2 个月的社会面管控、我们在很多地区的门店被迫关闭或执行严格的防疫措施，我们与用户的面对面回收难以开展；上门和邮寄回收也遇到了交通受阻、快递业务停运的困难；平台交易业务，我们的拍机堂和拍拍，由于第三方商家自身业务受防疫政策的影响、叠加手机 3C 品类的消费（信心）走弱的问题，平台业务的增长也迎来了逆风。

During the second quarter, we faced unprecedented challenges to our operations in the most complex external environment since the pandemic first occurred at the beginning of 2020. First of all, let's take a look at our business segments at the city level. The core 1P recycling business locations, including Shanghai and Beijing, were adversely impacted by the pandemic - especially in Shanghai as the city undertook covid control measures for two consecutive months. Our physical stores had to suspend the operation or implement strict covid prevention measures which put consumers off. The control measures also resulted in interruptions in door-to-door recycling and logistics. Our merchant users also had operational difficulties brought by the pandemic and the relatively weak consumer confidence in electronic products.

上海总部在 3 月 15 日至 6 月 1 日的 2 个半月的时间内，都在居家办公，期间我们积极履行社会责任，保障员工的生活物资供给，也帮助员工在困难时期保持弹性工作和积极的生活态度。随着上海在 6 月初复工复产、618 大促的启动，全国业务尤其是上海的 1P 回收业务在尽快地恢复。二季度我们面临诸多不利因素，但整体上展示了循环经济的韧性。

Our employees at the Shanghai headquarter started to work from home from March 15th to June 1st. During this period, we proactively fulfilled our social responsibilities by ensuring our employees were supplied with daily necessities and were able to work flexibly. We also took care of the mental health of our employees. As people's daily life in Shanghai returned to normal in June and the June 18th grand promotion kicked off, our 1P business got on a fast track of recovery. By successfully overcoming the multiple adversities we faced during the second quarter, we have demonstrated the overall resilience of the circular economy.

收入方面，二季度总收入超出我们在一季度电话会上给出的指引高端，达到 21.5 亿元，同比增长 14.9%。收入环比下降的主要原因还是因为受到疫情防控措施影响。

As a result, our total net revenues increased by 14.9% year-on-year to 2.15 billion in the second quarter of 2022, exceeding the high end of our revenue guidance. The quarter-over-quarter decline in revenue was mainly attributable to the impact of the pandemic.

具体看，1P 回收业务，4 月和 5 月，在上海、北京的防疫政策之下，全国三分之一的爱回收自营门店（运营）处于非正常的状态，二季度的 1P 增速也因此到达一个低点。从回收端看，从上海 6 月 1 号解封以来，我们的 1P 回收业务快速恢复到去年的水平。以解封后的 10 天为例，即 6 月 1-

10日，上海C2B的回收业务的GMV同比增长11%。从销售端看，由于我们持续提升自营二手优品在拍拍的零售，二季度虽受疫情影响，但自营二手优品业务GMV实现32%的同比增长。Now, let's take a more detailed look at our 1P recycling business. In April and May, the covid control measures in Shanghai and Beijing resulted in a temporary suspension of one-third of our self-operated AHS stores, dragging the growth of our 1P business to a low point. However, on recycling, our 1P business rapidly recovered to the same level as last year at the beginning of June. During the first ten days in June, GMV for pre-owned devices recycled by AHS Recycle in Shanghai increased by 11% compared to the same period of 2021. On distribution, we continued to lean in to the retailing of our self-sourced premium products on Paipai Marketplace where the GMV for the 1PtoC segment increased by 32% year-over-year despite a challenging environment in the second quarter.

平台业务方面，二季度，疫情防控为平台业务的开展带来了很多的堵塞点：包括平台上商家自己的回收业务开展、商家发货到运营中心，运营中心收发货和质检、以及物流运输方面，都面临了严峻的挑战。在二季度，我们保持了商家满意度、有针对性地支持商家开展业务，优化拍机堂买卖家的物流费收取，适时调整了拍拍规则并进行库存的优化，同时实现了平台综合收费率的小幅提升，达到4.54%，同比增长9个基点，环比提升39个基点。二季度末，拍机堂注册商家数量突破33万，同比增长41%，伴随着综合收费能力的提升，我们相信在二手商家端的业务开展，短期虽然受到疫情的不利影响，长期仍有交易规模持续提升和货币化增长的潜力。

In terms of our platform business, multiple aspects of the business including recycling activities of our merchant users, shipment to our operation facilities, pick-up and ship-out activities of goods at our operation centers, safety inspection, and logistics faced challenges brought about by the covid resurgence. In the second quarter, we managed to achieve an increase in the overall take rate through a continued effort in keeping our merchant users happy and providing differentiated transaction support. We adjusted the rules for charging logistics fees from PJT Marketplace users, and optimized our platform regulations and inventory management for Paipai Marketplace. As a result, the overall take rate of our marketplaces grew slightly to 4.54% in the second quarter, representing an increase of 9 basis points year-over-year and 39 basis points sequentially.

By the end of the second quarter, the number of registered merchants exceeded 330,000, representing a year-over-year growth rate of 41%. We believe our merchant users will eventually navigate the short-term challenges brought by the covid and that they have the long-term potential for scale expansion, which will, in turn, enable us to grow our monetization capabilities.

