

[RERE] – ATRenew Inc.
Q3 2022 Earnings Conference Call Transcript (Corrected)
Tuesday, November 22, 2022, 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:

Lynn Li, Goldman Sachs
Joyce Ju, BofA Securities

Presentation

Operator:

Good morning and good evening, ladies and gentlemen. Thank you for standing by and welcome to ATRenew Inc. Third Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. We will be hosting a question-and-answer session after managements' prepared remarks. Please note today's event is being recorded.

I will now turn the call over to the first speaker today, Mr. Jeremy Ji, Director of Corporate Development and Investor Relations of the company. Please go ahead, sir.

Jeremy Ji, IRD:

Thank you. Hello, everyone, and welcome to ATRenew's third quarter 2022 earnings conference call. Speaking first today is Kerry Chen, our Founder, Chairman, and CEO, and he'll be followed by Rex Chen, our CFO. After that, we'll open the call to questions from analysts.

Our third quarter 2022 financial results were released earlier today. The earnings release and investor slides accompanying this call are available at our IR website at ir.atrenew.com. There will also be a transcript following this call for your convenience.

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

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

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

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

Kerry Chen, CEO:

(Speaking Mandarin) 各位投资者和分析师，大家好，欢迎各位参加万物新生集团 2022 年第三季度业绩电话会。

(Translated) Hello everyone, and welcome to ATRenew's third-quarter 2022 earnings conference call.

第三季度，面临快速变化的城市疫情防控环境、以及增速放缓的手机新机消费环境，我们的业务团队积极调整策略，更好地满足广大消费者对便捷信任的回收业务的需求，收入达到了上个季度给出的指引区间的高端，non-GAAP 经营利润相对二季度扭亏为盈。我希望借此机会，感谢全体员工的不懈努力与坚持！

During the third quarter, we faced a challenging macro environment. Pandemic control measures remained strict and consumer demand for new phones plateaued. Responding to these challenges, our teams proactively adjusted their operational strategies to meet consumer demand for convenient and trustworthy recycling services. As a result, revenues reached the high end of the guidance range we provided last quarter, and we achieved a non-GAAP operating profit, compared to a non-GAAP operating loss in the second quarter. I'd like to take this opportunity to express my gratitude to our staff for their efforts and perseverance in the face of adversity.

收入方面，三季度达到了符合预期的增速，收入实现 25.4 亿元人民币，同比增长 29.2%。其中 1P 产品收入反弹显著，增速达到 33.7%，这得益于我们稳健的开店和门店运营策略、提升自营商品 toC 零售的占比、以及更强的大数据操盘定价能力。第三方平台收入的增长适当放缓，原因是我们主动地对第三方商家的非授权商品（比如水货）和低质量的商品进行了清理，相信这有利于平台的长期健康发展；平台的综合收费率为 4.45%，相对去年同期基本持平。

Let's start by taking a look at our revenues. During the third quarter, we achieved growth in line with our expectations, as our revenue increased 29.2% year-over-year to RMB2.54 billion. Revenues for our 1P business rebounded significantly, increasing by 33.7% year-over-year. This increase was driven by our steady progress in store openings and recycling operations, increased revenue contribution from self-operated 2C retail products, and stronger pricing power from big data analysis. The growth of service revenues flattened as we put tighter control over products that were unauthorized or in poor condition. We believe this helps the sustainable growth of our marketplaces. As a result, the overall commission rate of our marketplaces was 4.45% in the third quarter, remaining stable compared with the same period last year.

