

[RERE] – ATRenew Inc.
Q3 2023 Earnings Conference Call Transcript (Corrected)
Wednesday, November 22, 2023, 07:00 AM Eastern Time

Company Participants:

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

Other Participants:

Victor Tang, Goldman Sachs
Jiajing Chen, CICC
Joyce Ju, BofA Securities

Presentation

Operator:

Good morning and good evening, ladies and gentlemen. Thank you for standing by and welcome to ATRenew Inc.'s third quarter 2023 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 third quarter 2023 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 third quarter 2023 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 2023 年第三季度业绩电话会。

(Translated) Hello everyone, and welcome to ATRenew's third quarter 2023 earnings conference call.

三季度，万物新生再次超预期实现了收入和利润增长。虽然新品消费市场乏力，但公司业绩和二手行业依然高速增长，越来越多的人愿意选择以旧换新、选择购买品质二手商品，并将其作为一种生活方式。通过高效协作的组织、团结奋斗的团队，以及行业领先的自动化技术能力，我们有信心持续引领二手行业的发展。

本季度，集团总收入达 32.6 亿元，同比增长 28.4%，超过指引高端达成。前三季度总收入 91 亿元，同比增长 32%，增速高于我们在年初的预期。在四季度大促旺季，得益于京东的支持和苹果官方以旧换新资源的强势导入，2023 年全年整体收入增长的确性更加清晰。

本季度，经调整经营利润为 7380 万元，经调整经营利润率 2.3%，均再创新高，进一步验证万物新生自动化降本和规模化提升运营效率的能力。前三季度的整体经调整经营利润率超预期达到 1.9%。

During the third quarter, we once again exceeded expectations in terms of both revenue and profit. The flat growth in new product sales did not adversely impact our business. Importantly, second-hand industry continues to thrive, with more people choosing to trade in and buy high-quality pre-owned products for new lifestyles. With efficient organization, a dedicated team, and industry-leading automation technology capabilities, we are confident in ushering in the new era as a leader in the second-hand industry.

In the quarter, our total revenues reached RMB 3.26 billion, representing a 28.4% year-over-year increase, surpassing our guidance. Total revenues for the first three quarters amounted to RMB 9.1 billion, marking a 32% year-over-year increase, and exceeding our initial expectations at the beginning of the year. During the festive fourth quarter, bolstered by JD.com's support and our inclusion in Apple's official trade-in program, the outlook for our overall revenue growth in 2023 is increasingly clear.

During the quarter, adjusted operating income reached RMB 73.8 million, with an adjusted operating margin of 2.3%, setting a new record and further confirming our ability to improve operational efficiency through automation technology and economies of scale. The adjusted operating margin for nine months ended September 30th was 1.9%, ahead of our schedule.

三季度业绩超预期的原因，是二手回收和交易的规模增长，持续引领行业增长。

其中，1P 自营回收业务的发展仍是集团整体增长的战略重心，是增长的主引擎；3P 加强平台交易的服务能力，长期促进商家活跃，是支持和辅助动力。

Our quarterly results surpassed expectations. This was primarily attributable to the growing scale of the recycling and resale business, which consistently drives industry expansion.

Within this context, the development of our 1P business remains our core strategic focus, serving as the primary driver of our growth. At the same time, enhancing the service capabilities of our 3P platform business to encourage long-term merchant engagement serves as an important supplementary driver.

三季度，自营业务同比增长 31.4%至 29.2 亿元。一方面，我们现有的 C2B 核心业务，我们以全国现有的近 2000 家门店的基础，改造升级爱回收的特色门店，提升用户对多品类回收的认知度，强化爱回收的国民回收品牌的用户心智。在回收端为用户提供有吸引力的报价，以便捷和值得信赖

的回收场景覆盖，赢得了更多用户的青睐，锁定了更多的货源；更多货源回收推动店效的提升、成本的降低。

分享两个 1P 自营业务的数据亮点：第一个是今年三季度，用户 walk-in 直接到店回收的收入，占主营回收收入的比例较去年同期提升了 6 个百分点，说明爱回收品牌直达消费者的影响力提升。第二个数据亮点，是今年 10 月，爱回收在北京和上海，单城单月回收额均突破了一亿元里程碑。随着更多的爱回收门店具备多品类回收能力，我们相信爱回收在高线城市的天花板会进一步提升。

