

[RERE] – ATRenew Inc.
Q2 2024 Earnings Conference Call Transcript (Corrected)
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Company Participants:

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

Other Participants:

Joyce Ju, BofA Securities
Jiao Wan, CICC
Michael Kim, Zacks

Presentation

Operator:

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

I would now like to 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 2024 earnings conference call. Speaking first today is Kerry Chen, our Founder, Chairman, and CEO, and he'll be followed by Rex Chen, our CFO. After that, we'll open the call to questions from analysts.

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

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

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

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

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

Kerry Chen, CEO:

(Speaking Mandarin) 各位投资者和分析师，大家好，欢迎各位参加万物新生集团 2024 年第二季度业绩电话会，我们很高兴与各位分享集团的业绩，交流本季度对于循环经济促进消费的战略思考。

(Translated) Hello, everyone, and welcome to ATRenew's second-quarter 2024 earnings conference call. We are pleased to share our achievements this quarter and the strategies we have implemented in the evolving landscape where the circular economy has been driving consumer behavior.

二季度，虽然居民的消费意愿持续低迷，在生活支出上节省预算，但万物新生仍然实现了扎实的增长，在回收端和二手零售端都出现了积极的增长趋势。我们看到国家通过大规模消费品以旧换新政策拉动内需消费，更多闲置产品进入到二手循环流转中。政策驱动下，短期内，我们已在一些城市如深圳看到回收量显著受益；长期看，我们更看到这些政策对提升广大用户二手闲置回收的认知。政策的支持，有利于我们业务长期发展的确定性。

In the second quarter, we achieved solid growth, especially at the recycling end and in value-for-money retail business, even though consumers are more prudent with spending. To boost domestic consumption, the government has taken actions to encourage large-scale trade-ins of consumer goods. As a result, more products have entered the pre-owned market through e-commerce platforms and physical retailers. In the near term, we have already witnessed a significant increase in recycling volumes in cities like Shenzhen. More importantly, we believe such policies and support will have a long-lasting impact by raising awareness of sustainable consumption and the recycling of second-hand goods. Such support provides greater certainty to our sustained growth outlook.

具体看万物新生在二季度的增长表现：集团总收入 37.8 亿元，同比增长 27.4%，超过指引高端。其中，1P 产品收入 34.0 亿元，同比增长 29.0%，贡献了增长的主要动力；值得一提的是，主营手机 3C 数码品类回收订单量同比增长 27.8%，包含部分低客单价商品的自营业务的订单总量同比增长 38.9%，领跑二手行业。

Looking specifically at our business performance in the second quarter, our total revenue reached 3.78 billion, up 27.4% year-over-year, exceeding the high end of our guidance. Product revenue was 3.4 billion, up 29.0% year-over-year, serving as the main growth driver. Notably, order volume related to our core self-operated consumer electronics recycling business grew 27.8%, while order volume of the overall self-operated business that included low ASP business grew 38.9% year-over-year, leading in the second-hand industry.

核心业务场景中，以旧换新成为越来越主流的购买方式，爱回收联手京东通讯创新的“苹果换苹果”模式，广受用户好评，5 月京东渠道以旧换新回收额同比增长 97.6%；618 大促期间，京东渠道手机 3C 数码以旧换新订单量同比增长 100%。

Among primary recycling scenarios, trade-ins have become an increasingly mainstream way to shop. We collaborated with JD.com on their "Old Apple Product for New Apple Product" initiative, which received widespread praise from users. In May, the recycling value of used products traded in through JD.com grew 97.6% year-over-year. During the June 18th shopping festival, the trade-in volume of used consumer electronic products from JD.com increased by 100% year-over-year.

