[RERE] – ATRenew Inc.
Q4 & Full Year 2021 Earnings Conference Call
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Company Participants:
Kerry Chen, Founder, Chairman, CEO
Rex Chen, CFO
Jeremy Ji, Director of Corporate Development, Investor Relations

Other Participants:
Lucy Li, Goldman Sachs
Joyce Ju, BofA Securities
Ella Ji, China Renaissance
Gin Yu, Guotai Junan Securities

Presentation:

Operator:
Good morning and good evening, ladies and gentlemen. Thank you for standing by and welcome to the ATRenew Inc. Fourth Quarter and Full-Year 2021 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 fourth quarter and full-year 2021 Earnings Conference Call. Speaking for us today is Mr. Kerry Chen, our Founder, Chairman and CEO; and he will be followed by CFO, Rex Chen. After that, we'll open the call to questions from analysts. Our fourth quarter and full-year 2021 financial results were released earlier today. The earnings release and investor slides accompanying this call and filings with the US SEC are available our – are available on our company's IR website at ir.atrenew.com.

There will also be a transcript following this call. For today's agenda, Kerry will share his thoughts on our fourth quarter and full-year performance as well as a review on our business strategy, followed by Rex, who will address the financial highlights. Both Kerry and Rex will join the Q&A session.

Please note some of the information you will hear during our discussion today will consists of forward-looking statements and I refer you to our Safe Harbor statements in the earnings press release. Any forward-looking statements that ATRenew makes on this call are based on assumptions as of today and that ATRenew does not take any obligations to update 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 foreign language)
(Translated). Hello everyone, and thank you for joining us on our fourth quarter and full year 2021 earnings conference call.

Before we begin, I would like to extend my gratitude to all our employees, merchant partners, and industry partners. I could not be prouder of how well our team has worked together across the country to overcome the challenges of the COVID-19 resurgence. Our combined efforts enabled us to find creative solutions to navigate through such a challenging environment, offering consumers safe and convenient recycling, trade-in, and shopping services. I also want to thank our merchants and circular ecosystem partners for their continued trust and collaboration. Together, we are promoting a low-carbon lifestyle where recycling and reuse of pre-owned consumer electronics has become mainstream.

We are delighted to share with you our continued growth momentum at group level. In 2021, our GMV and total revenues reached RMB32.5 billion and RMB7.8 billion, representing year-over-year increase of 65.8% and 60.1%, respectively. These growth rates were significantly higher than those in 2020 and 2019. What contributed to this rapid growth was not only the increasing consumer demand for trade-in, but also our strong strategy execution of penetrating in lower-tier cities and enhancing our competence of sourcing supply locally.

On profitability, we have achieved significant efficiency optimization. In 2021, non-GAAP operating loss was RMB100 million, and the non-GAAP operating margin narrowed to negative 1.3% from negative 3% in 2020. Notably, revenues in the fourth quarter beat guidance, and we have successfully achieved non-GAAP operating profitability. We are confident in maintaining this going forward. With sufficient capital and a clear strategy, we are on the fast track of healthy and sustainable growth trajectory.

Next, let’s take a more detailed look at our operations in 4 aspects: 1) how we deploy and manage the nationwide AHS store network; 2) some newly updates on the city-level service integration model; 3) how we balance the scale expansion and raising take rate of marketplaces; and 4) Paipai’s sales performance during the Spring Festival.

First, on store operations. In 2021, we added 576 new stores, growing the total number of offline stores to 1,308. This greatly exceeds our previous guidance of 200 new openings at the beginning of 2021. The store network covers 214 cities, an increase of 43 cities compared to the end of 2020, shouldering in-person delivery and fulfillment. Riding on geographic expansion, we also deepened penetration in lower-tier cities and increased density of stores in existing markets in order to further enhance sourcing capabilities and expand service coverage to individual consumers.