费用方面，集团在二季度快速应对挑战，控制了各项经营费用的支出。

一方面，对于一些核心能力建设，比如我们自营的多品类回收、后端的质检定级自动化，我们还持续坚定投入。另一方面，我们持续降低总运营成本、提升经营效率。

由于疫情的严重影响，我们二季度出现了小幅的财务亏损。但是，相较去年同期都有所改善。non-GAAP下的经营利润率从去年负的2.7%缩窄到今年负的2.0%；non-GAAP下净利润率从去年同期负的3.2%缩窄到今年负的0.6%。

同时，我们还加强了资金管理，二季度末，我们的综合现金储备达到25.9亿元人民币，在使用了3,150万美金的股票回购之后，现金储备较21年年底仍然增加1.7亿元人民币。其中，二季度的经营性活动现金流入为2.8亿元人民币，实现连续两个季度经营性现金流为正。盈利能力和经营现金流的改善，让我们有能力在变化的市场环境中，保持可持续发展的能力，并巩固我们的竞争优势。

Turning to our expenses, we reacted swiftly to the quarter's challenges and managed our operating expenses prudently. However, I would like to clarify that we continue our investments in core capabilities including 1P multi-category recycling and automated inspection technology.

In the second quarter, we had some losses due to the pandemic. However, our non-GAAP operating margin has narrowed to negative 2% from negative 2.7% in the same period last year, and our non-GAAP net margin has narrowed to negative 0.6% from negative 3.2% in the same period last year. We also improved our capital management. As of the end of the second quarter, our total cash reserve was 2.59 billion, an increase of 170 million compared to the end of 2021, even when we spent 31.5 million US dollars to buy back our shares in the first half of 2022. Of note, cash inflow from operating activities was approximately 280 million, representing a second consecutive quarter with positive operating cash flow. The improvement in monetization capabilities and operating cash flow will safeguard our sustainable development while solidifying our competitive advantages in an evolving market condition.

虽然二季度的外部环境存在诸多挑战，但从大的趋势上看，二手 3C 市场规模还在持续扩容，循环经济的政策预期稳定，消费者的二手回收和购买的需求还在提升。从历次的财报会，大家可以看到，万物新生的战略路径是清晰并且持续的，有很强的战略稳定性。下半年，我们将沿着既有的路径，在既定的几个关键点上持续投入：

Although the macro challenges continue, as the scale of the pre-owned consumer electronics market continues to expand against the backdrop of a stable circular economy policy outlook, consumer demand for recycling services and consumer electronic product purchases will continue to increase. As you can tell from our previous earnings conference calls, ATRenew keeps a clear and consistent strategic roadmap - we believe it's quite stable. In the second half of this year, we are committed to investing in the following pivotal areas.

第一点，落实城市一体化模型，夯实业务基本盘，继续提升回收市场的渗透率。

First, we will continue implementing our city-level service integration strategy, solidifying our business foundations and increase the penetration rate.

二季度，我们进一步升级城市大前端的组织架构，将全国市场划分为东部、南部、中部、北部四个战区，将原先一部分试点城市与城市周边的下沉市场拉通，形成 43 个重点城市与城市群。并推行区域经理制度，从 C2B 和 B2B 两条业务线员工中，选拔绩效表现优秀的城市群经理，实现人员综合经营管理能力的提升。我们将这些城市经理的职级和回报与城市等级、体量、贡献利润以及增长挂钩，完善人才选拔、培养和激励制度。

This quarter, we further updated our front-end organizational structure, dividing the domestic market into four: northern, southern, eastern, and central markets. Furthermore, we connected some of the pilot cities with the surrounding lower-tier cities, strategically forming 43 city clusters. We also launched our regional manager system, promoting outstanding employees from both C2B and B2B business lines, thus realizing a leap forward in talent management capacity. We bond the title and reward of regional managers with the business performance, GMV, revenue and growth rate of each cluster. We also improved our talent selection process as well as our training and remuneration (corrected) system.

经过二季度数据复盘，43 个重点城市与城市群中，有 33 个的 GMV 同比增长跑赢全国大盘。23 个城市群的渗透率实现超越大盘的环比增长。这些数据更坚定了我们推进城市一体化核心战略的信心。

Looking back at the consolidated GMV for C2B and B2B offerings in the second quarter of 2022, 33 out of the 43 city cluster grew faster on a year-over-year basis compared with the national average. And 23 city clusters successfully outpaced the national average expansion speed of the recycling penetration rate compared with the first quarter of 2022. These results strengthen our confidence in advancing and executing our city-level service integration strategy.

第二点，升级爱回收品牌，加快建设多品类回收的能力。

Second, we will upgrade the AHS Recycle brand and accelerate our pace of category expansion in terms of recycling.

“爱回收”是一个优质的、在回收领域稀缺的品牌，具有很强的服务延伸性。经常有很多用户在我们的爱回收门店询问是否能回收家里的奢侈品、家电、以及其他品类。

二季度以及近期，我们在上海、北京等地筛选了 30 多间主力门店作为试点，大部分门店位于城市的副中心商圈，经过简单的门店改造和店员培训后，在原有的手机 3C 回收业务之外，还承接了二手奢侈品、摄影器材、黄金等高值商品的回收，为用户提供最佳的回收体验。以奢侈品回收为例，消费者通过线上预约到店或者直接到店，店员在拍摄商品成色细节照片、后台根据照片竞拍报价后，商品被同城闪送到后端的质检中心鉴定真伪，如果是真品就立即打款，不和用户协商价格，如果是假货则原路退回。

6 月初，上海的门店复工复产后，二手奢侈品的业务快速在上海铺设到 20 多个门店，奢侈品回收的业务开始增长上量，6 月至 8 月的回收额保持 50% 的月环比增长。上半年在北京、天津试点的 6 家门店，通过叠加摄影器材回收业务，联合行业内优秀的合作伙伴，让每家店的月成交额增加了近 30 万。

"AHS Recycle" is a high-quality brand that is scarce in the recycling industry. The brand is quite capable of expanding its service scope. Many users often ask whether they can recycle luxury goods or home appliances, etc. at our AHS store.