平台业务方面，收入同比增长 14.6%至 3.7 亿元。其中，拍机堂和拍拍收费率持续健康，入仓质检和寄卖模式被更多第三方商家接受。此外，平台模式的多品类回收业务的交易规模同比增长近 4

倍，贡献了平台增长的更多动力，也反映了当前消费环境下，越来越多的用户愿意尝试更多品类的回收服务。

In our platform business, revenue grew 14.6% year-over-year to 370 million. PJT and Paipai marketplaces maintained healthy take rates, with an increasing number of third-party merchants leveraging our inspection capabilities and adopting our consignment model. The GMV of our multi-category recycling service business increased by nearly 400% year-over-year, serving as the main driver of platform business growth and reflecting that, in the current macro environment, an increasing number of users are willing to explore recycling services beyond consumer electronics categories.

毛利层面，二季度，我们有效地将苹果官方以旧换新业务的毛利率转正，促进产品收入毛利率整体回升至 12.1%，环比一季度提升 1.2 个百分点。相比 2023 年同期，由于产品收入占比提高 1.1 个百分点，集团整体毛利率同比小幅度收窄到 20.8%。在经营利润层面，更大的业务规模促成了费用效率的优化，non-GAAP 履约费用率同比下降 0.3 个百分点，non-GAAP 营销费用率同比下降 1.1 个百分点，综合实现 non-GAAP 经营利润率同比提升 0.7 个百分点至 2.5%。

On the gross margin front, we successfully turned the gross margin of the Apple trade-in business positive in the second quarter, raising the overall product revenue gross margin to 12.1%, an increase of 1.2 percentage points from the first quarter of 2024. Gross margin at the group level slightly dropped to 20.8% as the proportion of product revenue increased by 1.1 percentage points compared with the second quarter of 2023. Even though, the economies of scale have also led to improved cost efficiency. The non-GAAP fulfillment expense as a percentage of revenue decreased by 0.3 percentage points year-over-year, while the non-GAAP selling and marketing expense as a percentage of revenue fell by 1.1 percentage points year-over-year. This overall resulted in a 0.7 percentage points improvement year-over-year in the non-GAAP operating profit margin, bringing it to 2.5% in the second quarter of 2024.

以上业绩得益于我们扎实的场景+供应链能力的核心优势。长期看，我们会基于这些核心优势，持续做能力的沉淀与延伸。

The achievements we've discussed so far are rooted in our core strengths in recycling scenarios and supply chain capabilities. Going forward, we will continue to build on these strengths to drive further growth and success.

一方面，对于业务的基本盘，即手机 3C 回收和交易业务，我们在今年 6 月完成与京东的战略合作续约，在二手手机 3C 回收、以旧换新、二手优品零售等核心业务上深化合作，并增加了新的苹果焕新交付方式。万物新生以行业领先的履约能力、供应链能力持续服务京东主站优质且精准的用户需求。

On one hand, we have strengthened our service capabilities in our core business of consumer electronics recycling and transaction services. In June, we renewed our strategic agreement to deepen our business collaboration with JD.com in areas such as consumer electronics recycling, trade-ins, and the retail of value-for-money second-hand products. This renewal also introduced new trade-in methods for Apple products. We continue to meet the high standards and specific needs of JD's users through our industry-leading fulfillment and supply chain capabilities.

京东渠道以旧换新服务的渗透和发展保持了高速增长。上半年，服务京东用户的以旧换新回收额同比增长超过 50%，且爱回收在京东渠道的以旧换新在今年 6 月首次超越该渠道普通回收的交易额。以旧换新提供了更好的用户体验，锁定了用户的购新需求，充分体现了用户对以旧换新服务方案更广泛的认可。

Our trade-in business through JD has experienced rapid growth. In the first half of the year, the recycling value of products traded in by JD users increased by over 50% year-over-year. Notably, in June, the

recycling value of products fulfilled by trade-in program surpassed that of regular recycling for the first time, establishing it as the leading recycling method through JD. Trade-ins provide a better user experience than regular recycling, effectively capturing users' demand for upgraded devices and receiving growing acceptance and adoption by our users.