效率方面，我们坚持通过优化质检的运营成本，提升履约效率。本季度 non-GAAP 履约费用率、营销费用率分别降低至 10.7% 和 9.8%，分别同比减少 290 个基点和 63 个基点，持续实现了更加健康的费用结构。三季度，我们实现了 1080 万元人民币的 non-GAAP 运营利润，相较疫情影响严重的二季度，重新实现 non-GAAP 盈利，在存在较多不利的外部因素的环境下，再次证明了循环经济的抗周期的特性。

Turning to efficiency. During the quarter, we continued to increase our fulfillment efficiency by further improving our inspection process and continuing to reduce operating costs. Our non-GAAP fulfillment expenses and selling and marketing expenses as percentages of total revenue declined to 10.7% and 9.8%, respectively. This represents respective decreases of 290 basis points and 63 basis points compared to the same period of last year. These improvements reflect the effectiveness of our initiatives to continuously improve our cost structure. In the third quarter, we achieved a non-GAAP operating profit of RMB10.8 million. This was in contrast to the loss-making Q2 performance. In an

unfavorable market environment and facing various headwinds, our monetization capability once again demonstrates the counter-cycle nature of the circular economy.

同时，我们加强存货和现金流管理。三季度，随着疫情冲击的减少，我们 toC 回收和零售恢复较好，库存管理加强，存货周期天数 26 天，同比、环比均有所优化。截至三季度末，集团综合现金储备达 26.7 亿元人民币，连续 3 个季度实现了正向的经营性现金流，本季度实现了 1.01 亿元经营现金净流入。充沛的资金储备和持续的正向现金流，让我们有充足的资金巩固业务大盘，并且投入到集团的战略发展领域。

We also improved our inventory and cash flow management. During the third quarter, we improved inventory management as our business, especially our 1PtoC recycle and retail business, recovered from the adverse impact of the COVID resurgence. The inventory turnover days were reduced to 26, marking a year-on-year and a quarter-over-quarter improvement. As at the end of the third quarter, our comprehensive cash reserves totaled RMB2.67 billion. We obtained a cash inflow from operating activities of RMB101 million during the third quarter, making a third consecutive quarter with positive operating cash flow. With abundant cash on hand and continuous positive operating cash flow, we have sufficient resources to consolidate the main businesses and invest in the strategic development areas.

万物新生的战略是清晰且持续的。我们把过去历次财报会中强调的战略总结为“四个继续”：继续推进一体化城市模型的战略、继续扩大多品类回收的服务范围和交付能力、继续让更多的自营货源经过产业链增值后 toC 零售、以及继续通过自动化提升运营效率。

Going forward, we keep our core strategic focuses clear and consistent. We will continue our commitment to the four focuses as we discussed during the previous earnings conference calls. First, we will continue to promote our city-level service integration model. Second, we will continue to expand the service coverage and fulfillment capacity of the multi-category recycling offering. Third, we will continue to convert more of our 1P product supplies to to-consumer retail through our value-added capabilities including refurbishment. Lastly, we will further increase our operating efficiency by continuing to deploy automation technologies.

战略的第一点，继续落实城市一体化战略，夯实业务基本盘，提升回收渗透率：

Let's start by discussing the implementation of our city-level service integration strategy, which will solidify the foundations of our business growth and further increase our penetration rate.

本季度，城市一体化的战略继续作为手机 3C 回收基本盘健康增长的基础。通过 C2B 和 B2B 前端回收揽货能力的整合，能够更好地服务手机 3C 这个强本地属性的品类。

During the third quarter, our city-level service integration strategy continued to support the healthy growth of our core business of mobile phone and consumer electronics recycling. By integrating our front-end recycling capabilities between C2B and B2B offerings, we were able to better serve the highly localized market demand of the electronics category.

三季度的疫情管控较为复杂，对我们的深圳和成都等业务量较大的城市业绩带来了一定的挑战。不过，我们也在全国 42 个重点城市与城市群中，看到了相比二季度而言更加乐观的增长反弹：31 个城市群的大盘业绩实现同比增长，数量超过今年二季度水平。此外，还有 26 个城市的规模同比增长跑赢全国大盘，20 个城市群的渗透率实现超越大盘的环比增长。去年的第一批试点城市湖州、廊坊（等城市）仍保持积极的增速。我们还看到，一体化带来的回收基本盘增长中，C2B 的单量增长显著，34 个城市群的同比增长超出大盘水平，在现在的消费支出下行的经济周期内，一些城市的用户有着更强的回收意愿。

