

[RERE] – ATRenew Inc.
Q2 2023 Earnings Conference Call Transcript (Corrected)
Wednesday, August 23, 2023, 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:

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

Presentation

Operator:

Good morning and good evening, ladies and gentlemen. Thank you for standing by and welcome to ATRenew Inc.'s second 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 second 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 Q2 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.

Please note that management are joining the call from different locations. We will try to fix it if there is any connectivity issue.

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 年第二季度业绩电话会。

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

二季度，万物新生在收入和盈利两方面均取得积极的进展。总收入达到 29.6 亿元，同比增长 38.1%，突破此前提提供的指引区间高端——在后疫情时期，自营回收业务快速反弹、平台业务健康复苏，证明了循环经济商业模式的坚韧性。在盈利方面，经调整经营利润与利润率进一步提升，分别为 5200 万元和 1.8%——符合我们做厚二手价值链和提升运营效率的预期。

During the second quarter, we made notable progress in terms of both revenue and profitability. Our total revenues reached RMB2,960 million, representing a year-over-year increase of 38.1%, and surpassing the high end of our guidance. As we navigated the post-pandemic era, our 1P recycling business rapidly rebounded, and our marketplaces saw a healthy recovery, demonstrating the resilience of the circular business model. In terms of profitability, the adjusted operating income increased to RMB52 million and the adjusted operating margin further expanded to 1.8%. These improvements fully align with our aims of enhancing the second-hand industry's value chain and optimizing operational efficiencies.

我们的战略方向继续保持延续和一致，一方面，实现大盘业务的稳健增长。其中，我们持续投入自营渠道，包括门店和官网的建设，提升用户在爱回收的回收体验，抓第一手的货源供给，提升回收的市场占有率；我们还继续加强与京东电商、包括苹果等主流品牌的战略合作，为合作伙伴提升其零售场景内的以旧换新体验。

另一方面，我们通过持续创新，打开增量空间。通过过去一段时间的建设，我们成功提升了奢侈品回收的用户体验与门店端的服务能力，强化了国民第一回收品牌的心智建设；我们也在流量端实现了一些突破，通过更高频的居民端的回收服务，引导用户加强对主营手机 3C 和奢侈品回收的意识，更频繁地打开爱回收 APP 和小程序，更经常地来到爱回收的线下门店。

Our strategic direction remains consistent. On the one hand, we aim to achieve steady growth in core consumer electronics businesses. Among them, the escalating 1P recycling channels, including AHS Recycle stores and the official website, provide a better user experience, ensure first-hand sources of supply and acquire more market share. We also continue to strengthen cooperation with e-commerce pioneers like JD.com and leading brands such as Apple, to advance their trade-in service experience in retail scenarios.

On the other hand, we seek to unleash the potential through continuous innovations. On recycling, over time, we have successfully improved the user experience and store service capabilities of recycling luxury goods, and continued to strengthen the brand awareness of AHS Recycle. On user traffic, we have achieved some progress recently, through high-frequency household goods recycling services in communities. We guide users to AHS Recycle app, WeChat mini-programs, and encourage more customers to visit our physical stores to sell more high-residual value products.

下面，我将对公司主营业务的增长驱动力、主营业务的运营效率提升、以及创新业务这三方面，进行进一步的解读：

Next, I'll share more color from three aspects: 1) key growth drivers of the core business, 2) operational efficiency improvements, and 3) updates on our innovative businesses.

在增长驱动力方面：1P 自营收入同比增长 42.2%至 26.37 亿元，首要原因是：在增长平缓的消费环境下，用户参与以旧换新的活跃度依然较高，回收和购买二手消费依然处于快速发展的趋势，次要原因是我们的供应链增值业务“焕新机”的销售额在快速提升。

In terms of growth drivers, 1P product revenue grew rapidly by 42.2% year over year to reach RMB2,637 million in the second quarter. This increase was primarily driven by the continuing upsurge in the trend for selling old for new and buying pre-owned products, even when consumption growth flattened.

Another factor was the scaling sales of our refurbished products.