During the third quarter, our 1P business revenue grew by 31.4% year-over-year to RMB 2.92 billion. Within our core C2B business, we leveraged our existing network of nearly 2,000 nationwide offline stores and upgraded some into premier stores. These stores are designed to raise user awareness of multi-category recycling and AHS Recycle as a national brand. Alongside the competitive quotes we offer to users, our convenient and reliable services have attracted a larger customer base and secured a greater supply of pre-owned products, which further increases store performance while reducing costs. I'd like to share two noteworthy highlights resulting from these strategic upgrades. First, in the aspect of walk-in revenue as a percentage of core C2B revenues, there has been a 6% year-over-year increase during the quarter, underscoring the increasing strength of our AHS brand and its impact on consumers. Second, during October, the monthly recycling values in Beijing and Shanghai both exceeded RMB 100 million. We believe that as more AHS Recycle stores are equipped with multi-category recycling capabilities, the ceiling of our C2B business in high-tier cities will be further raised.

同时，在今年 7 月起，我们的 B2C 零售品牌“拍拍严选”融入爱回收并升级为“爱回收严选”，以加强对 C 端用户的服务能力，强化“爱回收”主品牌的品质和信赖心智。通过品牌升级，我们进一步拉通产业链，夯实从 C2B 到 B2C 优选零售的完整价值链闭环，将 2C 销售作为有力的能力补充。

在合规翻新业务方面，在三季度整体贡献达到 2 亿元收入，为更多电子产品实现循环重生、赋予更高的使用价值。7 月底，我们签署了华为官方维修授权，探索多个安卓品牌的产品翻新能力，以可控的维修成本，整体撬动 4-5% 的毛利增加，为用户提供更多样化的焕新机购买选择。

行业标准方面，三季度，我们作为主要发起人，联合深圳电子行业协会共同起草了“二手手机交易规范”团体标准。同期我们与深圳电子行业协会合作，共同成立中国二手电子交易中心，促进拍机堂和线下产业的融合，共同推动二手交易的合规和健康发展。

Starting in July this year, our B2C retail brand "Paipai Selection" was integrated into the AHS main brand, which was renamed "AHS Selection." This strategic initiative is intended to provide enhanced services for our retail users and bolster the quality and trustworthiness of the AHS Recycle brand. This brand upgrade further solidifies our second-hand retail value chain from C2B to B2C by complementing the closed loop with direct-to-consumer sales capabilities.

In terms of compliant refurbishment, in the third quarter, the compliant refurbished business contributed a total of RMB 200 million in revenue, adding greater value to more models of pre-owned electronic products. Since the end of July, we have been authorized to recondition Huawei products, while exploring the refurbishment capabilities of multiple Android products. With controllable costs, we could gain a marginal gross profit of 4% to 5%. And customers will further benefit from a greater variety of refurbished products.

In terms of industry standards, in the third quarter, as the main sponsor, we jointly drafted the "Second-hand Mobile Phone Transaction" group standard with the Shenzhen Electronics Industry Association. At the same time, in collaboration with the association, the China Second-hand Electronics Trading Center was jointly established to promote online and offline integration, and to promote healthy development of second-hand product transactions.

另一方面，关于苹果官方回收合作。我们的回收业务快速嵌入苹果的中国零售体系，服务在苹果官网和线下旗舰店回收和以旧换新的用户。今年 11 月开始，我们进一步争取到了主流的 N-1、N-2 代产品的回收资格——即用户可以在苹果直营渠道用 iPhone13、iPhone14 这样的主流型号回收换新，旧机由苹果完成前端履约后，交给爱回收处置——这是对我们供应链能力的认可。

Turning to our services embedded in Apple's official channels. Our recycling business has been rapidly integrated into Apple's retail network in China, providing recycling and trade-in services on Apple's official website and in its offline flagship stores. During November this year, we obtained a qualification that allows us to recycle the two most recent generations of iPhone lineups. [Specifically], when a user trades in an iPhone 13 or iPhone 14 for a new iPhone 15 lineup product through Apple's official website and storefronts, their used devices go to AHS Recycle for further handling. This represents a significant recognition of our supply chain capabilities.