在苹果官方以旧换新服务上，二季度我们如期扭转了毛利表现。二季度是苹果官方业务的淡季，我们在季度内确认 1.6 亿元收入的同时，运营利润转正，中长期的目标是运营利润率 3%-4%。该业务前端履约和推广营销费用很轻，对集团能够实现运营利润的良好正向贡献。

For our Apple's official trade-in business, we successfully turned the gross margin positive as anticipated in the second quarter. During this typically off-peak period, we achieved 160 million in revenue. Specifically, we ensured a positive operating margin for this segment in the second quarter while aiming at a long-term operating profit margin of 3% to 4%. Expenses at the operating level are simple and we expect Apple's official trade-in business to bring in more positive operating profit.

我们对线下履约能力持续做建设，提升爱回收业务的护城河。截至二季度末，我们在全国 260 座城市运营 1,516 间爱回收门店，季度内净新增 19 间爱回收自营店、69 间爱回收联营店；并且适配用户对多品类回收的需求，对超过 50 间爱回收自营店进行门店形象或位置的更新。除此之外，截至二季度末，我们在全国范围内运营了超过 600 人的上门服务团队，主要用于满足用户对交付履约方式的多样化需求。爱回收运营的上门团队，保持统一的品牌形象与服务标准，面对面验机，当场付款，相对传统邮寄回收的体验优势明显。二季度内，上门回收业务保持与 C2B 业务大盘基本一致的增速。到店和上门两种线下履约方式，为用户提供便捷的回收服务选项。

We continue to build our offline fulfillment capabilities to strengthen our business moat. As of the end of the second quarter, we operated 1,516 AHS offline stores in 260 cities nationwide, with a net increase of 19 self-operated stores and 69 jointly-operated stores in the quarter. To meet users' demand for multi-category recycling, we upgraded the store image or location of over 50 self-operated stores. Additionally, we have a nationwide doorstep service team of over 600 staff to address users' diverse fulfillment needs. Our service team maintains a consistent brand image and service standard, offering face-to-face device inspections and on-the-spot payments, which provide several advantages over traditional mail-in recycling. In the second quarter, the doorstep recycling business sustained the same year-over-year growth rate as the overall C2B business. Our in-store and doorstep fulfillment options offer users flexible and convenient recycling choices.

另一方面，我们在购买场景与供应链这两个核心能力上做延伸，提供更多优品好货给到用户挑选，加强爱回收严选品牌的用户心智。

On the other hand, we are further enhancing our core capabilities in client shopping scenarios and supply chain management. These improvements aim to provide users with a wider selection of premium products while strengthening the brand recognition of AHS Selection.

很明确的趋势是，消费放缓时期，消费者对优质二手商品的挑选和购买需求不降反升。我们在爱回收门店端铺设精选的二手优品，让消费者直观看到有品质保证的准新机、95 新与 9 成新商品的品质，激发用户的试玩和购买欲望。通过线下门店库存与线上全国库存打通的销售方式，为消费者提供具有性价比的二手购买选择，同时收获用户对爱回收严选品牌的信任和认可。二季度，爱回收门店和官网的严选商品收入突破 2.1 亿元，环比增长 31%，同比增长 8 倍。综合拍拍严选、爱回收官网与门店、抖音等多渠道的自营严选零售收入达 9.6 亿元，同比增长 125%。

We are witnessing a clear trend that consumers are increasingly looking for value-for-money high-quality pre-owned products. We offer a curated selection of premium second-hand products in our offline stores, allowing consumers to directly assess the quality of certified pre-owned items that are

95% and 90% new, stimulating their interest in trying and purchasing these products. By linking in-store inventory with our nationwide online inventory, we provide consumers with cost-effective options for buying second-hand items. This capability has successfully gained the trust and recognition of our AHS Selection brand. In the second quarter, product revenue from AHS Selection in our offline stores and on our official website surpassed 210 million, marking a 31% increase from the previous quarter and an eightfold increase year-over-year. Product revenue brought by our 1PtoC retail business increased by 125% year-over-year to 960 million. Retail channels included Paipai Selection, AHS Recycle websites and physical stores, Douyin, etc.