具体来看，首先从回收端看，今年二季度，自营渠道与京东渠道均取得回收增速的回升。我们通过全国 1944 家门店持续提升消费者的触达、报价的接受度、以及回收服务的满意度。自营业务通过其中的 1,162 间标准店，通过标准可控的门店终端，锁定优质货源的供给。此外，京东来源的订单也取得了快速恢复，一站换新业务在 Q2 实现 116.9%的收入同比增长，除苹果产品外，一些安卓型号的以旧换新也受到京东用户的欢迎。

其次从销售端看，度过疫情的负面影响后，平台核心业务的商家交易活跃度健康。ToC 零售方面，我们基于 22 年 4 月发布的电子产品合规翻新指引，打造自有品牌“焕新机”业务。本季度，通过自营回收的商品，经合规翻新后的 toC 零售收入达到 1.7 亿元，较一季度环比提升 22%，在实现快速增长的同时，满足更多 C 端用户对优质的二手产品的购买需求。

Specifically, on the recycling front, we saw significant year-on-year improvements in both storefront and JD recycling channels. We utilized our extensive network of 1,944 offline stores nationwide to further develop consumer outreach and effectively improve user satisfaction with price quotations and services. Of which, the 1,162 standard stores play a key role in obtaining more supplies of quality devices. In addition, recycling orders from JD channels recovered quickly, as one-stop trade-in business saw 116.9% year-on-year revenue growth in the second quarter. In addition to Apple products, some Android models were also popular with JD customers.

On the selling front, having successfully navigated the challenges posed by the pandemic, merchant user's transaction activities kept healthy. As for first-party retail distribution, we started the compliance refurbishment business under "RERE Refurberd" brand following the release of relevant regulatory guidance in April 2022. Revenue from retailing RERE Refurberd devices totaled RMB170 million in the second quarter, representing a notable increase of 22% sequentially, further fulfilling consumers' need for premium second-hand devices.

服务类收入同样在二季度恢复增长，同比增长 12.1%至 3.27 亿元，平台综合收费率同比提升 83 个基点至 5.37%。在我们将资源向 1P 倾斜的背景下，平台业务仍实现了健康的发展。

其中，拍机堂平台在二季度推进市场覆盖和下沉，挖掘更多本地市场的买卖家渠道，并从平台交易规则上优化交易的场次与时间，提升买卖家交易的粘性和平台服务的货币化能力。

拍拍方面，POP 平台业务在京东低价心智的牵引下，兼顾规模与利润的平稳持续增长。我们鼓励更多品类的新商家入驻，并提供更优质的经营环境和供应链能力支持。下半年，我们将继续升级 B2C 业务模式，开展寄卖业务，沉淀用户的信任和线上零售大店的运营能力，在降低商家供货参与门槛的同时，通过入仓质检，保证产品的质量和用户体验。

Our platform service revenues rebounded at 12.1% year-on-year to RMB327 million in the second quarter. The overall take rate jumped 83 basis points to 5.37%. The platform business has achieved healthy growth even as our strategic focus shifted towards first-party businesses.

PJT Marketplace advanced its market penetration efforts during the second quarter. This involved exploring more local buyer and seller channels and optimizing online transaction scheduling. As a result, we enhanced user stickiness and monetization capability.

In terms of Paipai Marketplace, its POP business fostered concurrent expansion in both scale and profitability under JD's low-price strategy. We continued to provide premium supply chain support to more small business owners, diversifying businesses and product categories. In the second half of 2023, we will upgrade the B2C business model and carry out a new business based on the trust of users and the operation capacity of large stores. While lowering the participation threshold for merchants to supply goods, we will ensure product quality and buyers' experience through warehousing quality inspection.