平台业务方面，我们的服务能力持续提升，3P 收入同比增长 7.3%至 3.3 亿元，综合服务收费率达 5.4%。

我们持续加强对拍机堂商家的赋能，以机大侠便携质检终端为商家专项研发批量采购、入库管理功能，即时库存、经营分析，帮助商家节省时间和人工成本，提升生意效率。经过多年发展，拍机堂 B2B 交易平台，已经成为二手手机 3C 行业的基础设施，是行业价格的风向标。

截至三季度末，拍机堂注册商家总数超 53 万，交易商家数同比增加 15.4%。

In terms of our marketplaces, we are continuously improving our service capabilities. During the quarter, 3P revenue increased by 7.3% year over year to RMB 330 million, with an overall take rate of 5.4%.

Regarding our PJT Marketplace, we have improved our services for merchants and equipped them with Device Hero, our portable quality inspection terminal. The proprietary features embedded significantly enhance their bulk purchasing and ship-in management capabilities. The device also lifts the burden of real-time inventory management and business analysis, reducing time and labor costs while realizing faster turnover. PJT Marketplace has become an infrastructure of B2B transactions.

By the end of the third quarter, PJT had amassed over 530,000 registered users while the number of active users increased by 15.4% year-over-year during the period.

对于拍拍 B2C 平台，在保障品质的前提下，我们持续为消费者提供物美价廉的二手商品购买选择，支持京东零售低价战略，整体调整平台商品的成色和等级区间，合理加强零售价格体系与用户低价消费偏好的适配。

本季度，我们升级了拍拍 B2C 寄卖业务模式，打通京东主站，实现了供货和销售的分离，降低中小商家在京东主站的入驻、供货、经营门槛；同时，通过平台统一质检管理，实现更好的质量保障。这种创新模式大幅降低了行业小商家的零售供货参与门槛，为平台提供了丰富货源供给，同时充分保障了商品质量与买家的消费体验。

Our Paipai Marketplace continues to allow us to meet broader consumer demand for cost-efficient, high-quality, pre-owned products. We support JD's low-price retail strategy by enhancing our retail price system through adjustments to product grade ranges to align with users' preferences for more affordable goods.

During the quarter, we upgraded Paipai's B2C consignment business model on JD's main site. This further opened up the platform to small and medium-sized merchants, to join, provide supplies, and operate on JD.com. Our platform ensures quality with a unified quality system. Such an innovative model substantially reduces the entry barriers for small retail businesses in the industry, providing them with ample and easy access to platform resources, while ensuring product quality and buyer satisfaction.

再看成本端，首先，我们持续降低经调整履约费用率。三季度，不含股权激励费用和无形资产摊销和递延费用，经调整履约费用率为 8.7%，较去年同期下降了 2 个百分点。具体来看：一方面，物流费较去年同期节约了 11%，来自全国仓储布局的优化。另一方面，我们持续发挥自动化大仓的质检技术与规模优势——基于 Matrix 3.0 自动化质检系统，由于质检失误造成的退货损失同比降低 20.5%。

其次是销售费用率的优化。经调整销售费用率同比下降 2.8 个百分点至 7%。本次优化主要来自于：1) 爱回收品牌力的进一步提升，使无需支付营销费用的自有回收渠道占比上升；2) 我们扁平高效的组织架构，进一步提升了城市大区的地推和销售团队的工作产出效率。

Turning to our expenses. Firstly, we continued to lower the non-GAAP fulfillment expense ratio to 8.7% by 2 percentage points year-on-year. This was primarily due to an 11% year-on-year decrease in logistics expenses, thanks to our updated national operation station footprint. Return losses from testing errors saw a 20.5% year-on-year reduction, thanks to the technological and efficiency advantages provided by our automated operation centers, especially the Matrix 3.0 system.

Secondly, we obtained optimization in ROI for selling and marketing expenses. During the third quarter, adjusted selling and marketing expenses as a percentage of revenues were 7.0%, representing a year-over-year decrease of 2.8 percentage points. The strength of our brand name played a key role, as we had a higher percentage of 1P recycling channels that required fewer selling expenses. We also streamlined our regional sales teams and increased our sales output.