Among all the stores, 595 were self-operated AHS stores, where we meet our customers’ recycling demand directly as well as provide trade-in services for JD's new device sales. Notably, store economics set a new record high in the fourth quarter, as monthly average revenues per self-operated store exceeded RMB690,000 while achieving a net margin of 3.7%. Leveraging our strengths in such industry-leading UE, self-operated AHS stores continued to enhance our competitive moat on the supply side across different use cases and contribute to both the topline and bottom-line growth of the 1P business.

Meanwhile, the number of jointly-operated AHS stores reached 692, including standard franchise stores with the same format of self-operated ones, partner stores we started and accelerated to open since 2021 that were incorporated in local retailer stores. Together, these jointly-operated stores have contributed to our channel penetration and brand recognition, especially in lower-tier markets.

In addition, we have 21 Paipai Selection retail stores that provide a premium, guaranteed, and integrated online-offline shopping experience to customers.

The second aspect I would like to address is the city-level service integration model. As introduced and emphasized in the third quarter earnings call, we re-allocate resources in each city and integrated our core capabilities of 3 major business lines locally to establish a cohesive operating unit, to penetrate deeper across local markets, and to enhance local sourcing capability as well as transaction efficiency. We then review the financial performance of each city and provide incentives accordingly.

The city-level service integration model has proven to be the right path for growth judging by our progress in the fourth quarter. Local penetration rate, equivalent to the trading volume of pre-owned devices divided by the sales volume of new devices, recorded significant sequential increases of 46% in Langfang, Hebei Province and 53% in Huzhou, Zhejiang Province In the first quarter 2022, we have launched 22 pilot cities. It turns out that 18 out of them achieved faster growth compared with the baseline. B2B GMV increased by over 100% in 12 cities, including Shenyang, Nanchang and Hefei. We remain steadfast in the city-level service integration strategy and will leverage it for refined analysis on local operations. It enables us to improve our sourcing process, promote recycling at city-level, serve our customers better, and in turn generate additional service revenue. Compared with the baseline, we expect to generate an extra GMV growth of 40% in the pilot cities.

Third, we have a comprehensive take rate of 4.8% for our marketplaces in Q4, and we will balance the rising take rate and healthy growth of the platform in the long run. For B2B business, we are devoted to offering a high-quality transaction platform to mid- and small- merchants, empowering them with digital tools of efficient sourcing, inventory management, sales, logistics, and balance management. We take a small fraction of service fees out of the value we create. In 2021, our high-quality services earned endorsement from merchants, leading to a 33% year-on-year increase in registered merchant counts. The trust and confidence we obtained from merchants also evidence why we can successfully adjust the fee structure for certain service items.

Looking ahead, we will continue to balance our need to increase the take rate and our desire to expand the scale of B2B marketplace. We hope to achieve sustainable and high-quality growth in the coming quarters as we unfold the city-level service integration strategy. Our positioning for PJT marketplace is to build the basic service for the industry, rather than to harvest the fruit aggressively. We are ready to fulfill third-party retailers' growing demand to trade in better, and attract more merchants and their supply to the online marketplace, as we continue to increase customer engagement and improve the service experience.

Fourth, let me quickly cover Paipai's development. We achieved stable growth in B2C platform GMV and reached new high in service take rate, thanks to an improved brand recognition, tighter control over self-operated supply chain, and improvement in after-sales services. In the fourth quarter, take rate for mobile category under Paipai consignment model exceeded 10% for the first time ever.

We also collaborated with JD group's marketing campaign related to the naming rights of CCTV New Year's Gala and provided full-scale services. During the holiday, GMV for Paipai marketplace grew by 71% year-over-year. Furthermore, we achieved y-o-y sales growth of over 300% on both Douyin and Kuaishou.

In terms of profitability, we further refined our management and achieved a non-GAAP fulfilled gross margin of 14.6%, with non-GAAP operating profit reaching RMB9.7 million in the fourth quarter. We also saw meaningful improvements in fulfillment and G&A efficiency, as the non-GAAP fulfillment expenses and non-GAAP G&A expenses declined remarkably as a percentage of total revenues. We believe such efficiency can be further improved as a result of our persistent execution of city-level service integration strategy and wider implementation of automated inspection systems.