在运营效率提升方面：基于更加完整的二手 3C 产业链、以及自动化驱动运营效率的改善，我们在二季度继续实现了利润率的改善。二季度，经调整履约费用率为 8.8%，同比下降 3.7 个百分点。其中，运营中心仓内费用较上年同期节约了 12%，物流费较上年同期节约了 17%。运营中心费用的节约，得益于我们华东、华南两大自动化运营中心的规模化运营，带来的质检效率提升；同时由于质检失误率的进一步降低，以及小仓网络的优化调整，实现了综合成本的降低。

物流成本的节约，得益于两方面。一方面，我们深化与京东物流的合作，结合二手商品和交易的特性推进物流模式的切换，有效节约出库物流费用。另一方面，通过对供应链算法策略的投入，我们能更好地利用现有的多个运营中心，优化供应链作业的班次，智能匹配最优的仓储地点和物流承运方案，以数据支持运营决策，降低履约物流成本。

As for operational efficiency improvements, we widened our operating margin on a more comprehensive supply chain and more advanced automated operational efficiency. During the second quarter, non-GAAP fulfillment expenses as a percentage of total revenues was 8.8%, down 3.7 percentage points compared with the same period of 2022. To break it down, operation center-related expenses and logistics expenses decreased by 12% and 17% year-on-year, respectively.

The costs saved in operation centers were attributable to 1) scale effects and reduced inspection errors following the use of our automated facilities in south and eastern China, and 2) optimization of the operation station network and related expenses.

In addition, we credit the savings in logistics-related expenses to two factors. For one, it's the deepened relationship with JD Logistics. Shipping out solutions were better tailor-made for pre-owned goods transactions. The other is, we leverage supply chain algorithms to better match orders with our regional operation center's capacity, warehousing allocation, and logistics solutions. This eases our operational decision makings and overall logistics expenses.

在主营业务稳健增长以外，我们还通过创新业务，继续增加增长动力。今年 6 月 30 日，我们正式登陆苹果中国内地的线上官网与线下官方旗舰店体系，成为苹果在内地市场中的第二个 ATI (APPLE TRADE IN) 以旧换新服务商，为其“折抵换新”和“年年焕新”提供供应链支持。用户通过苹果官网提交、或亲临中国内地的 45 家官方旗舰店要求以旧换新，部分型号的旧机在苹果店员完成回收后，以预先商定的机制交给爱回收，由爱回收进行数据隐私擦除和二次质检。目前我们的系统功能已经上线、流程已经跑通，积累了一定的运营经验，期待在 iPhone 新系列首发时有更好的表现。

One more thing, in addition to the organic growth of our core businesses, we are cultivating external growth engines through innovations. On June 30th, we officially integrated into Apple China's online and

offline retail system, becoming the second APPLE TRADE IN service provider in the mainland China market. We provide supply chain support for Apple Trade In and iPhone Upgrade Program. Users can place ATI service orders via Apple.cn or visit any of the 45 flagship stores. A selection of used devices will be transferred to AHS according to allocation mechanisms and recycling prices. Upon receipt, AHS conducts data erasure and quality inspections. We have completed system deployment and accumulated some experience through testing, and we expect more progress when the new iPhone lineup debuts.

多品类回收方面，二季度，多品类回收的交易规模（不含摄影摄像器材）超过 2 亿元，其中，奢侈品回收交易额环比增长 60%，黄金回收交易额环比增长近 100%，实现快速提升。我们持续提升门店服务能力，在一二线城市打造全新的爱回收特色店，提供有竞争力的报价，当场的奢侈品质检、缩短消费者的等待时间；针对大量现有的爱回收门店，我们通过系统支持，提供标准化的多品类回收服务。二季度，我们有 231 家爱回收门店实现了多品类回收的业务支持。

品牌方面，我们对爱回收主品牌的心智建设追加投入，与更多品牌一起倡导循环消费的新模式。今年以来，爱回收与全棉时代、凯德、Wonderlab、盒马、腾讯公益等多个品牌落地联名合作活动。我们十分重视价值链共赢与回收品牌心智的建设。

In terms of the new category recycling, GMV and service capability continued to scale. During the quarter, GMV excluding photography and video equipment, rapidly exceeded 200 million RMB. Among these, luxury goods and gold recycling transaction volumes increased by 60% and nearly 100% compared with the first quarter, respectively. We also polished our store service capabilities. These include opening new AHS iconic stores in first- and second-tier cities with competitive pricing quotations, on-site luxury goods quality inspection, and shortened waiting period for customers. For a larger number of existing AHS stores, we provide standardized multi-category recycling services supported by IT systems. In Q2, 231 AHS stores fulfilled multi-category recycling orders.