基于成熟的供给-处置-销售供应链能力，除了拍拍线上销售、爱回收自营销售、加盟店销售、直播销售，我们还联合零售渠道伙伴探索供应链的输出能力。今年6月，我们的B2B交易平台拍机堂联合抖音电商，以拍机堂行业领先的二手消费电子产品供应链，赋能更多行业中小商家做好二手新零售。主要从两个方面切入：1）由万物新生运营中心支持商品代质检；2）拍机堂向抖音电商提供二手手机3C商品供给。同时，拍机堂与下沉市场的领先企业汇通达形成战略合作，在其线下零售门店网络内探索二手商品的零售下沉通路，近期已经启动销售试点。

Building on our robust end-to-end supply chain capabilities from sourcing to processing to sales, we are exploring synergies with retail partners, in addition to the established retail channels of Paipai, AHS stores and live-streaming platforms. In June, our B2B transaction platform, PJT Marketplace partnered with Douyin E-commerce to empower more small and medium-sized businesses to thrive in the new retail landscape by leveraging PJT's leading second-hand consumer electronics supply chain.

Key elements of our collaboration include our operations center, which supports product quality inspections, and PJT supplying second-hand consumer electronics to Douyin E-commerce. Additionally, PJT has established a strategic partnership with Huitongda, a leading retailer in mass-market cities. Together, we are exploring opportunities for second-hand products through Huitongda's extensive offline store network. Initial sales pilot programs have already been launched recently.

最后，分享一些我们致力于打造“国民回收品牌心智”的思考。

In closing, we would like to share our perspective on establishing our brand as the top-of-mind choice for consumers nationwide when it comes to recycling.

从去年开始，在回收端，我们围绕品类和服务升级的爱回收品牌进行了一定的市场预算投放，加强用户对品牌的认知、对回收和以旧换新循环消费的理解。我们在抖音、小红书、视频号等平台，发布关于回收和以旧换新的内容，投放一定的品牌植入广告。爱回收也联合更多消费品牌推出“返航新生”活动，二季度，我们与京东京造、蒙牛、哔哩哔哩、奈雪的茶、奥乐齐超市等20多个品牌共同发起旧物换新品的活动，倡议绿色的循环消费理念。

Starting last year, we have increased our marketing efforts to promote our upgraded services in recycling, to raise the awareness of our brand and to improve public understanding of recycling, trade-ins, and circular consumption. We have distributed educational content about recycling and trade-ins on popular social media platforms, including Douyin, Xiaohongshu, and Weixin video platform while partnering with key influencers to advertise our brand name. Moreover, we have collaborated with leading consumer brands to launch the "Revive 返航新生" initiative. In the second quarter, we rolled out trade-in programs in partnership with 20 brand owners, championing the concept of sustainable circular consumption. To name a few, Jingdong Jingzao, Mengniu, Bilibili, Naixue, and Aldi. We jointly encouraged more consumers to pick up a quest, return more used goods, and claim the rewards.

我们认为，基于当前的消费行为趋势，我们应更加主动地抓住循环经济的机会，围绕爱回收主品牌长期坚持投入。通过主品牌广告投入、跨品牌合作、门店场景建设等方式，让爱回收品牌和服务占据更广泛的用户心智。

Given the clear shift in consumer behaviors, we believe it is crucial to proactively seize the opportunities presented by the circular economy. We will continue to invest in our brand. We aim to acquire greater mindshare for our brand and services among consumers through strategic brand marketing, cross-brand partnerships, and revamping our stores.

在第三季度，我们正在积极准备即将到来的 9-10 月的新机销售发新季，期待以更优质的服务满足更多用户的二手商品回收和交易需求。

As we enter the third quarter, we are preparing for the upcoming launch season for new cell phone models in September and October. We look forward to serving even more users by facilitating the recycling and transactions of their second-hand products through our enhanced service offerings.