Complex pandemic control measures during the third quarter have affected our operations in cities that contributed a significant proportion of our business, such as Shenzhen and Chengdu. However, we also saw a delightful rebound in GMV among 42 city clusters compared to the second quarter. 31 city clusters achieved GMV growth on a year-over-year basis, a greater number than last quarter. In addition, 26 cities outpaced our national average in scale expansion on a yearly basis, while on a quarterly basis, 20 city clusters outpaced the national average recycling penetration rate. Of note, Huzhou and Langfang, the first two pilot cities, which we monitor through the north Zhejiang cluster and north Hubei cluster, respectively, are still reporting a healthy year-on-year growth rates in GMV. The number of recycling orders from our C2B business increased notably, achieving better year-over-year growth than the national average in 34 city clusters. As consumer spending faces downward pressure in this economic cycle, user willingness to recycle increased in some cities.

在回收前端，我们进一步深化与京东的战略合作，今年 8 月份，我们联合京东升级以旧换新服务，支持“跨品类以旧换新”，用户可以通过回收最多 6 件设备，折价立减购买京东的新品手机数码、电脑、甚至是大家电。京东也成为了行业内首家支持跨品类换新、多件换新的电商平台，为用户提供一流的体验同时促进回收转化。

此外，在今年 9 月份 iPhone 14 系列首发期间，以旧换新流程完整嵌入京东 APP 主站，在商品详情页、购物车、结算页面均可以使用以旧换新购买，用户在以旧换新下单时无须跳转，提升下单体验。

未来，我们将继续依托京东领先的多个品类的销售规模，进一步推广以旧换新的使用场景，提升用户体验，为用户提供购买新品时更方便的以旧换新抵扣购买方式。

On the recycling end, we further deepened our strategic partnership with JD. In August, we facilitated JD to upgrade its trade-in services to support cross-category trade-in for cell phones, computers, digital devices and home appliances. After the upgrade, users can also trade in a mix of up to six electronic products for new ones. JD becomes the first in the industry to support both cross-category and multi-device trade-ins, providing users with best-in-class experiences while promoting recycling.

In September, we fully incorporated the trade-in function into the main JD App in preparation for the launch of the iPhone 14 lineup. Users can enjoy the trade-in solution seamlessly on the product page, in the shopping cart, or on the check-out page without time-consuming and unstable page redirection, thus improving user experience when placing orders.

Leveraging JD's leading market share of home appliance sales and other categories in China, we aim to further promote trade-in scenarios and provide more convenient trade-in options to consumers.

战略的第二点，继续放大爱回收主品牌的价值和用户服务能力，扩展更多高值品类回收：

Secondly, we will continue amplifying the brand value and service capabilities of our “爱回收” AHS Recycle brand. The goal of these efforts is to expand recycling services to cover more high-value categories.

首先要回答的问题是：爱回收为什么要做多品类？这是因为“爱回收”在回收领域具有稀缺的品牌价值。得益于我们十一年积累的服务口碑，以及遍布全国的线下门店对用户回收心智的长期教育；用户在购买商品时，品牌有很多、线上线下购买渠道很多，但用户在有回收需求时，好的选择并不多。爱回收努力成为用户从手机 3C 回收到其他品类回收的第一品牌，更好地实现我们“让闲置不用，都物尽其用”的企业使命。

You might ask why we would recycle used non-electronic products from consumers. We believe that AHS Recycle “爱回收” is a unique and widely recognized brand in the recycling industry. This is the result of two factors. We have spent 11 years building a reputation for quality recycling service and gaining strong consumer awareness through our nationwide offline stores. What's more, consumers

have many options to buy new products online and offline, but they don't have many good choices for recycling services when needed. AHS Recycle has dedicated itself to being consumers' go-to brand for recycling electronic devices, and we aim to build our reputation further as we embrace multi-category recycling going forward. This echoes our mission "to give a second life to all idle goods".