On branding, we made additional investments in our main brand AHS Recycle, and advocated the new model of circular consumption with wider participation of consumer brands. AHS Recycle has cooperated with brands such as Cotton Times, Capitaland, Wonderlab, Freshippo, and Tencent Charity, etc. We attach great importance to synergies with consumer brands to form the recycling mentality.

最后补充一些 ESG 动态，万物新生在 6 月 20 日发布 2022 年度 ESG 报告，披露环境、社会、管治三方面的绩效亮点。在环境方面，我们持续披露温室气体的排放强度，实现了连续三年单位经济产出下的温室气体排放强度下降。在社会价值方面，我们加强质量管理体系，于报告期内获得 ISO9001 质量管理体系认证，并为一万名商家提供了专项培训，加强循环经济上下游的合作。在管治方面，公司董事会结构进一步多元化，加强内控与风险管理，为长期稳健运营创造更好的基础。

Finally, some updates on our ESG efforts. On June 20th, we released our 2022 ESG report. Particularly noteworthy is our commitment to disclosing greenhouse gas emissions for three consecutive years. During the three-year period, we continuously downsized greenhouse gas emission intensity. On the social front, we have enhanced our quality control system, attaining ISO9001 certification during the reporting period. We provided training to ten thousand merchants, strengthening value co-creation along the industry chain. In terms of governance, the board structure of the company has been further diversified, and we have made advances in internal controls and risk management to realize robust operations in the long run.

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 generated a new record non-GAAP operating income on revenues that beat the top end of our guidance.

One of the key drivers of our continued profitability was our use of industry-leading AI and big data algorithms to enhance our quality inspection systems which continuously optimized our fulfillment costs. The non-GAAP fulfilled gross margin was 12.7% - it continued to recover from a low point in the fourth quarter of 2022.

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 second quarter, total revenues increased by 38.1% to RMB2,963.7 million, mainly driven by growth in net product revenues. Net product revenues increased by 42.2% to RMB2,636.7 million, while net service revenues were RMB327.0 million, representing an increase of 12.1%.

Growth in net product revenues was primarily driven by an increase in the sales of pre-owned consumer electronics, including the sales of RMB191 million refurbished devices.

The increase in service revenues was primarily due to the revitalizing businesses of our marketplaces from the COVID-19 pandemic and an increase in the overall commission rate which grew to 5.37% from 4.54%.

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.

Merchandise costs increased by 40.6% to RMB2,325.8 million. The increase was in line with the growth in product sales revenues. Gross margin at the group level was 21.5% in the second quarter. Gross margin for our 1P business was 11.8%.

Fulfillment expenses decreased by 2.3% to RMB268.8 million. Excluding share-based compensation expenses, which we will refer to as "SBC" from here on, non-GAAP fulfillment expenses decreased by 2.2% to RMB261.8 million. Under the non-GAAP measures, the decrease was primarily due to the decreases in logistics expenses and operation center-related expenses as we kept optimizing our store and operation station networks, but was partially offset by an increase in personnel costs as our recycling activities developed compared with the same period of 2022. Non-GAAP fulfillment expenses as a percentage of total revenues decreased to 8.8% from 12.5% in the same period last year.

Selling and marketing expenses increased by 14.3% to RMB335.3 million. Excluding SBC expenses and amortization of intangible assets, non-GAAP selling and marketing expenses increased by 28.0% to RMB253.6 million. The increase was primarily due to (i) an increase in advertising expenses and promotional campaign-related expenses, (ii) an increase in commission expenses in relation to channel service fees, and (iii) an increase in office and traveling-related expenses. Non-GAAP selling and marketing expenses as a percentage of total revenues decreased to 8.6% from 9.2% in the same period last year.

General and administrative expenses increased by 27.2% to RMB57.5 million. Excluding SBC expenses, non-GAAP G&A expenses increased by 37.5% to RMB39.6 million, primarily due to (i) an increase in expected credit loss relating to credit risk, (ii) an increase in professional service and consulting fees. The increase was partially offset by a decrease in personnel costs. Non-GAAP G&A expenses as a percentage of total revenues were 1.3%, the same as that a year ago.