下面请公司 CFO Rex 介绍一下财务情况。

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

Rex Chen, CFO:

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

Before taking a detailed look at the financials, please note that all figures are in RMB and all comparisons are on a year-over-year basis unless otherwise stated.

In the second quarter, total revenues increased by 27.4% to 3,776.7 million, primarily driven by the strong growth in net product revenues. Net product revenues increased by 29.0% to 3,401.8 million, while net service revenues increased by 14.6% to 374.9 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.

The increase in service revenues was primarily due to an increase in the service revenue generated from PJT Marketplace and the multi-category recycling business. The overall gross transaction value of marketplaces increased consistently with service revenues and the take rate of our marketplaces was 5.28% in the second quarter of 2024. About 30 million were directly attributable to our multi-category recycling business with an average service take rate of 3%. Multi-category recycling business accounted for 8% of total service revenues in the second quarter of 2024, while the figure was 1% in the same period of 2023.

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

Merchandise costs increased by 28.6% to 2,990.6 million, in line with the growth in product revenues. Gross margin at the group level was 20.8% in the second quarter. Product revenues gross margin, which we also refer to as 1P business gross margin, was 12.1%.

Fulfillment expenses increased by 22.1% to 328.3 million. Excluding share-based compensation expenses, which we will refer to as “SBC” from here on, non-GAAP fulfillment expenses increased by 22.9% to 321.7 million. Under the non-GAAP measures, the increase was primarily due to, first, an increase in personnel costs as the Company conducted more recycling and transaction activities compared with the same period of 2023, and second, an increase in operation-center-related expenses as the Company expanded its store and operation station networks. Non-GAAP fulfillment expenses as a percentage of total revenues decreased to 8.5% from 8.8%.

Selling and marketing expenses increased by 5.6% to 354.0 million. Excluding SBC expenses, and amortization of intangible assets and deferred cost resulting from assets and business acquisitions, non-GAAP selling and marketing expenses increased by 11.7% to 283.3 million, primarily due to an increase in advertising expenses and promotional campaign related expenses. Non-GAAP selling and marketing expenses as a percentage of total revenues decreased to 7.5% from 8.6%.

General and administrative expenses increased by 26.1% to 72.5 million. Excluding SBC expenses, non-GAAP G&A expenses increased by 41.9% to 56.2 million, primarily due to an increase in personnel costs. Non-GAAP G&A expenses as a percentage of total revenues was 1.5%, compared with 1.3% in the same period of 2023.

Technology and content expenses increased by 10.6% to 49.8 million. Excluding SBC expenses, and amortization of intangible assets and deferred cost resulting from assets and business acquisitions, non-GAAP technology and content expenses increased by 12.6% to 43.7 million. The increase was primarily due to an increase in personnel costs in connection with the ongoing upgrade of the Company’s operation center and system. Non-GAAP technology and content expenses as a percentage of total revenues decreased to 1.2% from 1.3%.

As a result, our non-GAAP operating income was 94.1 million in the second quarter of 2024, representing a significant increase of 81.0% year-on-year. Non-GAAP operating profit margin was 2.5%, compared to 1.8% in the second quarter of 2023.

Under our ongoing share repurchase program, which the board of directors approved us uplifting the limit to purchase USD50 million through June 27, 2025, we have returned approximately USD8 million to our shareholders for a total number of 3.3 million ADSs as of June 30, 2024.

As of June 30, 2024, cash and cash equivalents, restricted cash, short-term investments, and funds receivable from third-party payment service providers totaled RMB2.8 billion. Our strong cash position safeguards a sustainable growth outlook.

Now turning to the business outlook. For the third quarter of 2024, we anticipate total revenues to be between RMB3,970 million and RMB4,070 million, representing an increase of 21.9% to 25.0% year-over-year. Please note that this forecast only reflects our current and preliminary views on the market and operational conditions, which are subject to change.