In the second and the third quarter, we selected over 30 stores in Shanghai and Beijing as pilot stores - most of which are located in the sub-centers of the cities. We upgrade the store branding and train the store staff. Then these stores offer even premium recycling services and open up for high-value products such as luxury goods, photographic equipment, and gold. Taking luxury goods as an example, consumers can now make appointments online for an in-store consultation where our staff will take pictures of product conditions for merchants bidding at the back end. If the consumer is satisfied with the final bid price, which will be our recycling price, the product will be sent to a quality inspection center through intra-city instant delivery for authenticity and quality evaluation. Once the product is verified authentic, the consumer will get the agreed amount of cashback instantly. If it's a counterfeit, we will return it to the consumer.

When shopping malls in Shanghai re-opened in June, the number of luxury goods pilot stores jumped to over 20, and the recycling orders increased rapidly. From June to August, the total monthly recycling value of luxury goods in Shanghai continued to grow at 50% sequentially. In addition, six of our pilot stores in Beijing and Tianjin collaborated with industry-leading partners to launch a photographic equipment recycling business, increasing the monthly transaction value by RMB300,000 per store.

通过谨慎尝试，我们对爱回收的多品类回收业务更加有信心。一方面，很多用户，尤其在经济增长放缓、家庭消费紧缩的时期，有着更多的回收变现的需求；另一方面，爱回收的品牌并没有局限于“我们只收手机”，因此具有天然的品类延展性，我们遍布全国的门店也是很好的服务基础和交付场景。通过更多品类的回收业务，不仅能打开业务空间，也能加强用户的复购和留存，并提升“爱回收”的品牌价值。零售的渠道和品牌是很多的，但是回收的品牌却是稀缺的。依托我们坚实的基础能力，我们有信心把“爱回收”这个品牌打造成用户耳熟能详的第一回收品牌。

Now, we are even confident in category expansion after testing the water. On one hand, we see the underserved need for categories other than electronics during a period of flattening economic growth and when consumers become prudent buyers. On the other hand, AHS Recycle, the brand name, is a valuable asset while not limiting the product category to mobile phones and our nationwide AHS stores are premium consumer touchpoints. Through recycling more categories, we broaden our business horizon and improve both user retention and repurchases, further elevating the brand value of AHS

Recycle. We understand that there are many retail channels while good brands are scarce. Relying on our solid capabilities, we are confident in building "AHS Recycle" into the most popular brand.

第三点，提升合规维修翻新的产能，拓宽产业链的利润边界。

Third, as compliant refurbishment capacity ramps up, we expect further widening of the profit margin of the value chain.

今年4月，深圳市检察院发布试行全国首个“电子产品合规翻新指南”。在合规翻新指引的指导下，万物新生通过合规的维修增值业务，为消费者提供更多优质的产品、增加产业链中间的利润。从4月份开始，今年上半年，我们已经实现了7万台的维修增值，而随着维修能力的积累，提升对适合维修增值的1P货源的把握能力，我们在下半年开始预计会有一个更大的维修翻新的产能爬坡，在更完整的产业链上锁定利润空间。我们预估，第三季度的合规翻新业务可以实现7.5万单的订单量，对应产生近1.3亿元GMV，环比增长均超过80%，在毛利方面保持一季度电话会沟通的15%的预期，整体上来看，增值业务的边际贡献利润率可以保持在4-5%左右的水平。

In April, the People's Procuratorate of Shenzhen published the Criminal Compliance Guidelines for Intellectual Property Rights in the Electronics Refurbishment Industry. Under the compliant refurbishment guidelines, we provide more high-quality products to consumers through our value-added refurbishment services, further improving our margins. During the first half of 2022, we have performed value-added refurbishment services on around 70,000 devices. As we expand our capabilities and 1P sources of supply that are suitable for refurbishment, we expect to have a more exciting ramp-up in capacity starting in the second half of this year.

We expect 75,000 orders, which will generate a GMV of RMB130 million in the third quarter, each increasing by over 80% compared with the second quarter. We expect a 15% gross margin - the same as we anticipated during the previous earnings call. Overall, the operating margin of the refurbishment business is expected to be around 4-5%.

第四点，持续推进自动化的部署，为疫情后的消费恢复、回收量攀升提前做好运力储备。

Fourth, we will continuously deploy automation to prepare our operational capacity for post-pandemic recycling volume and consumption recovery.

因为疫情的负面影响，东莞运营中心的自动化升级工作受到了一定延误。但是6月底，东莞运营中心已经完成了输送线建设，7月底已经完成了自动化输送线与立库的联动运营，相关流程的自动化效率比升级前提升了50%。我们预计在9月会上线matrix 2.0系统，并且完整实现对东莞运营中心的自动化升级部署。

Due to the covid resurgence, the automation upgrade of our Dongguan operation center got delayed. By the end of June, our Dongguan operation center completed the construction of its conveyor system, which was later connected to the storage system in late July, realizing a 50% efficiency improvement. As an update, we now expect to land the Matrix 2.0 system by the end of the third quarter, thus completing our second automated operation center in China.