Operating an "Internet + recycle" business, ATRenew is evolving with the circular economy advocated by Chinese government. In 2022, we aim to serve our customers well, while upholding our position as an important partner in JD's ecosystem. We root in deep in supply chain capabilities, continue upgrading automation technologies, and optimize cost structure and margins. With no doubt, city-level service integration strategy stays core to our business and drives organic growth across local markets in China. We are confident in a sustained growth without compromising profitability.

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

Rex Chen, CFO:
Thanks, Kerry, and hello everyone. We are very pleased to report that we've achieved the profitability milestone, while delivering fourth quarter revenue that exceeded our previous guidance. 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 fourth quarter 2021, we delivered 48.2% revenue growth to achieve total revenues of over 2.4 billion, exceeding the high-end of our previous guidance range provided in the third quarter earnings conference call. Total GMV grew by over 50.7%, driven by strong growth in both product sales GMV and online marketplace GMV.

In this quarter, the commission rate of our third-party marketplaces rose to 4.8% at the group level, marking a historical high. This is a testament that our merchant users acknowledge PJT and Paipai marketplaces for digitalized, safe and convenient transactions. Biddings and transactions continue to show very strong growth.

Gross margin at the group level was 26.1% in the fourth quarter. Gross margin for our 1P business stabilized at 13.3% sequentially as we rolled out a nationwide strategy to secure sources of supply at our best efforts. This further meets consumers' demand for easy recycling and trade-in while obtaining greater consumer mindshare.

In the fourth quarter, we meaningfully optimized cost structure through reducing fulfillment costs both at storefronts and at operation centers – the progress is evidenced by a strong expansion in the non-GAAP fulfilled gross margin, reaching 14.6% and representing an increase of 140 basis points over a year ago.

Notably, as previously mentioned, we delivered a non-GAAP operating income of 9.7 million this quarter. We expect to continuously optimize operational efficiency and improve our non-GAAP operating margin. We aim at achieving operating profits throughout 2022 under non-GAAP measures.

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

The overall increase in GMV was driven by strong growth in both product sales GMV and online marketplace GMV, which increased by 52.9% and 50.0%, respectively. Product sales GMV growth was mainly driven by improved efficiency in sourcing through the growing density and penetration rate of AHS stores in China. Another driver is the Singles' Day campaign of e-commerce and live-streaming platforms which we have shared color in the third quarter conference call.

GMV for online marketplaces including PJT and Paipai increased by 50.0%, mainly driven by 1) stronger merchants' demand and higher transaction frequency, and 2) the growth of the B2C consignment model. As 1P business contributes to profit and 3P business is still loss-making at this stage, we strive to achieve more balanced growth rates of 1P GMV and 3P GMV from now on, setting profitability higher priority during business expansion.

In the fourth quarter, total revenues increased by 48.2% to 2,435.8 million. Net product revenues increased by 43.9% to 2,076.0 million, while net service revenues increased by 78.3% to 359.9 million. Growth in net product sales revenues was driven by continued increases in the density of our AHS stores and our reinforced trade-in collaboration with JD.com. Growth in service revenues was driven by growing transaction volumes and an increase in the monetization capabilities of our marketplaces, reflecting a growing demand for our digital solutions and technology empowerment by merchant users. We believe the expansion of commission rate should be organic as we seek a balance between the growing take rate and the growth in scale as we prioritize the betterment of our ecosystem participants in the long run. Through more value-added services, including repair program, we aim to serve our customers well with ample service options instead of imposing compelling fees.

Next, turning to our operating expenses. To provide greater clarity on the trends in our actual operating-based expenses, we will discuss our non-GAAP operating expenses, which better reflect the views of management. The reconciliations of GAAP and non-GAAP results are available in our 6-K filings with the U.S. SEC.