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

Questions and Answers

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

Joyce Ju: (Speaking Mandarin) 国内近期政策对大规模消费品以旧换新的支持力度增加，例如今年7月发改委发布的加力推进以旧换新的补贴，这些政策对集团业务有怎样的影响？谢谢。

We see there are recent domestic policies that have increased support for large-scale consumer goods trade-ins, such as the subsidies announced by the National Development and Reform Commission in July. How do these policies impact your business?

Kerry Chen: (Speaking Mandarin) 感谢提问。随着今年三月国务院发布大规模消费品以旧换新行动方案以来，我们看到除了中央政策的支持，各主要地方政策主要围绕电脑、汽车、家电家居展开。今年七月，发改委与财政部发布了加力支持大规模消费品以旧换新的措施文件，我们看到在地方层面有更多城市启动落实家电与电脑等电子消费品商品的以旧换新专项补贴。万物新生与京东共同服务了用户的以旧换新需求，并锁定了更多优质的一手回收货源。

(Translated) Thank you for the question. Since the State Council released its action plan for large-scale consumer goods trade-ins in March, we've observed both central and local policy support, mainly focusing on computers, cars, and home appliances. In July, the NDRC and Ministry of Finance issued measures to further support these trade-ins. We've seen more cities implementing specific subsidies for electronic products, including home appliances and computers. ATRenew and JD.com have collaborated to meet users' trade-in needs, securing more high-quality first-hand recycling products.

目前针对手机的专项补贴是地方性的。以7月深圳的以旧换新补贴为例，万物新生服务京东用户以旧换新订单中的二手电子产品旧机回收，当月的有效旧机回收单量环比6月大促月份提升2.5倍，受到城市居民热烈欢迎。下半年，我们期待有更多城市跟进推动此类补贴的发放，进一步促进闲置二手电子产品有效地流入循环体系。

Currently, phone-specific subsidies are being implemented at the local level. For instance, in Shenzhen's July trade-in subsidy program, we processed used consumer electronic products from JD's trade-in orders. The number of successful recycling transactions increased 2.5 times compared with the number in June, even though June was a peak month considering the grand promotion season, reflecting the popularity of such an initiative. In the second half of the year, we expect more cities to introduce similar subsidies, further promoting the effective recycling of idle electronic products within the circular economy.

但我们更主要把政策补贴理解为用户回收理念的催化剂。有一些研究认为本轮补贴有可能周期比家电下乡更长，因此我们要抓住机会加强回收体系建设，提升爱回收品牌的认知，引导用户换新转化。我们期待随着国家与地方补贴政策的推出、用户认可度的提升、万物新生服务履约能力的加强，共同促进这种循环经济下独特服务方式的进一步渗透。

However, we primarily view these policy subsidies as catalysts for enhancing users' recycling awareness. Some studies suggest this round of subsidies may last longer than previous programs like "Home Appliances Going to the Countryside." Therefore, we aim to seize this opportunity to strengthen the recycling system, enhance AHS Recycle brand recognition, and guide users towards trade-ins. We anticipate that as national and local subsidy policies are introduced, user acceptance increases, and our fulfillment capabilities strengthen, these factors will collectively promote further penetration of this unique service model in the circular economy.

Operator: (Operator Instructions). Jiao Wan with CICC.

Jiao Wan: (Speaking Mandarin) 恭喜取得稳健的业绩，我的第一个问题是收入层面的问题，可否请管理层分享些合规翻新业务和苹果业务的表现？另外一个问题，能否请管理层否拆解下公司经调整运营利润的优化路径？谢谢。

Congratulations on the quarterly results, and I have two questions. The first one is about the topline. What are the contributions of the compliant refurbishment business and your Apple trade-in business? And the second one is, could you please elaborate on how you improved the non-GAAP operating margin?