总体来说，二季度的疫情反复，对我们的业务造成了短期较大的冲击，也敦促我们在运营上保持警觉，用更积极的心态、更稳健的、抗风险的单位经济模型，在循环经济的长期赛道上，做好核心能力沉淀、以及厚积薄发的准备。

展望下半年，我们将努力加快业绩的修复，尤其是自营回收和自营销售业务的增速。我们的1P自营业务是持续盈利的，即使是在疫情和经济下行的影响之下，仍然保持了良好的增长。在未来的不确定环境中，着重发展1P自营业务将是我们的战略重点。今年的苹果iPhone14系列将会提前

发布，我们从城市前端的以旧换新、到中后台质检运营，都会为之做好准备，迎接业务量的复苏。

Overall, we learned to stay nimble and positive from the transitory challenges. We keep being operationally vigilant and keep advancing our core capabilities. We aim at more robust and risk-resistant unit economics in the long run along with the developing circular economy. We are committed to getting ourselves well prepared.

Looking at the second half of the year, we will strive to accelerate the recovery of our business, in particular the growth rates of self-operated recycling and direct retail. Our 1P business maintained profitability and healthy growth in face of the unfavored pandemic and downward consumption trend. Amid uncertainties in the future quarters, we will focus on the solid development of our 1P self-operated business. The iPhone 14 lineup will be launched at an earlier date in September. We will prepare ourselves well for a recovering business from frontline recycling and trade-in to quality inspection and processing, as well as back-office operation.

最后，我想说的是，今年夏天，全球各地，从北美到欧洲，再到亚洲，都炎热异常。上海多次（发布了）超过 40 摄氏度的红色高温预警，全国多地突破历史最高温度，全球各地干旱严重，江湖干涸。全球变暖的环境问题变得日益严峻，并且迫在眉睫。

今年 6 月，万物新生发布了《2021 年度 ESG 报告》，首次通过生命周期评价方法和碳足迹公式分析，因为循环使用，每台二手手机的平均碳减排贡献为 30.4 千克。公司 2021 年的碳减排贡献总量为 46 万吨，相当于 230 万亩城市森林一年的碳汇效果。

230 万亩的森林，46 万吨碳减排，这样的数字，相比数百亿的 GMV，近百亿的收入，更加让我们振奋。哪怕业务短期波动，哪怕股价暂时有些低迷，我们都会坚持向前。因为我们知道，我们正在做正确的事情，正在做对环境有贡献的事业，时间会汇聚起我们的价值。

Last but not least. This summer has been a scorcher across the globe, especially in North America, Europe, and Asia. Shanghai has repeatedly declared red alert on extreme heat of over 40 degrees Celsius, and many parts of China have also seen record-high temperatures. Global warming and drought are increasingly severe and pressing.

In June this year, ATRenew published its 2021 Environmental, Social, and Governance report. In this annual ESG report, ATRenew adopted a life cycle analysis of pre-owned mobile phones and leveraged the Circular Footprint Formula for the first time to disclose its contribution of 464,000 metric tons of greenhouse gas emission reductions through the reuse of pre-owned mobile phones in 2021. This is equivalent to the annual carbon sink of 2.3 million mu of city forests. On average, recycling and reusing a smartphone contributes 30.4 kilograms of GHG (greenhouse gas) emission reduction.

Our environmental performance is even more exciting compared with the economic value we created. Even if the business fluctuates and our stocks are undervalued in the short term, we will remain steadfast. Because we know that we are doing the right thing and doing something that contributes to the environment. Our value accumulates over time.

下面请公司 CFO Rex 介绍一下财务情况。

With that, I will hand the call over to Rex, our CFO, to go over the financials.

**Rex Chen, CFO:**

Thanks, Kerry, and hello everyone. We are pleased to report that our second quarter revenue exceeded our previous guidance despite the macroeconomic headwinds and the dynamic operating environment caused by the COVID recurrences.

I'll start by sharing some of our financial highlights before we go into a more detailed look at the numbers. Please note that all amounts are in RMB and all comparisons are on a year-over-year basis unless otherwise stated.

In the second quarter of 2022, our core teams in Shanghai headquarter and Beijing navigated a challenging operating environment mainly caused by covid resurgence but they managed to surpass our topline guidance provided last quarter. Total net revenues increased by 14.9% year-on-year to over RMB2.1 billion – we would like to extend a heartfelt “thank you” to our dedicated employees who stayed strong and quickly adapted to such dynamics.

In terms of total GMV, it grew by 10.3% to RMB8.6 billion, driven by the growth in both product sales GMV and online marketplace GMV which were 15.8% and 8.5%, respectively. Starting in June, as shopping malls in Shanghai re-opened and logistics capacity normalized, we saw a recovering GMV and a soothing rebound during the June 18th Shopping Festival primarily supported by our loyal customers.

In this quarter, the commission rate of our third-party marketplaces was 4.54% at the group level, remained stable compared with the same period last year while it reasonably increased by 39 basis points sequentially. This increase in the overall marketplace take rate was primarily due to an optimized operational strategy of charging logistics fees from merchant users based on the established trust and user stickiness.

Gross margin at the group level was 22.9% in the second quarter. Gross margin for our 1P business was 10.8%.

In the second quarter, in response to regional operation interruption, in particular in Shanghai, the national hub for our profitable 1P business, we implemented strict cost control measures. These helped us narrow our losses under both GAAP and non-GAAP measures compared with the same period last year. I will elaborate on this later.

Now let's take a detailed look at the financials.

In the second quarter, total revenues increased by 14.9% to RMB2,145.7 million. Net product revenues increased by 15.6% to RMB1,854.1 million, while net service revenues increased by 10.3% to RMB291.6 million. Growth in net product revenues was primarily driven by an increase in the sourcing volume and the corresponding sales of pre-owned consumer electronics through Paipai Marketplace and the Company's overseas channels. Growth in service revenues was primarily driven by the increases in transaction volume and monetization capability of PJT Marketplace. Besides the adverse impacts from COVID control measures in Shanghai and Shenzhen, I also want to bring to your attention that we have procured parts and components in the second quarter of 2022 as we started rolling out our compliant refurbishment business. The innovative business led to higher days sales of inventory and we expect this business to optimize our profit profile in the future.