Technology and content expenses decreased by 24.6% to RMB45.0 million. Excluding SBC expenses, and amortization of intangible assets, non-GAAP technology and content expenses decreased by 26.8% to RMB38.8 million. This was primarily due to the decrease in technological personnel cost and technology expenses in relation to platforms as the Company's platforms matured. Non-GAAP technology and content expenses as a percentage of total revenues decreased to 1.3% from 2.5% in the same period last year.

As a result, our non-GAAP operating income was RMB52.0 million in the second quarter of 2023. Non-GAAP operating profit margin was 1.8%, marking a new record high. The non-GAAP operating margin was negative 2.0% in the same period last year.

As of June 30, 2023, cash and cash equivalents, restricted cash, short-term investments, and funds receivable from third-party payment service providers totaled RMB2.5 billion. Our sufficient cash on hand safeguards a sustainable growth outlook.

During the second quarter of 2023, we repurchased 2.3 million ADSs in the open market for a total cash consideration of 6.4 million US dollars. As of June 30, 2023, we had repurchased a total of 12.3 million ADSs for approximately 44.4 million US dollars under our share repurchase program.

Now turning to outlook. For the third quarter of 2023, the company currently expects its total revenues to be between RMB3,150 million and RMB3,250 million. 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). Weiting Tang from Goldman Sachs.

Weiting Tang: (Mandarin) 你好管理层，谢谢接受我的提问。我们看到苹果官网已经有爱回收服务上线了，管理层能否介绍下相关业务的背景，以及对今年这块业务的指引？Thank you, management. Regarding the recent launch of AHS's service support to Apple's official retail channels in China, can the management team provide an overview of the background of this service support and the outlook for growth and profit of this business stream in 2023? Thank you.

Kerry Chen: (Speaking Mandarin) 感谢提问。我们很高兴能够成为苹果在中国内地市场的第二家以旧换新官方合作伙伴，服务苹果中国官网和线下的 45 家官方旗舰店的回收项目。万物新生与苹果有着相近的愿景，致力于提升产品和服务的可及性，注重用户隐私和回收过程中的数据安全保护，以创新的服务打造极致的用户体验，降低用户的换新决策成本和经济支出。

(Translated) Thank you for the question. We are pleased to announce that we have become Apple's second official trade-in partner in mainland China, providing recycling supply chain services to Apple China's official website and 45 flagship stores. Our vision is closely aligned with Apple's. We both share a focus on enhancing product and service accessibility, prioritizing user privacy and data security in recycling, delivering unparalleled user experience, and reducing the cost of decision-making as well as the economic cost of upgrading devices.

具体看业务流程，用户可以通过苹果中国官网线上提交订单，通过邮寄的方式回收；或直接带着旧机到苹果线下的官方旗舰店，由 Apple Store 店员使用专用设备进行扫码、快速核验、回收打款、擦除设备信息，再将部分型号统一交给爱回收进行后端的隐私清除保护和二次质检，成为我们的库存，之后完成销售。这项业务将以 1P 模式开展，因为我们不需要投放广告获客，也没有独立的门店端的费用，所以这项回收的成本结构更加简单。

Specifically, Apple has two alternative processes for recycling in its official retail channels in China. Users can submit recycling orders via Apple.cn and send in the used devices. They can also visit Apple's flagship stores in person, where Apple staff use specialized devices to scan, verify, erase data, and pay on-site. Certain models are then handed over to us, as our inventories, for backend privacy erasure and standard quality checks before the end distribution. This business is carried out under 1P model, since we don't need to advertise to acquire customers, and there is no store expense on our end, the cost structure is more simple.

我们预计在三季度仍然需一定的技术打磨和服务能力提升，9 月的 iPhone 新系列机型发布之后、叠加四季度的新机规模化的出货，回收量将进一步增长。我们预估在明后年，模式和利润率会更加稳定，参考行业的历史情况，每年我们通过苹果新渠道的回收业务规模可达到 10-15 亿元人民币。

We expect to escalate our tech and service capacity in the third quarter and the recycling volume to increase following the arrival of the new iPhone lineup in September and during its major shipment in the fourth quarter. With operations and margins stabilizing next year, we anticipate an annual recycling volume of RMB1 billion to RMB1.5 billion from this new channel based on historical market data.