基于手机 3C 大盘业务增长和利润的确定性，我们也加快多品类业务的发展，测试孵化新媒体账号矩阵。

多品类战略方面，三季度总回收业绩达到 3.5 亿元，连续多个季度实现业务规模的快速增长，非 3C 回收业务在爱回收用户群体中获得了广泛的欢迎。其中，体验是最重要的一环。在奢侈品回收的到店体验方面，商品获取商家端报价的时间进一步缩短，用户对报价的满意度进一步提升，回收放款进一步加快——通过立足门店的面对面回收的信任感和服务体验优势，我们相信将打开我们回收业务的增量空间，并且提升服务频次和门店店效。

除此之外，作为内部营销资源的调整、和对多品类回收业务的支持，我们培养新媒体流量账号。在短视频平台启动门店本地号，以本地化内容做低成本的内容输出，展示探店、上门回收等用户故事。基于位置算法，吸引周边用户到店体验。由于新媒体流量能力是内部培养，本期并未产生显著的销售费用。

Building on our robust growth in consumer electronics categories, we actively diversify our multi-category recycling business and explore marketing opportunities through new media.

The recycling volume of our multi-category business amounted to RMB 350 million in the third quarter. This is a testament to the rapid growth over the past quarters. Non-consumer electronics recycling services have gained wide popularity among the AHS user community. Experience is the most important part. We shortened the waiting time for in-store pricing of luxury goods recycling, further advancing user experience. Users' satisfaction with the quotation was improved, and payments were made even faster. Through trust and service experience advantages of in-store face-to-face fulfillment, we are able to break the glass ceiling while uplifting service frequency and UE of our stores.

Furthermore, as part of our internal marketing resource allocation, and to support the multi-category recycling business, we test the water of traffic generation from new media. We have already launched local accounts for our offline stores on short video platforms, where we create cost-effective localized content that showcases users' experiences while exploring our stores and utilizing doorstep recycling. By leveraging location algorithms, we attract a higher number of local users to our stores. Since the content is developed in-house, we didn't have any significant expenses.

以上是我们对场景能力、供应链能力、技术能力长期战略坚持的结果。这些结果也验证了二手消费品行业规模大、价值长期的属性。再次感谢我们的团结奋战的团队以及他们的付出，让万物新生连续取得可喜的成绩。

最后补充公司在可持续发展方面的动态：今年 9 月，万物新生加入了联合国全球契约组织，作为国内二手消费电子行业内首家加入该国际组织的成员，承诺支持关于人权、劳工、环境和反腐败四个领域的十大原则，巩固企业的可持续发展根基，以践行长期使命。

In summary, these results came from our steadfast strategies of occupying precise scenes, consolidating supply chain capabilities, and underlining a tech-driven business. The results also verify the second-hand industry's substantial potential for scale and enduring value. I would like to thank our united and hard-working team again for their tireless efforts.

Finally, I would like to provide an update on our sustainability efforts. In September 2023, as a Chinese company from the pre-owned consumer electronics industry, we are honored to become the first signatory to join the United Nations Global Compact. We are committed to upholding the ten universally accepted principles in the areas of human rights, labor, environment, and anti-corruption. This commitment strengthens the foundation for our company's sustainable development and aligns with our long-term mission.

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, as we achieved yet another new record non-GAAP operating income, on revenues that exceeded the top end of our guidance.

Before going into our financial details, please note that all amounts are in RMB and all comparisons are on a year-over-year basis unless otherwise stated.

In the third quarter, total revenues increased by 28.4% to RMB 3,256.8 million, mainly driven by growth in net product revenues. Net product revenues increased by 31.4% to RMB 2,924.0 million, while net service revenues increased by 7.3% to RMB 332.8 million.

Growth in net product revenues was primarily driven by an increase in the sales of pre-owned consumer electronics both through the Company's online and offline channels. Sales of 1P refurbished devices totaled RMB [200 million], more than doubled compared with the same period last year.

The increase in service revenues was primarily due to the recovery of Paipai and PJT marketplaces from the COVID-19 pandemic influence during 2022 and an increase in the overall take rate which grew to 5.40% from 4.45%.

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 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 35.1% to RMB 2,611.0 million. The increase was in line with the growth in product sales revenues. Gross margin at the group level was 19.8% in the third quarter. Gross margin for our 1P business was 10.7%.

Fulfillment expenses increased by 3.8% to RMB 287.7 million. Excluding share-based compensation expenses, which we will refer to as “SBC” from here on, non-GAAP fulfillment expenses increased by 4.2% to RMB 282.3 million. Under the non-GAAP measures, the increase was primarily due to an increase in personnel costs as the Company's recycling activities developed compared with the same period of 2022. Non-GAAP fulfillment expenses as a percentage of total revenues decreased to 8.7% from 10.7% in the same period last year.