Next, turning to 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 the 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.

Operating costs and expenses decreased by 2.2% to RMB2,327.4 million. Non-GAAP operating expenses, which exclude share-based compensation expenses and amortization of intangible assets resulting from business acquisitions, increased by 14.5% to RMB2,201.5 million.

Merchandise costs increased by 18.5% to RMB1,653.8 million. This was in line with the growth of the 1P product sales revenues.

Fulfillment expenses decreased by 0.1% to RMB275.2 million. Excluding share-based compensation expenses, which we will refer to as “SBC” from here on, non-GAAP fulfillment expenses increased by 14.9% to RMB267.7 million. Under non-GAAP measures, the increases were primarily due to (i) the increases in operation center and self-operated store related expenses, which were in line with the increase in sales of pre-owned consumer electronics and the addition of 103 self-operated AHS stores compared with the second quarter 2021; and (ii) an increase in personnel cost in connection with the Company’s growing business. The non-GAAP fulfillment expenses as a percentage of total revenue remained flat at 12.5% compared with the same period last year.

Selling and marketing expenses decreased by 7.2% to RMB293.4 million. Excluding SBC expenses and amortization of intangible assets, non-GAAP selling and marketing expenses decreased by 7.3% to RMB198.1 million. Under the non-GAAP measures, the decreases were primarily due to the decrease in sales promotion and coupon expenses as a cost control approach during the resurgence of the COVID-19 variants. Among the cost reductions, we saved RMB33 million on Paipai’s promotion expenses which were mainly due to our shift in the strategy focus from the consignment model to 1PtoC direct retailing. The non-GAAP selling and marketing expenses as a percentage of total revenues decreased to 9.2% from 11.4% in the second quarter of 2021.

General and administrative expenses decreased by 85.4% to RMB45.2 million. Excluding SBC expenses, non-GAAP G&A expenses increased by 2.1% to RMB28.8 million primarily due to an increase in office related expenses which was in line with the Company’s growing business. The non-GAAP general and administrative expenses as a percentage of total revenues remained flat at 1.3% compared with 1.5% in the same period last year.

Technology and content expenses decreased by 27.1% to RMB59.7 million. Excluding SBC expenses and amortization of intangible assets, non-GAAP technology and content expenses increased by 0.6% to RMB53.0 million. Under non-GAAP measures, the increase was primarily due to the increases in operation center and automated inspection system upgrade related expenses in connection with the Company’s growing business. The non-GAAP technology and content expenses as a percentage of total revenues remained flat at 2.5% compared with 2.8% in the same period last year.

As a result, our non-GAAP operating loss was RMB42.3 million in the second quarter of 2022. Non-GAAP operating margin was negative 2.0%, compared with negative 2.7% in the same period last year. And once again, we had a cash inflow from operating activities during this quarter, which totaled 280 million. As of June 30, 2022, cash and cash equivalents, short-term investments and funds receivable from third-party payment service providers totaled RMB2.6 billion. The sufficient cash on hand paves the way for sustainable growth in the future.

As a recap, we announced a 100-million US dollar share repurchase program on December 28, 2021, out of the management’s strong confidence in the Company’s solid fundamentals and growth momentum.

During the second quarter of 2022, we have repurchased nearly 2.9 million ADSs in the open market for a total cash consideration of 9.0 million US dollars.

Now turning to outlook. For the third quarter of 2022, the company currently expects its total revenues to be between RMB2,500 million and RMB2,550 million. The highly transmissible Omicron variant might impose adverse impacts on the operation of our stores and facilities, as well as the transaction activities of merchants in 2022. Thus, this forecast only reflects the company's current and preliminary views on the market and operational conditions, which are subject to change.

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

## Questions and Answers

**Operator:** We will now begin the question-and-answer session. (Operator Instructions). Bonnie Liu from China Renaissance.

**Bonnie Liu:** (Speaking Mandarin) 今年新机实际出货量是低于预期的，请问这次 iPhone14 提早发布对公司三季度业绩会有什么影响？

Given the lower-than-expected new phone production this year, could you please talk about the potential impact of early iPhone 14 release on your 3Q earnings?

**Kerry Chen:** (Speaking Mandarin) 谢谢提问。今年苹果 iPhone14 的系列首发，预计是在 9 月 7 号，相对去年的 iPhone13 系列，提前了大约 1 周，基本上符合我们的预期。从经验上来看，苹果首发提前一周对于我们的 C2B 业务来说，大约在期内增加 3000 万收入。

今年我们的以旧换新做好了充分的准备，一方面，一站式换新下单流程升级，进入了京东 APP 下单的主流程，今年用户在首发时下单不需要跳转，回收交易的稳定性会更好、体验会更好；另一方面，通过专场活动的形式，将京东苹果自营店用户的“A+会员权益”与回收结合，提前锁定了京东铁杆用户的回收换新需求，避免由于抢购缺货，导致用户单独购买 iPhone 新品、未挂钩回收订单的情形发生。我们覆盖全国 241 座城市的 1600 家门店，尤其是近 600 家自营店，也做好了应对交付高峰的准备。一线团队经过过去几年的 618、双十一的历练，可以游刃有余地应对高峰期，基本上不会出现爆仓、交付不及时的情况。

在拍拍侧，我们预估新品上市可能会对二手零售的价格、需求产生短暂的冲击，我们将做好活动策划，同时自营严选业务将做好库存周转监控。实际上，在二季度，我们也已经对拍拍的存货进行清点，出清了少量的积压库存，持续保持自营零售业务的库存周转可控。

(Translated) This year, Apple's iPhone 14 series is expected to be launched on September 7, which is one week earlier than iPhone 13 lineup debut last year - it's basically within our expectation. From experience, such an earlier launch could bring an increase in 1P revenue of RMB30 million in the third quarter.