第二个要回答的问题是：为什么爱回收能做多品类回收的业务？我们认为有两个原因，一个重要原因是全国门店分层管理，差异化地进行履约交付。1,800家爱回收线下门店，为用户提供身边的、值得信赖的回收交付场景，6月以来，我们对全国门店实施分层的管理，其中，大部分社区门店定位为手机数码服务站；一部分主力门店位于区域核心商圈，我们对这些门店陆续进行形象升级和店员培训，在手机3C基础上，进一步开展多品类回收，例如箱包、腕表、摄影摄像器材、黄金、名酒，等等。

另一个原因是，我们能够用差异化的方式构建质检和销售等后端供应链能力。比如，手机3C等核心品类采取自营方式，奢侈品等重要品类采用和合作伙伴共建的方式，黄金名酒等品类采用开放平台商家合作方式，为用户提供更好的服务体验。

You may wonder, why we are capable of launching this multi-category recycling business. On one hand, we have 1,800 AHS stores, which provide a reliable and convenient recycling destination for consumers, managed under a tiered store and fulfillment system. Since June, we started implementing this tiered store system by designating a number of those located in regional commercial centers as the core facilities and adding new category services to those stores. Those located in local communities remain as consumer electronics service stations. At the core storefront, we upgrade branding and train our staff to accommodate both our core electronic recycling services and our new category initiatives. Having done so, we began to offer recycling services for pre-used products with high residual value, such as luxury bags, watches, camera equipment, gold, and vintage wine.

On the other hand, we are capable of constructing inspection and distribution abilities through collaborations with our partners. We have established our supply chain of pre-owned smartphones and consumer electronics and now we are seeking jointly built or jointly operated supply chains for the new categories. Take luxury goods as an example, we jointly build the quality inspection and selling channels with an investee. For gold and vintage wine, we introduce an open platform and selectively choose partners to ensure a reliable recycling choice for users.

第三个关键的问题是：我们的多品类回收给用户提供的差异化体验是什么？有两个差异化体验，第一个是基于结构化数据的线上快速报价，用户在爱回收APP上只需要简单勾选，就可以获得主流型号的快速报价，评估是否要进行回收，而传统方式则需要用户自行拍图，由后端质检师估价，体验较为繁琐、要等待几个小时、标准化程度低；另一个差异体验是，我们提供门店面对面交易，相对传统物流邮寄方式更加方便，用户对服务的信任感更强，高客单价商品的转化率更高，争议也更少，尤其避免了物流邮寄“到手刀”的问题。

You may also wonder, what is the differentiated experience that we could offer with multi-category recycling? One is quick online price quotes based on structured data. Users only need to simply click and check on the AHS Recycle APP through our product navigation before deciding whether to recycle. The traditional method requires users to take pictures by themselves for quality inspectors to offer a quotation. The experience is relatively cumbersome, time-consuming, and lacks standardization. Another difference is that face-to-face transactions at physical stores are more convenient than traditional logistics and mailing methods where users have a stronger sense of trust in services, and the conversion rate of high-value products is higher. At a physical store, we reduce miss communication of product conditions and pricing, and consumers are protected from malicious bargaining which they might often encounter during online recycling.

经过几个月的探索尝试，我们收获了一些数据的验证。对于门店的业绩提升方面，目前，我们的多品类回收业务在上海北京的 50 家左右的主力门店进行测试，平均单店业绩提升明显，平均每家门店每个月额外增加 30 万的营业额，额外增加 2 万元以上的利润，用户对我们的服务体验和线上报价的满意度也在提升。在奢侈品用户与手机 3C 用户的交叉率方面，也有不错的重叠度：用户在完成奢侈品回收后，30 天内进行手机 3C 的回收率达到 11%；而奢侈品回收的用户，过去一年进行手机 3C 回收的交叉率达到 40%。

After months of trial operation, our multi-category recycling business generated an extra RMB300,000 of transaction value and RMB20,000 of profit per month for each of the 50 core AHS stores. Users' satisfaction with the recycling experience and price quotation has been improving. User profiles show similarities. 11% of our users who sold luxury goods came back to recycle their idle electronic devices in 30 days. 40% of those who sold luxury goods have already sold consumer electronics to AHS Recycle in the past 12 months.