Operating costs and expenses increased by 50.1% to 2,573.2 million. Non-GAAP operating expenses, which exclude share-based compensation expenses and amortization of intangible assets resulting from business acquisitions, increased by 48.9% to 2,437.7 million.

Merchandise costs increased by 45.6% to 1,800.5 million. This is in line with the growth of the 1P product sales revenues.

Fulfillment expenses increased by 52.8% to 290.1 million. Excluding 10.3 million in share-based compensation expenses, which we will refer to as "SBC" from here on, non-GAAP fulfillment expenses increased by 47.3% to 279.8 million. The increase was primarily due to the growing costs related to fulfillment personnel, logistics, and operation center costs as the Company's business continued to scale. Notably, we have relocated our Shenzhen operation center to Dongguan, a city nearby at a lower cost, meanwhile advancing automation capabilities there. We target to complete the full-scale automation of Dongguan Operation Center in the first half of 2022, further reducing inspection costs per device by 20% in South China. At the same time, for products with low selling prices and relaxed delivery requirements, we brought in an economical logistics provider to optimize fulfillment costs.

Selling and marketing expenses increased by 74.0% to 368.8 million. The increase was primarily due to an increase in costs related to business development, sales promotions, and increasing personnel to match the growing scale of our business. Excluding SBC expenses and amortization of intangible assets from business acquisitions, non-GAAP selling and marketing expenses increased by 100.2% to 271.7 million. Under the non-GAAP measures, selling and marketing expenses as a percentage of total revenues was 11.2% in the fourth quarter, slightly increased by 0.7 percentage points sequentially.

To provide more color on selling expenses, the investments in advertisements, promotions and campaigns reached 92 million. Coupons on Paipai were 63 million, representing an increase of 23 million compared with the fourth quarter 2020. Commission expenses were 56 million, an increase in line with the growth in scale and new live-streaming sales model.

For context, Paipai consignment model was launched in 2021, and thus related sales promotion expenses were new to this category. We expect those coupons on Paipai to decelerate as 1P toC and consignment sales getting on track. Overall, sales and marketing expenses as of total revenue remained relatively stable throughout 2021.

G&A (general and administrative) expenses increased by 41.0% to 51.9 million. Excluding SBC expenses, non-GAAP G&A expenses decreased by 10.6% to 32.9 million. Similar to the third quarter, the decrease in G&A expenses showed an improved cost efficiency in our middle and back offices.

Technology and content expenses increased by 55.8% to 62.0 million. The increase was primarily due to increases in personnel costs related to the expansion of our research and development activities. Excluding SBC expenses and amortization of intangible assets resulting from business acquisitions, non-GAAP technology and content expenses increased by 38.0% to 52.7 million.

As a result, our non-GAAP operating income was 9.7 million in the fourth quarter of 2021. Non-GAAP operating margin was 0.4%, compared with negative 1.5% in the previous quarter.

As of December 31, 2021, cash and cash equivalents, restricted cash, short-term investments, funds receivable from third-party payment service providers and JD on the balance sheet totaled 2.6 billion. Of note, funds receivable from third-party payment service providers, and funds in JD account recorded as amount due from related parties, totaled 583.1 million – these were cash topped up in the Company’s JD Pay account, WeChat Pay and Alipay accounts to support efficient recycling and transaction services.

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

Now turning to outlook. For the first quarter of 2022, the Company currently expects its total revenues to be between 2,150 million and 2,200 million. We expect to achieve stable and healthy growth in 2022. The recurrence of COVID-19 variants might impose an adverse impact on our store operations, warehouses, and merchants’ transactions in 2022. Thus, this forecast only reflects the Company's current and preliminary views on the market and operation 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: Thank you. We will now begin the Question-and-Answer session. (Operator Instructions). Today's first question comes from Joyce Ju with BofA. Please go ahead.