Selling and marketing expenses decreased by 12.1% to RMB 299.5 million. Excluding SBC expenses and amortization of intangible assets, non-GAAP selling and marketing expenses decreased by 8.7% to RMB 227.9 million, primarily due to a decrease in the expenses in relation to marketing activities. Non-GAAP selling and marketing expenses as a percentage of total revenues decreased to 7.0% from 9.8% in the same period last year.

General and administrative expenses increased by 9.7% to RMB 69.8 million. Excluding SBC expenses, non-GAAP G&A expenses increased by 9.3% to RMB 50.6 million. Non-GAAP G&A expenses as a percentage of total revenues decreased to 1.6% from 1.8% in the same period last year.

Technology and content expenses decreased by 21.3% to RMB 39.4 million. Excluding SBC expenses, and amortization of intangible assets, non-GAAP technology and content expenses decreased by 23.2% to RMB 33.7 million. This was primarily due to the decrease in technological expenses as the Company's platforms matured. Non-GAAP technology and content expenses as a percentage of total revenues decreased to 1.0% from 1.7% in the same period last year.

As a result, our non-GAAP operating income was RMB 73.8 million in the third quarter of 2023. Non-GAAP operating profit margin was 2.3%, marking a new record high. The non-GAAP operating margin was 0.4% in the same period last year.

As of September 30, 2023, cash and cash equivalents, restricted cash, short-term investments, and funds receivable from third-party payment service providers totaled RMB 2.3 billion. Our sufficient cash on hand safeguards a sustainable growth outlook.

During the third quarter of 2023, we repurchased 1.6 million ADSs in the open market for a total cash consideration of US\$4.0 million. As of September 30, 2023, we had repurchased a total of 13.8 million ADSs for approximately US\$48.4 million under our share repurchase programs.

Now turning to the business outlook. For the fourth quarter of 2023, the company currently expects its total revenues to be between RMB 3,730 million and RMB 3,830 million, representing a year-on-year increase of 25.1% to 28.5%. 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 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). Victor Tang from Goldman Sachs.

Victor Tang: (Mandarin) 谢谢管理层接受我的提问，我代表高盛的互联网分析师 Ronald Keung 提问。可否请管理层分享公司今年双十一的进展，以及对 2024 年的预期？另外，请问管理层，公司在苹果官方渠道开展以旧换新有哪些进展？我们看到苹果今年面临更多来自华为手机的竞争，这对公司的业绩有什么影响？Thank you, Management, for taking my question. I'm asking this question on behalf of our analyst, Ronald Keung. Can Management share some color on Singles' Day grand promotion performance? And what does management take on the outlook for 2024? Can management also provide an update on AHS Recycle's inclusion in Apple's official channels in Mainland China? And will the recent revival of Huawei's cell phone impact your recycling performance?

Kerry Chen: (Speaking Mandarin) 好的，谢谢 Victor。今年双十一期间，我们看到用户的回收和以旧换新的热情高涨。双十一开门红期间，我们的 C2B 回收额取得了 60% 的显著同比增长；上海和北京两个城市，均在十月达成了单月回收交易额超过 1 亿元人民币的里程碑。我们 B2C 的业务，在双十一当天的全渠道成交额突破 1.6 亿元人民币，同比增长 24%。我们的回收、B2C 销售业绩是广大用户对爱回收品牌的认可，也佐证着循环经济的商业模式的坚韧性与行业巨大的增长潜力。进入 11 月尾声，我们对 2023 年四季度给出 37.3 亿元到 38.3 亿元的总收入指引，对应为 25.1% 到 28.5% 的同比增长区间。对于 2024 年财年，我们保持对循环经济发展确定性的积极预期；我们对集团战略，尤其是苹果官方全渠道回收和以旧换新、多品类回收战略、利润贡献更显著的焕新机战略、自动化技术对规模效率提升的战略，充满信心。

(Translated) Thank you, Victor, for your question. Throughout this year's Double 11, we've observed a surge in user enthusiasm for recycling and trade-in. During the pre-sale period of the grand promotion, the total value of C2B recycling orders increased significantly by 60% year-on-year. Both Shanghai and Beijing also reached the RMB 100 million milestone in single-month transaction values in October. And B2C sales on November 11th across all channels totaled RMB 160 million, representing an increase of 24% year-on-year. Our recycling business performance speaks volumes about user loyalty towards the AHS Recycle brand, underscoring the resilience and immense growth potential of our business model within the circular economy.