战略的第三点，继续提升合规翻新增值能力，增加产业链价值和利润空间：

The third strategic priority is to continue improving our value-added refurbishment capabilities and further expand profit margin along the value chain.

万物新生主动与厂家（厂商）沟通合规和知识产权保护，今年 4 月参与深圳检察院合规指引政策的意见征询，促进原本无序的二手电子产品维修翻新行业的标准化、产业化、正规化——这也是我们实现自身 1P 的货源增值、赋能更多的拍机堂第三方货源提升等级、增加产业链利润的基础。我们通过对进入运营中心的二手手机进行初步检选，筛选出适合维修翻新的机器，采用品牌官方或者第三方认证的零部件进行合规的屏幕打磨、屏幕更换、电池替换等维修服务，并且确保维修质量，销售时明确告知消费者，并且提供额外的质保服务。

We continued our conversations regarding compliance and intellectual property rights protection with phone manufacturers, and participated in the opinion collection process before the People's Procuratorate of Shenzhen released the guidance for compliant refurbishment in April. Since the publication of the guidelines, the previously unregulated electronics refurbishment industry began to standardize and industrialize, and came under official regulation. This development allowed us to upgrade the quality of supply both from 1P and from PJT marketplace, and so aligned with our strategy to expand profit margin. After preliminary inspections on the pre-owned mobile phones we receive, we leverage technology to identify suitable devices for refurbishment. Then, in compliance with regulations, we use official and certified third-party parts and components to polish and replace screens, replace batteries and repair as needed. We keep customers informed and provide warranties to boost consumer confidence.

目前，我们的供应链增值业务正处于产能爬坡阶段，第三季度的合规翻新台数相较二季度，实现了一倍的环比增长；利润率方面，经过供应链增值的机器相对之前的 toB 销售，额外贡献的利润率在 4% 左右，符合我们的预期。

The production capacity is currently undergoing rapid development. Since the second quarter, we have doubled the number of devices that refurbished in compliance with regulations. On margin, compared to the previous 2B distribution, the additional operating margin contribution from value-added refurbishment services is (approximately) 4%. This is in line with our expectations.

未来，我们会继续加强二手手机产业链覆盖的完整度，同时，提升已入仓商品的自动化筛选效率，更高效地筛选和处置那些适合维修的产品，增厚利润空间。在 2023 年，在供应链增值的型号覆盖上，我们拓展更多的手机 SKU，以及笔记本、平板电脑等品类进行维修增值；在区域覆盖上，我们会把产能从当前的华南运营中心复制到华东运营中心以及更多的运营中心。长期来看，

我们将打造“焕新机”品牌，为消费者提供充足的优品货源（能力），为商家提供更多的货源供给和供应链服务支持，并且拓展自身边际利润的增长。

Going forward, we will continue to strengthen the coverage of the entire value chain. The operating margin could be further improved as we increase the efficiency in selecting suitable devices. In 2023, we anticipate a larger service coverage of more SKUs of smartphones and include [corrected] laptops and tablets into our service scope. We also plan to expand the refurbishment capacity from Southern China to Eastern China. Our long-term goal is to provide stabilized high-quality products directly to consumers, while fulfilling merchants' demands by providing them with diversified sources of supply and services. We will continue to develop the “RERE Refurbered” “焕新机” brand and increase our profit space.

战略的第四点，是持续投入自动化，巩固提升效率的能力基础：

For our fourth and final strategic direction, we will continue to invest in technology to improve our automation capabilities, and consequently our overall operating efficiency.