Lucy Li: (Speaking foreign language). So, the question is on our next stage of growth and TAM in general. So, in 2021, the company – the total transaction volume exceeded 30 million devices. So how do we assess the future growth potential going forward?

And the second question is regarding our own business, 1P versus 3P. We observed that 1P business delivered a fast growth in both 4Q and this year. I wonder if we are going to put more emphasis on the 1P customers compared to 3P for example? Thank you.

Kerry Chen: (Speaking foreign language).
(Translated). Ok, thanks for the questions. To address the first one, we believe there is great potential for growth.

Firstly, on the addressable market, the number of devices transacted on our platform this year reached a record high of over 30 million. However, this is still a small portion compared with 590 million new electronics devices sold in China annually, according to CIC. In addition, idle devices including phones, tablets and laptops, etc., totaled 2.7 billion, indicating a low rate of recycling.

Secondly, on our penetration rate at city level. Our services have relatively little presence locally – it was low single-digit in 70% of the cities in China as we mentioned on the last earnings call. We are poised to increase that through steadfast implementation of our city-level service integration strategy.

To answer your question to business priority, we plan to seek an accelerated growth of 1P business with steady profit, and a healthy growth of 3P GMV with more attention to the efficiency and profitability of the marketplaces.

Looking back at 2021, GMV of 1P business increased by 69.6% yoy, outrunning the growth rates over the past years. We attribute this to the solid progresses in new store openings, a stronger trade-in partnership with JD, and an expanding 1P direct-toC retail business on Paipai.

The stores continue generating profits. In the fourth quarter 2021, net margin of mature stores reached 4.0%, improving our confidence in serving more customers and top up our efforts into these stores.
We expect to open 200 new standard AHS stores in 2022. Furthermore, we aim to add 500 partner stores, i.e., “store within store”, a new format in collaboration with local partners as a part of the city-level service integration strategy. This is to facilitate trade-in, and to expand consumer reach through the synergy with JD and mobile brands, and it helps to grow our footprint in local retail scenarios.

We take city-level service integration model the key to the next stage of growth for PJT and Paipai marketplace. This will be achieved through sourcing premium goods more efficiently.

In the first quarter 2022, we have launched the service integration model in 22 pilot cities. To highlight, the growth rate of B2B business in 12 pilot cities exceeded 100%, including Shenyang, Nanchang, and Hefei, three provincial capitals.

By leveraging the city-level service integration model, we dive deep into B2B business. We digitalize the transactions, and encourage online transactions. Not only do we serve dealers, but also new device retailers. Thus, forming a closed loop from recycling from users when buying a new device, through inspection at our facilities, and directly to the retail end.

Joyce Ju: (Speaking foreign language). Regarding the take rate which reached 4.8% this quarter, could management help us elaborate or otherwise in terms of how do take rates improve and the future trend in terms of how it could further improve? Thank you.

Rex Chen: Thank you, Joyce. Let me take your question. As you can see, service revenue increased by 78.3% year-over-year in this quarter surpassing the growth rate of platform GMV. This was due to the increasing take rate for both PJT and Paipai Marketplaces. So, in the fourth quarter, the overall take rate as you mentioned was 4.8%, a 0.2% increase sequentially. Amongst them, the take rate of PJT Marketplace, in average, was 4.5% while the take rate of Paipai, in average, was 5.4% which was 0.6% and 1.2% higher than the same period last year, respectively. For PJT Marketplace, we started to charge an inspection service fee and a consignment service fee from sellers in Q3 which led to an increasing take rate for PJT Marketplace by 0.6% compared with the same period last year.

In the future, we will continue to expand and diversify our value-added services such as maintenance services and the supply chain financing services to increase corresponding take rate. The take rate of the POP model on Paipai Marketplace remained stable compared to the same period last year. The increase of take rate on Paipai was mainly due to the increase in the take rate of its consignment business. Take rate of consignment model was 10.7%, a significant increase of 4% sequentially. GMV of consignment model accounted for 18% of Paipai platform GMV in recent quarters. The consignment model is being quickly adopted by merchants due to the complexity and the fragmentation of the prolonged electronic transaction industry chain. Recyclers faced numerous challenges when distributing to consumers. So, the consignment model of Paipai eases the burden of retail for small merchants.