This year, we are well prepared ahead of a peak period of trade-in business. On one hand, the one-stop trade-in order process has been upgraded and incorporated into the main interfaces of JD's mobile app. At the new product launch, users can place orders through a streamlined process as the stability of the recycling and trade-in ordering system is more stable and user-friendly. On the other hand, through themed campaigns, intertwine "A+ membership", which is JD.com's self-operated Apple product store membership, with recycling services, we lock in the recycling and trade-in orders of JD users. This reduces the loss of trade-in orders as buyers tend to separate recycling orders with new device orders when a blockbuster iPhone runs out of stock. Our stores are also prepared for peak-season fulfillment. There are over 1,600 physical AHS stores across 241 cities in China and nearly 600 self-operated stores.

The frontline teams are rather experienced at handling peak seasons after many grand promotions and shopping festivals. In general, we handle the storage system well and fulfill the orders in a timely manner.

On retail business, we anticipate the new product launch could have a short-term impact on the price and demand of second-hand devices in Paipai marketplace. We will plan ahead for our campaigns and closely monitor our inventory. In fact, in the second quarter, we have re-evaluated and liquidated the small amount of backlog of Paipai. We keep a controllable inventory turnover of our 1PtoC business. Thank you.

**Operator:** Ronald Keung with Goldman Sachs.

**Ronald Keung:** (Speaking Mandarin) 想问两个问题。第一个：我们看到公司这个季度 GMV 相对前几个季度的增速慢了很多，想请问管理层怎么看整个行业的趋势、疫情的影响、手机的消费比较弱，对于整个二手 3C 行业和对公司有怎样的影响？第二个问题，看到公司毛利率有所下降，想知道里面是促销导致的，还是有 1P、3P 的结构的变化？

I have two questions. One is we've seen that GMV growth has slowed. So I want to know how are we seeing the overall industry, the impact from Covid, and the weak mobile phone demand due to product cycle? And how should we think about the second-hand 3C (consumer electronics) market and the impact to our company?

Second is about the gross margin declines. Want to know whether it's due to some of the promotions, subsidies, or is it a mix in the 1P- 3P business structure?

**Kerry Chen:** (Speaking Mandarin) 二季度之前，公司长期保持了 40%以上的 GMV 和收入的同比增长，但在二季度确实遇到了压力，既有短期疫情原因，也有通讯行业的消费下行的原因。

首先看疫情对我们的影响：如 Q1 季报电话会时所沟通的那样，疫情封控对我们在上海、北京、西安、天津、深圳约 200 多家爱回收自营门店、以及第三方商家的订单、物流和履约都造成了一定的负面冲击。以上海为例，4 月、5 月是持续受到了疫情的负面影响，6 月初才开始恢复正常运营。

但是我们认为疫情的冲击更多是短期的、事件性的，长期看，对比其他面临宏观经济变化挑战较大的消费领域，我们坚信中国的二手 3C 交易与服务是一个巨大的、还未被满足市场。

(Translated) Thank you for the questions. Before the second quarter, the year-on-year growth momentum of our GMV and total revenue stayed strong at a level of over 40% for a long period of time. During the second quarter, we faced temporary pressures from the pandemic and mobile phone consumption slowdown.

As we mentioned during last quarter's earnings call, the covid control measures disrupted our business operation of 200 self-operated AHS stores in big cities including Shanghai, Beijing, Tianjin, Xi'an and Shenzhen as well as the logistics services and order fulfillment. Taking Shanghai as an example, the store performance in April and May was largely impacted by Covid. Beginning in early June, the operation started to, back to normal in Shanghai.

And we believe that the impact of the pandemic is transitory. In the long-term, when compared with other consumer industries that face greater challenges from macro-environmental changes, we believe the second-hand electronics transaction and service industry is a huge, yet underserved market.

今年以来，国内的新机销售面临比较大的压力，尤其是在一些大城市，同时叠加了疫情封控和消费放缓的影响，新机的出货量确实不容乐观。虽然环境不好，但是长期来看，我们对二手电子产品的回收和购买仍然持乐观的期待，原因如下：

一方面，苹果是我们服务的主要品牌，苹果品牌仍保持强劲的市场地位；在高端市场的市场占有率还在继续提升。苹果品牌产品占我们平台交易规模 GMV 的 40% 以上，贡献了业务的基本盘。今年 9 月份，iPhone14 系列发布也是备受瞩目，我们做好了以旧换新的交付准备。

另一方面，针对上半年增长压力大的安卓品牌厂商，我们将持续加强与京东和安卓品牌厂商的合作，作为有效的促销活动措施，为消费者提供更便捷的、安全的、经济的以旧换新服务，帮助厂商增加新品销售的转化。

Since the beginning of this year, the domestic market for new electronic devices has faced pressure. This has been especially true in those cities that experienced declining sales as a result of COVID's resurgence and control measures. However, in the long run, we remain optimistic about the outlook for recycling and purchasing pre-owned consumer electronics. Here are a couple of reasons:

First, Apple is the main brand in our service coverage, accounting for over 40% of our GMV. Apple maintains a top-tier market position - its market share in China's high-end smartphone market continues to increase. As has been widely publicized, the iPhone 14 lineup is due to be launched in September, so we have a positive attitude towards our recycling and trade-in business.