As we approach the end of November, our guidance for total revenue in the fourth quarter of 2023 ranges from RMB 3,730 million to RMB 3,830 million, reflecting 25.1% to 28.5% year-over-year growth. Looking ahead to fiscal year 2024, we remain confident in the promising evolution trends of the circular economy and our business strategies. We are confident in executing our strategy to realize higher profitability from our compliant refurbished business, our involvement in Apple's official recycling and trade-in programs, expansion of our multi-category recycling, and efficiency enhancements from automation technology.

苹果是我们二手 3C 业务大盘中最重要的品牌之一，在我们的主营回收业务收入中，保持 60% 左右的业务占比。我们相信苹果依然是深受用户喜爱的品牌，在中国内地市场的出货依然保持坚挺。苹果产品的保有量和保值率依然领先，拥有进一步提升以旧换新服务渗透率的空间。我们服务苹果内地官网和官方旗舰店的业务流程已经打通，在三季度末经历了首个业务阶段，并在新机发售出货量和以旧换新单量相对有限的期间内，积累了 3000 万元销售收入业绩。在四季度的以旧换新中，我们拿到了 N-1 和 N-2 代机型的回收型号，意味着爱回收可以直接承接苹果官方体系的 iPhone14 换 iPhone15 以及 iPhone13 换 iPhone15 的服务订单，让我们可以显著放大主流机型的回收量。

Apple remains a key brand for our pre-owned consumer electronics recycling business, accounting for a 60% share of 1P recycling business revenues. iPhone sales in mainland China continue to be robust, reflecting Apple's sustained popularity among consumers. The number of Apple products in circulation is huge, and the value retention rate is still industry-leading. There is room to further increase the

penetration rate of trade-in services. Our services for Apple's official website and flagship stores in mainland China began in the third quarter, generating RMB 30 million in sales, despite limited new phone shipments and trade-in orders during the period.

In the fourth quarter, we secured qualifications that allow us to recycle the two most recent generations of iPhones, which means we can have iPhone 13 lineups and 14 lineups for the new iPhone 15 lineups. This allows us to significantly scale up the amount of recycling mainstream products.

好的，谢谢。

Thank you for the question.

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

Jiajing Chen: (Speaking Mandarin). 谢谢管理层接受我的提问，请问管理层对现金的使用有哪些规划？以及刚刚管理层也提到了回购，请问公司如何处置回购的股票？ Thanks, Management for taking my question. Could management talk about the use of cash and how you are handling the shares repurchased?

Rex Chen: Thank you for the question. As of September 30, 2023, our total cash and cash equivalents, restricted cash, short-term investments, and funds receivable from third-party payment service providers summed to RMB 2.3 billion. To support our long-term strategic and business development, first, for the main business of pre-owned consumer electronics, we will continue to strengthen the control of the use of cash, improve the operating cash flow, and increase the positive cash inflow from core mature business. Second, we will deploy cash in a disciplined manner into areas with long-term potential, especially multi-category businesses based on existing AHS Recycle stores. We believe that the enhanced operational cash flow and prudent capital expenditure will be conducive to the further strengthening of the company's competitive advantages and long-term value to shareholders.

(Translated for Chinese readers' reference) 截至 2023 年 9 月 30 日，集团的现金及现金等价物、受限资金、短期投资、第三方支付平台账户余额共 23 亿元人民币。我们在长期的战略与业务发展中：1) 对于二手手机 3C 主营业务，我们会持续加强对资金使用的把控，改善经营性现金流表现，提升成熟主营业务的正向现金流贡献；2) 我们会以更有纪律的资金使用，投入有长期发展潜力的循环经济领域，尤其是以现有门店为基础开展的多品类业务。相信这些审慎的现金支出，将有利于进一步巩固公司的竞争优势，有利于提升股东的长期价值。

We have been continuously repurchasing our shares since late 2021 through the share repurchase programs we adopted. Repurchased stocks are booked as treasury stocks, which are devoid of rights to dividends or voting. By the end of the third quarter of 2023, a total of US\$48.4 million had been spent through the share repurchase programs since December 2021. We plan to continue to conduct stock repurchases in the foreseeable future. Thank you for your question.