除以旧换新业务外，我们近期还获得了苹果的资源机竞拍与销售资质。这两项苹果合作进展都将增加万物新生对优质货源的获取能力，在核心场景服务主流用户；也代表了国际一线品牌对万物新生供应链能力、隐私安全保护、公司合规治理能力的认可，是万物新生在品牌厂商合作方面的重要里程碑，也是在电商战略合作之外的重要资源加持。

In addition to the trade-in support license, we've recently been authorized to bid for and distribute Apple's as-is phones. These two collaborations with Apple can further enhance our access to high-quality supplies, and allow us to service mainstream customers in key scenarios. These are also recognitions of our supply chain capabilities, privacy protection, compliance, and corporate governance. The breakthrough in collaboration with phone manufacturers signifies a major milestone, apart from our strategic partnerships with e-commerce players.

Operator: (Operator Instructions). Joyce Ju from Bank of America.

Joyce Ju: (Speaking Mandarin). 管理层晚上好，非常感谢接受我的提问。我的提问是有关于公司供应链能力的。我们看到公司连续几个季度做重供应链能力，本季度业绩中，维修翻新对公司的 1P 毛利有明显的正向贡献。能否请管理层展开讲讲合规翻新业务，翻新业务在自营业务中的发展空间有多大？We have seen that the company has been enhancing refurbishment for quarters in a row. The performance in the second quarter, refurbishment made a positive contribution to the company's

1P gross profit. Could management help to provide more insights into the compliant refurbishment business and help us to understand its growth potential? For example, like what percentage of revenue it can contribute to our 1P business? Thanks.

Kerry Chen: (Speaking Mandarin) 谢谢提问。我们自有品牌“焕新机”业务自去年上线以来，帮助我们持续拓展产业链的价值深度。今年二季度，我们把华南东莞运营中心积累的成熟的翻新标准和翻新能力复制到常州、武汉、成都、天津四个运营中心，供应链增值能力覆盖了全国主要区域市场；我们还增加了更多品类的成色和性能提升服务，包括平板、笔记本电脑、智能手表、耳机等产品，满足C端用户和平台商家对高质量二手电子产品的需求。

Since the launch in April last year, our "RERE Refurbed" labeled products have continuously improved our industry value chain. During the second quarter, we replicated the mature refurbishment capabilities from Dongguan operation center in south China to Changzhou, Wuhan, Chengdu and Tianjin operation centers, with value-added capacity covering major regional markets. We also recondition broader product categories, including tablets, laptops, smartwatches, earphones, etc., meeting the demand for high-quality products from both consumers and merchants.

二季度，“焕新机”销售总收入超过1.9亿元，占1P产品销售收入的比例达到7.2%，环比提升1.6个百分点、同比提升4.5个百分点。我们相信，随着更多的自营回收产品，经过运营中心合规翻新后再进行销售，既能提升产品品质，增加优质货源比例，也能促进产业链的闭环。

During the second quarter, total sales of refurbished products exceeded RMB190 million, accounting for 7.2% of 1P product revenues. This percentage increased by 1.6% quarter-on-quarter and 4.5% year-over-year. We believe that more of our 1P-sourced products can go through our own facilities for reconditioning, becoming quality products while bringing greater value to the industrial chain.

我们在今年7月底签署了华为官方维修授权，继续加强与品牌厂商的合作。未来在供应链增值方面，我们还会继续加强手机厂商、与电子行业协会的合作，促进二手产业链的合规和健康发展。长期看，我们相信自主品牌“焕新机”占1P产品收入的比例可以提升到30%以上。谢谢。

We obtained official maintenance authorization from Huawei at the end of July, further enhancing our cooperation with brand manufacturers. Looking forward, we'll continue to strengthen value-added services, with closer collaboration with phone brands and industry associations to promote the compliance and healthy development of the industrial chain. In the long run, we believe that the proportion of private label "RERE Refurbed" in product revenue can be increased to 30% and even more. Thank you.