Second, as Android brands face greater growth pressure this year, we continue to strengthen our collaboration with JD.com and other major Android brands, launching effective marketing campaigns based on our trade-in solutions, thereby providing consumers with more convenient, safe, and value-for-money trade-in services and improving new device sales for brand partners.

面对外部环境的不确定性，从上半年整体来看，上半年全平台 GMV 达到 180 亿元人民币，同比增长去年 140 亿同比增长 28%。总单量 1620 万单，同比增长 14.4%。由此可见：我们的增速在二季度虽然出现了一些放缓，但相比于手机通讯厂商普遍的下滑，循环经济行业整体还是呈现了比较坚韧的特性。

另外，有一点可以关注：在疫情影响和经济下行的环境下，我们的 1P 自营业务抗风险能力更强。上半年，我们的 1P GMV 为 44 亿，同比增长为 32.4%，超过大盘增长。我们的 1P 自营业务也是下半年重点发力的方向。下半年，通过一些关键优化点，例如自营门店效益的优化，以及让更多的 1P 优质货源在拍拍上 toC 零售，我们的 1P 业务会保持更加强势的增长趋势。

In the face of macro uncertainties, our total GMV increased by 28% year-on-year to 18 billion RMB in the first half of 2022 from 14 billion RMB in the same period of 2021. The total number of transactions was 16.2 million, increased by 14.4% year-on-year. This indicates that the circular economy business is relatively stable compared with the downward new phone shipments in the second quarter.

In the first half of 2022, GMV for product sales totaled RMB4.4 billion, representing an increase of 32.4% year-on-year, which was faster than the overall GMV growth. Through some optimizations, such as improved efficiency of self-operated stores, and more direct retailing of premium self-sourced products through Paipai, our 1P business will be able to achieve a stronger growth momentum.

**Rex Chen:** I will take the second question. So, overall, the gross margin at the group level for the second quarter was 22.9%, a decline of 2.37 percentage points on a year-over-year basis. This was primarily due to a decrease in 1P business's gross margin which was caused by: 1) an increased number of promotional campaigns on e-commerce platforms, and 2) adverse impacts from the COVID recurrence.

In detail, the gross margin for our 1P business this quarter was 10.8%. The decline in gross margin was due to the following reasons.

Firstly, due to the pandemic recurrence in the second quarter, we did not have sufficient self-sourced supplies to meet consumer demand. As a result, we increased the proportion of goods sourced from industry partners in preparation for the e-commerce shopping festivals in June. Sourcing from third

parties lowered our gross margin. However, this was only a temporary tactic and we increased the proportion of our self-sourced supplies as our offline stores returned to normal operations in June. In addition, the gross margin for the second quarter has been low due to seasonality. The seasonality is the result of a series of marketing and sales campaigns, including our "618 cashback festival", where we would distribute corresponding coupons. We expect that the impact of the pandemic will gradually fade away and that we will see a growth in device refurbishments and our 1P to C business. The gross margin for our 1P business in the second half of 2022 is forecasted to be between 13.5% to 14%.

The overall take rate for 3P business in the second quarter increased to 4.54% from 4.15% in the first quarter. We anticipate a steady increase of the platform take rate by adding more value-added services on top of the current service portfolio such as value-added compliant repair services and supply chain financing. Thank you.

**Ronald Keung:** Thank you.

**Operator:** (Operator Instructions). Joyce Ju with Bank of America.

**Joyce Ju:** (Speaking foreign language) 我们看到爱回收 APP 上线了奢侈品的询价服务、询价后引流到店的奢侈品回收服务，刚刚您也提到了一些逻辑，可否请管理层多分享一些拓展多品类回收还有怎样的战略规划和进展？然后爱回收拓展品类的逻辑是什么，我们应该如何看待多品类回收业务对公司整体收入、利润在未来的影响？非常感谢。

I will translate the question. We have seen AiHuiShou APP actually launched a luxury product recycle services recently. I just want to understand like what's the progress of expansion into other categories or like non-electronic categories. What's the business rationale behind and how we should look at the kind of category expansion impact on our company's revenue and profits? Thank you.

**Kerry Chen:** (Speaking foreign language)

二季度，我们依托爱回收的门店体系，在北京上海筛选位于城市副中心商圈的一些主力门店，在原来的手机 3C 业务之外，试点叠加奢侈品箱包腕表回收、摄影器材回收，以及黄金回收等业务。消费者可以在我们的爱回收 APP、官网、小程序上看到奢侈品和摄影器材的回收入口。服务流程类似于手机 3C 电子产品回收，消费者通过线上回答几个问题，快速获得报价，预约到店，店员简单检测确认外观成色、给出最终报价，然后通过闪送服务，1 小时把商品送到该城市的质检中心，由后端质检中心里的鉴定师最终确认真伪，完成回收并给用户打款，如果产品有问题就原路退回。全部依托于爱回收门店的服务的体验过程，简单友好。未来还可以叠加京东回收等业务。

(Translated) In the second quarter, leveraging the tiered AHS store system, we selected a number of pilot stores in Beijing and Shanghai's sub-center areas. In addition to our existing consumer electronics recycling, we tapped into pre-owned luxury bags, watches, photography and video equipment, and gold recycling services.

Customers can get a price quote through AHS mobile app, official website, and WeChat mini-program. The recycling process for these pre-owned categories is similar to that of consumer electronics.

Consumers get preliminary pricing shortly afterward answering a couple of questions regarding the model and condition of their product. They can then make a reservation or walk into one of our offline stores so our staff can check product conditions and confirm the recycling price. Then the products will be sent to the local inspection center within an hour through instant delivery. After our quality inspection experts confirm the authenticity of the product, the recycling process is complete, and customers receive their payment if the product is authentic. The whole process is simple and user-

friendly as we provide face-to-face interaction at our physical stores. Based on that, we can further extend our multi-category recycling offerings to users of JD.com.