In the future, we strive to reach a balance between scale expansion and raising platform take rate. We will provide more service offerings and take tighter control over the operations and the merchants ratings, which we believe will be conducive to the long-term development of the platform business.

Joyce Ju: Got it. Thank you.

Ella Ji: (Speaking foreign language). So, thank you for taking my questions and congratulations on a strong quarter. My question is regarding your margin outperformance. We wanted to see if management can provide more color regarding the main driver behind your margin outperformance and how's the outlook for 2022 and onwards?

And then within the expenses, we do see that sales and marketing has gone up in the quarter. Could you also provide more color regarding your sales and marketing expenses, their investment level, also in 2022 and onwards? Thank you.

Rex Chen: Okay. Thanks, Ella.

For the first question regarding profitability. Yes, we are confident to continue enhancing our operational efficiency and reach full-year non-GAAP profitability targeting 2022 and going forward. Our path to profitability can be divided into three aspects. First, the gross margin improves due to the stable 1P pricing strategy and the increasing proportion of the service revenue which can contribute to higher gross margin. Secondly, our fulfillment efficiency improved significantly due to more orders at store level in Q4 and the better processing usage of our fixed facility. Third, our middle and the back-offices took tighter control of headcounts and benefited from the economy of scale and you can see in the decrease non-GAAP G&A expenses and its percentage as of total revenues.

So, for the second question regarding selling expenses. The non-GAAP selling and marketing expenses account for 11.2% of total revenue, increasing by 0.7% sequentially. Selling and the marketing expenses mainly included personnel cost (expenses – correction) for our B2B sales team, channel fees and commission fees paid to JD, as well as promotion and marketing fees for each different business lines.

For this quarter, the year-over-year growth was mainly due to the expansion of our Paipai consignment businesses, new channel sales and the 1P direct-2C sales. We invested RMB 63 million in coupons and RMB 33 million in advertisements for brandings and the promotion of new channels, including live streaming, the JD, Paipai flagship stores and the Paipai offering stores.

Furthermore, variable costs increased in-line with our business expansion. The sequential increase compared with Q3 was due to the distribution of some coupons and the marketing promotion activities for Paipai 2C sales related to the Singles' Day Shopping Festival, Double 12 and the Paipai anniversary campaigns.

As we leverage multiple marketing approaches, we believe non-GAAP operating profit closely reflects our views on the performance of the business. Non-GAAP operating profit was RMB9.7 million in this quarter and the margin was 0.4%. We anticipate a positive non-GAAP operating margin in 2022 and expect it to continue expanding. Thanks, Ella.

Gin Yu: (Speaking foreign language). As the pandemic situation in many areas has been quite serious recently, I would like to ask you a question about the impact on the company. What's the impact on your performance in last year? Your offline store has increased significantly while the pandemic affected offline business. What measure does that the company take to deal with it? Thank you.

Kerry Chen: (Speaking foreign language).
(Translated). The COVID recurrences in 2021 had challenged our operations multiple times, but the overall adverse impacts were limited and controllable. This was primarily due to the scattered storefronts and operation facilities.

AHS stores spread across 214 cities. Temporary closure of stores in some cities has limited impact on the overall performance. There were 7 regional operation centers and 95 city-level operation stations nationwide. When there’s a regional shutdown, the nearby facilities are able to step up. For example, our operation stations in the neighboring cities handled the orders for Shenzhen and Dongguan during their recent incidents.

Although our business showed resilience, we can't predict the material negative impacts on our business caused by the recurrences of COVID-19 variants. We will continue to prioritize safety, keep ourselves prepared and our workplaces clean, and stay flexible.

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

Jeremy Ji: Thank you. 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@atrenew.com. Have a good day.

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