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

Jijiang Chen: (Speaking Mandarin). 恭喜公司取得好的业绩，谢谢管理层的分享，可否针对公司的利润指标的达成，提供更多的color和拆分？以及未来的revenue mix会怎样变化？Thanks, management for the sharing and congrats on a strong quarter. Could you provide more color and breakdowns regarding your profit realization and profit outlook? How will your revenue mix evolve in the future?

Rex Chen: Our non-GAAP op margin was 1.8% in the second quarter, surpassing the 1.5% full-year target we previously provided. This was due to our effective execution towards improving 1P gross margin and operational efficiency.

An improved 1P gross margin was mainly attributable to RERE Refured products whose gross margin exceeds that of regular 1P toC products by 5 percentage points. We anticipate the total sales of RERE Refurbed products at RMB700 million, edging up 1P gross margin gradually in 2023.

We credit improvements in operational efficiency to smart storage management and automated testing technologies. We optimize order allocation to operation centers with the help of big data algorithms and condensed the number of small city-level operation stations. As a result, the service fees, logistics expenses, and packaging fees were cut down. As we upgrade our automated inspection system to Matrix 3.0, our losses related to inspection mistakes decreased significantly. Service fees, logistics expenses, packaging fees and return loss decreased by RMB17.6 million compared to the same period in 2022, downsizing our non-GAAP fulfillment expenses as a percentage of total revenues by 3.7 percentage points.

Overall, we expect our non-GAAP operating margin for this year to exceed 1.5%, and we aim to achieve a betterment of 1 percentage point every year.

(Translated for Chinese readers' reference) 我们在二季度实现了 1.8% 的 non-GAAP 运营利润率，超过了全年 1.5% 的预期利润率，主要得益于行之有效的利润提升路径：即 1P 自营业务毛利率的提升与后端运营效率的提升。

毛利率的提升的动力，主要来自自主品牌“焕新机”业务。即便二季度有促销，焕新机整体毛利率较主营回收的非焕新机 toC 销售的毛利率高 5% 左右。预计 2023 年全年可以实现 7 亿元的焕新机销售规模，并随着该业务规模和 1P 业务中占比的提升，我们预计 1P 毛利率在今年整体有一定的提升空间。

运营效率的提升，主要来自智慧仓储管理，以及自动化运营效能的释放。运营规划方面，我们通过大数据算法优化运营中心的订单分配，并且相对去年同期精简了全国小仓体系，综合降低了服务费、物流包装费等。自动化方面，通过升级至第三代的 Matrix 自动化质检体系的部署，降低了质检误差和因此造成的退货损失。二季度的服务费、物流、包装费、退货损失整体，相较去年同期减少了 1760 万，履约费用率整体同比降低 3.7 个百分点。

整体上，我们预期今年 non-GAAP 经营利润率超过 1.5%，预期未来每年可以提升 1 个百分点。

On revenue mix, we have been shifting our focus and strategic resources towards first-party business, since the second half of 2022, to achieve more controllable operations facing complex environment. We aim at catering to diversified user needs, enhancing the recycling experience, and enriching our quality pre-owned product listings. This transition has led to a downsized revenue mix for marketplaces' service revenues. However, our platform business continues to exhibit healthy growth. For this year, we expect that our platform's overall take rate will exceed 5%. Following the strategic adjustment of our Paipai consignment business, we are now experiencing renewed momentum in the growth of service revenue. In the second half of this year, we anticipate that 1P product revenue will continue to dominate our revenue structure, maintaining a year-over-year growth rate of over 30%.

在收入构成方面，自 22 年下半年以来，我们将业务重心与战略资源向 1P 转移。目的是在复杂的外部环境下，业务流程更加可控；更好地服务用户多样化的回收需求，提供更优的回收体验，以及更多的优品二手商品购买选项。作为结果，3P 平台服务收入占比发生了一些收缩。但平台业务仍旧在保持健康发展，我们的平台综合收费率在今年全年提升到 5% 水平之上。并且随着拍拍代卖业务战略转型完成，3P 收入恢复增长动能。预计在 2023 年下半年，1P 产品收入仍将是我们的最主要的收入构成，将保持 30% 以上的同比增速。

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 good day.

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