二手奢侈品行业的传统模式存在很多痛点：线下门店的寄售模式往往会利用信息的不透明进行压价；通过邮寄回收则缺乏用户信任、回收转化率低；上门回收模式，鉴定师人力成本会很高。针对传统模式的痛点，万物新生首创“门店回仓模式”，“线上报价”，“门店店员拍照核定成色”、“回仓鉴定真伪”，为用户提供更优质的回收服务体验。据我们的试运营数据，已经接受我们回收报价的用户中，有超过 85%的用户愿意接受回仓质检模式。

Whereas, traditionally, there are many pain points for luxury goods recycling. The consignment merchants tend to cut prices as the market lacks transparency. Consumers have trust issues when recycling by mail. The door-to-door recycling model has higher labor costs. ATRenew innovatively offers the "to-store recycling + to-station inspection" model. It allows consumers to get a price estimate online, go to a nearby physical store for a condition check, and get authenticity verification at a local inspection station. We provide a more user-friendly customer experience. Over 85% of the consumers who accepted our recycling price were willing to try this model.

爱回收开展多品类回收的壁垒主要有两个：一个是经过 11 年积累的爱回收品牌，我们的品牌获得消费者的广泛认可，用户在有需求时会首先想到这个品牌。以 6 月试运营的数据为例，在摄影器材回收用户和通过爱回收官网下单回收成交二手奢侈品的用户中，分别有 57%和 41%是由爱回收的 3C 回收用户完成的，证明爱回收品牌已经形成了强消费者心智，可以进行跨品类迁移；另一个是遍布全国的 1,600 多家爱回收门店的网络，形成了广泛的消费者触点，构成了很好的服务履约基础，也是建立消费者信任的重要基础设施。

从财务的视角来看，奢侈品回收是新兴的业务，其市场规模相对手机回收可能会略小，但行业更加不透明，产业链利润比手机更高，而现有的服务体验比较差，亟待整合。多品类回收主要带来的是爱回收门店、爱回收用户的复购率的提升，ARPU 的提升；我们通过 30 多家店的试点数据验证了：奢侈品与 3C 用户可以进行双向转换：在线下单的奢侈品回收用户中，41%是爱回收成交过的 3C 用户，过往回收 3C 的交易加强了用户对服务品质的感知，从而更愿意把家里更贵重的包和表拿出来交给我们进行回收；另外一点，完成了奢侈品回收首单的用户中，30 天内又有 11%的用户把家里的 3C 拿回来回收。

We believe that there are two factors that contribute to the core competency and the competitive moat of our multi-category recycling business. The first is the brand of AHS Recycle, which has been cultivating customers over the past eleven years so that it is now a widely recognized brand among Chinese consumers. AHS Recycle “爱回收” becomes consumers' go-to destination. When analyzing our June trial operation data, we notice that 57% of the users who recycled their camera equipment and 41% of those who placed luxury product recycling orders online have historical consumer electronics recycling orders, proving the strong consumer mindshare and our ability to cross-sell. The second factor is our nationwide network of over 1,600 offline AHS stores - this network is a valuable infrastructure for us to reach, serve and build trust with consumers.

From a financial point of view, luxury goods recycling is an emerging business, and its market size may be slightly smaller than that of mobile phone recycling, but the value chain is even opaque, yet more profitable than mobile phones while the existing solutions are relatively poor. Multi-category recycling mainly brings about an increase in repurchases and an increase in average revenue per user. We have an idea that we could convert mobile phone recycling orders from luxury product users and vice versa. This idea has been verified through our pilot program at more than 30 AHS stores. 41% of those who recycled luxury products have previously sold their consumer electronics to us - these consumers have stronger perceptions towards AHS Recycle and are more willing to trust us for high-value bags and

watches recycling. In terms of repurchases, 11% of first-time luxury recycling service users sold their idle consumer electronic devices to us within 30 days.

基于更高的复购率，我们对爱回收品牌的投放效率也有望提升。传统上由于手机 3C 品类的低频特性、以及门店的本地属性，我们很少做大规模的广告投放。今天基于更广的门店覆盖、奢侈品和其他品类带来的更多成交，我们就有可能重新评估广告投放带来的交易 ROI，在利润覆盖投放成本的前提下，加大放大效应。

总体而言，我们认为开展多品类回收，重要的是复用消费者对爱回收品牌的信任，复用爱回收门店的服务能力和城市布局，延伸爱回收品牌的品牌价值和服务价值。零售领域有很多品牌、很多线上购买平台可以选择，但有信任的多品类回收领域，品牌还几乎空白。我们对该创新业务充满期待，期待爱回收成为家喻户晓的第一回收品牌。

As the repurchase rate increases, the efficiency of advertising is also expected to improve. Traditionally, we rarely advertise AHS Recycle as a consumer electronics recycling brand as electronic product is a low-frequency category and a relatively local to-store business. Today, based on the wider store coverage and more transactions brought by luxury goods and other categories, we can re-evaluate the ROI of advertising. We can try to amplify our brand awareness as long as our profit covers marketing expenses. In general, we believe the key to developing our multi-category recycling business is to leverage the trust we have built with consumers and AHS Recycle's service capabilities as well as the nationwide store network. There are many choices when consumers shop online and offline, but quite few trust-worthy multi-category recycling service providers. We are excited about the innovative course our business is taking, and we look forward to enhancing our brand's reputation as the most trusted and recognized one in the industry. Thank you.

**Operator:** As there are no further questions at this time, I'd like to hand the conference back to our management team for closing remarks.

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

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