同时，我们在 2021 年年底以来，启动了股票回购计划，并持续执行。我们将回购的股票记作库存股，这部分股票没有分红、投票等任何权利。截至 2023 年三季度末，我们共使用 4840 万美元，未来也会继续推进股票回购计划。谢谢你的问题。

Operator: (Operator Instructions). Company reading out the questions on behalf of Joyce Ju from Bank of America.

Joyce Ju: (Mandarin). 恭喜公司三季度业绩再超预期。我的第一个问题是关于利润率的，管理层可否对毛利率和 non-GAAP 经营利润率提供更多的解析？第二个问题是，管理层可以对合规翻新业

务的进展和预期做一些点评吗？谢谢。Congrats on another strong quarter. My first question is about margins. Can management share more color on gross profit margin, and your non-GAAP operating profit margin? What's the outlook for your margins? My second question is on refurbishment, can management comment on the progress and expectations of the compliant refurbishment business? Thank you.

Rex Chen: Thank you for the question. In the third quarter of 2023, the overall gross profit margin was 19.8%, which was a year-over-year decline due to our strategic shift in revenue mix. Over the past five quarters, we have focused on bolstering our 1P business, and as such the 3P service revenue which involves zero COGS contributed 10.2% to our total revenues, downsizing by 2% year-over-year.

(Translated for Chinese readers' reference) 2023 年三季度整体毛利率 19.8%，同比下降的主要原因是集团的收入结构发生变化，在过去的 5 个季度内侧重发力 1P 自营业务，而不涉及商品成本的 3P 服务收入占比同比下降 2%至 10.2%。

Taking a detailed view of the gross profit of the 1P business, the third quarter gross profit margin stood at 10.7%. This aligned with our expectation that 1P gross profit margin would contract this quarter. There are two reasons behind this. First, during the new phone sales season in September, we proactively adjusted our sales prices of refurbished devices in preparation for seasonal margin fluctuation. We also adjusted the to-business products' selling prices. Such adjustment aims to meet the demand of merchants by reducing their procurement costs and ensuring their profitability. Second, to supplement our supply, we procured second-hand devices from industry partners, resulting in a relatively lower gross margin for that supply. However, as our automation technology further improves our fulfillment efficiency, along with optimized selling and marketing cost efficiency, our fulfillment expense ratio and selling and marketing expense ratio against total revenues dropped to 8.7% and 7.0%, delivering a non-GAAP operating margin of 2.3%. Although 1P gross margin decreased, we were able to provide consumers with more competitive recycling prices and joyful experiences.

如果放大看 1P 毛利，三季度 1P 毛利率为 10.7%，出现在本季度预期之内的收缩：首先，我们为迎接 9 月的旗舰新机的发售，调整了自营焕新机业务产能以适配季节性利润波动，并主动调整了主营回收业务中 2B 商品的销售价格，以满足商家用户对二手手机 3C 采购的价格和利润需求。其次，此前为补充二手货源，我们从行业伙伴处采购了二手手机，这部分货源的毛利较低。但由于自动化技术效率的释放和营销费用的节省，我们的 non-GAAP 履约费用率和销售费用率分别下降至 8.7%和 7.0%。虽然 1P 毛利率下降，但我们为消费者提供了更好的回收价格和体验，并在三季度以效率制胜，超预期实现了 2.3%的 non-GAAP 经营利润率。

In the third quarter, our compliant refurbishment business generated RMB [200 million] in revenue, reflecting notable user acceptance of pre-owned electronic devices, especially pre-owned Apple devices. Research suggests that an iPhone's lifespan can reach up to eight years, with 50% of globally activated iPhones being pre-owned devices. While the domestic compliant refurbishment market is still in its early stages, our refurbishment business shows promising growth potential. We anticipate an improvement in overall adjusted operating margins attributable to the growth of refurb businesses and Apple businesses. Thank you for the question.

合规翻新业务在三季度整体贡献 2 亿元收入，我们看到用户对二手电子产品尤其是二手苹果产品的接受度较高。有研究机构的数据显示，iPhone 的使用寿命可达到 8 年，且全球激活使用的 iPhone 中有 50%是二手设备，对比国内市场仍处于发展早期阶段的合规翻新市场，我们的翻新业务仍有较强的增长前景。我们预期集团可以通过更多自营合规翻新机器 toc 的高毛利零售，和运营成本较低的苹果官方回收及以旧换新业务，共同推动整体经营利润率的提升。

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

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

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