Rex Chen: In terms of compliant refurbishment, we saw a 50% year-over-year increase in the second quarter, reaching RMB300 million in product revenue. In the first half of this year, we continued to enhance our selection of self-recycled goods, swiftly identifying suitable phones for refurbishment and improving efficiency across our value chain. Currently, we have achieved 95% comparison coverage in the mobile phone category, laying a solid foundation for future replication to other categories. At the same time, we have enhanced our repair coverage and capabilities, and processing capabilities for different phone conditions. Additionally, we have bolstered our sales capabilities for 1P goods, opening up channels for both retail and business buyers, better connecting the end-to-end industry chain. (Chinese translation for clarity) 谢谢提问。关于合规翻新业务，二季度该业务贡献 3 亿元产品收入，同比提升 50%。我们在今年上半年持续加强自营回收商品的比货、选货，快速将适合翻新的手机筛选出来，并实现高效率地增值。目前手机品类已实现 95% 的比货覆盖，为后续复制到其他品类形成基础。同时，我们提升维修覆盖率、成色处理能力、功能项修复能力。此外，我们加强一盘货的销售能力，为毛利率高于 C2B 业务的产品打通严选零售和 B2B 靓机专场的双重通路，更好拉通产业链端到端。

Regarding Apple's official trade-in service, we have successfully optimized our gross margin as planned, achieving a positive gross margin in the second quarter. Although the overall gross margin for our Apple business in the second quarter was only in the low single digits, we observed significant improvements in the gross margin of goods received during the second quarter. We will continue to refine this business in the second half of this year, aiming to provide an excellent trade-in experience for Apple's official users while maintaining steady profitability.

另外，关于苹果官方以旧换新服务，二季度我们如期优化利润表现，实现了正向的毛利率。虽然二季度苹果官方业务的综合毛利率表现只是低个位数，但是我们看到季度内操盘货品的毛利率已经实现显著优化，下半年也会持续优化这一业务，力求在稳健盈利的基础上，为苹果官方用户提供好的换机体验。

In the first half of this year, in addition to our consumer-end trade-in service, we also enhanced our service to Apple's corporate offerings. Based on Apple's orders from a number of Fortune 500 corporates, we expect to recover used devices from these corporate clients in the next 1 to 3 years. Through such a program, we can access the corporate service market while addressing the needs of leading international and domestic corporates when disposing of used workplace iPhones and MacBooks of their employees.

今年上半年，苹果业务除了 C 端的以旧换新，我们也加强与苹果企业部门的合作，服务苹果的以 500 强企业为主的客户。这些企业客户从苹果采购的优质新品订单，将在未来 1-3 年陆续转化为爱回收的回收订单，值得期待。通过苹果企业部门，我们会触及优质的企业端市场，服务中国领先的外资企业和民营企业雇员的 iPhone、MacBook 等设备的回收需求。

In terms of profitability, we reported an eighth consecutive quarter with positive non-GAAP operating profit. In the second quarter, non-GAAP operating profit was 94 million. Non-GAAP operating margin

was 2.5% during the promotional season of e-commerce platforms, compared with [1.8]% in the second quarter of 2023. Such improved operating efficiency was a testament to the economy of scale backed by our end-to-end supply chain. As mentioned earlier, in the second quarter of 2024, non-GAAP fulfillment expenses increased by 22.9% and non-GAAP sales and marketing expenses increased by 11.7%, both grew slower than our topline. Labor costs in relation to fulfillment as a percentage of total revenues decreased by 0.2% compared with the second quarter of 2023. Although promotion fees related to the brand promotion of AHS Recycle increased, but the commission fees and promotion fees of PJT Marketplace and Paipai in relation to sales and marketing as a percentage of total revenues dropped. The above are the main reasons behind the improved margin. Thanks.

关于利润方面，我们在二季度实现 9,400 万元 non-GAAP 经营利润，利润率为 2.5%，连续 8 个季度汇报正向的 non-GAAP 经营利润。对比 2023 年同样为 618 电商大促的二季度，non-GAAP 经营利润率为 1.8%，我们端到端供应链的规模效应体现优势，在 non-GAAP 费用率层面实现优化。如此前介绍的，Non-GAAP 履约费用同比增长 22.9%，Non-GAAP 销售费用同比增长 11.7%，增速均低于总收入的增速。其中与履约相关的人工费用率实现 0.2% 的费用率优化。同时，尽管我们在二季度增加了销售费用相关的对爱回收品牌的推广费用，但与拍机堂、拍拍相关的佣金与推广费率均受益于收入的规模增长而同比降低。以上共同构成我们 non-GAAP 经营利润率同比提升的主要原因。

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

Michael Kim: Thanks for taking my questions. First, just curious how the gross margins for the recycling of luxury goods compare to consumer electronics? And then assuming the mix continues to shift in favor of luxury items, just wondering how that might impact overall gross margins?

(Chinese translation for clarity) 与电子产品回收相比，奢侈品回收的毛利率如何？假设二奢回收的收入占比变高，对整体毛利率有怎样的影响？

Rex Chen: Currently, approximately 90% of our total revenue comes from product sales related to the recycling, quality inspection, refurbishment, and resale of pre-owned products. The remaining 10% of our total revenue comes from service revenue generated by our platform. Revenue is equivalent to the gross profit for this segment in our financial statements. Of this service revenue, 8% is attributable to our multi-category recycling business operated under the platform model. But in terms of the operating profit margin, the luxury goods products will be similar to our electronic products. So when we examine the recycling business of high-value goods, including luxury items, we categorize them as part of our multi-category business, alongside other non-consumer electronic categories. This indicates that the multi-category recycling business currently has a limited impact on our overall gross margin. However, we believe that by expanding the scope and accessibility of our multi-category recycling services, we can positively influence our overall gross profit mix and margins, as well as operating profit margin. Thanks.

(Chinese translation for clarity) 目前，集团总收入中约有 90% 来自于回收-质检-部分翻新-再销售的产品收入，主要来自于电子产品的循环交易。集团总收入中，约 10% 来自于平台交易的服务收入，对集团报表来说，服务收入等于服务毛利。服务收入中的 8% 来自平台模式的多品类回收业务。从运营利润率的角度上来说，奢侈品回收和电子产品回收是相似的，所以我们在看高值商品回收时，包括奢侈品回收，会合并多个非消费电子的品类一起讨论。这就意味着多品类回收毛利对集团整体的毛利影响仍然有限。当然，如果我们发力扩大多品类回收的业务范围和服务可及性，多品类回收服务收入占比提升，我们认为将对集团整体的毛利和毛利率，以及运营利润率产生积极影响。

Michael Kim: Got it, appreciate that. And then second, just given the strength of your balance sheet and your asset-light business model, just curious to hear your updated thinking on the capital management front. I know you talked about the Board recently upsizing and extending the share repurchase authorization, but just wondering how you might be thinking about potentially instituting a dividend down the road and/or capitalizing on potential M&A opportunities?

公司资产负债表表现强健，商业模式轻资产，请问管理层近期如何考虑资金管理？公司近期提高了回收计划的额度，并延长了有效期，请问是否有可能考虑分红或者并购的机会？

Rex Chen: In terms of shareholder returns, we will maintain regular and open communication with the board and the market to explore the feasibility of share buyback and dividend plans. And our current plan is to use most of our current year profit for share repurchase in the current year. So considering the current capital market environment and the company's stage of development, we will adopt a prudent approach to capital utilization. And we do not have any M&A plan now.

对于股东回报，目前，回购是有效的股东回报方案。当然，我们也会坚持和董事会保持规律的、有效的沟通，探讨回购和分红等方案的可行性。我们现有的计划是把更多的利润用于股票回购。在现有的资本市场环境和公司发展阶段，我们会采取较为审慎的资金使用的决策。我们目前没有任何并购计划。

Operator: As there are no further questions, 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 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.