经过近一年的实施、试运营和工序改良，万物新生第二个自动化运营中心正式在东莞规模化启用，在物流效率、质检精度和质检效率方面均有所突破。通过创新的数字化管理手段，以及通过增加传送分拣装置、AGV 无人运输车等装置——东莞自动化运营中心的传输效率相比常州自动化运营中心提升 15%。在自动化质检方面，我们投入使用了全新的自动化质检系统 Matrix 3.0，实现精密定位能力与机器人辅助能力的再度升级，在质检准确度和质检效率方面分别较上一代产品进一步提升 10%和 50%；在退货损失方面，我们预计整体可以降低 15%以上。基于以上自动化质检能力的提升，东莞自动化运营中心的 8 小时产能得以突破 1 万台左右的水平，为集团提升质检规模效应、降低平均每单的履约成本提供很好的运营能力的基础。

Since the beginning of this year, we devoted to the installation, trial operation and adjustment of our second automated operation center in China which was officially put into use in Dongguan. It has realized improvements in many aspects including sorting efficiency, inspection accuracy, and inspection efficiency. Thanks to an innovative and digitalized management process and the use of AGV unmanned transport vehicles, the transmission efficiency of our Dongguan Automated Operation Center is 15% higher than that of Changzhou. We have implemented the next-generation Matrix 3.0 automated quality inspection system to further upgrade the precision of device locating capabilities and robot assistance capabilities. The accuracy and efficiency of our quality inspection process were further improved by 10% and 50% respectively compared to the previous generation. The loss due to product return is expected to be reduced by 15% approximately. Based on these improvements to our automated quality inspection capabilities, the eight-hour production capacity of the Dongguan Automated Operation Center exceeded 10,000 units. This has enhanced the scale effect of our quality inspection operations, and has reduced the cost of performance per order which is necessary to consolidate our operational capabilities at the group level.

最后，补充一个动态，万物新生在今年 9 月获得了晨星旗下评级机构的 ESG “低风险”评级，认可集团在全球在线零售业务板块领先的 ESG 业绩表现。本次评级不仅是对我们在环境保护与碳排放减排披露、可持续产品与服务、网络安全与用户数据安全保护项目、财税合规等公司治理等方面的积极认证，也是对万物新生集团可持续发展能力的认可。

Lastly, I want to provide an update on ESG. We received a Low ESG Risk Rating from Morningstar Sustainalytics in September this year, a testament to our ESG risk management capabilities in the Online and Direct Marketing Retail sector. This rating confirms our contributions to environmental protection, carbon emission disclosure, sustainable product and service development, data privacy and security, tax compliance, and other aspects of responsible corporate governance. It also stands as a testament to our sustainable development capabilities.

我们认为 ESG 表现强的公司，对于社会的价值更大，对政策的风险敞口相对较小。我们将继续从自身稳健的业务基本盘出发，从容应对外部环境的不确定性。在中国走向双碳目标的路径上、在循环经济的发展历程中，万物新生有信心为用户创造更好的回收体验，为社会、为股东创造更长期的价值。

We believe that a company with strong ESG practices can contribute greater value to society, and is less at risk from changes in policy and regulations. Our responsible governance grants us more flexibility as we navigate our growing business through an uncertain macro environment. As China sets carbon neutrality goals on the way to its carbon peak and the circular economy begins its development in earnest, we are confident that we will create best-in-class recycling experiences for consumers, and create long-term value for society and for shareholders.

下面请公司 CFO Rex 介绍一下财务情况。

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

Rex Chen, CFO:

Hello, everyone. We are delighted to report that our third quarter revenue was at the high end of our guidance, even though COVID-related challenges remained in the operating environment. In the face of these headwinds, we leveraged our city-level service integration strategy and maintained our prudent spending.

I will 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.

Total net revenues increased by 29.2% year-on-year to over 2.54 billion, mainly driven by the rebounding 1P product sales revenue growth.

Total GMV grew by 14.5% to 9.5 billion, driven by the growth in both product sales GMV and online marketplace GMV. Please note that we will retire the reporting of GMV starting from the fourth quarter of 2022. GMV has been a barometer to access our periodical business expansion as we inclined to rapid scale expansion. However, as we become more obsessed with providing our users with safe, convenient and fair recycling experience and quality assured products, we incrementally prioritize the solid growth of our 1P business where GMV becomes less reflective of the bigger picture. We are also keen to maintain a healthy cash flow from operating activities and a positive operating margin. As a part of our tactics, we removed some poorly rated merchant users from our marketplaces and tilted our resources towards self-sourced products including 1PtoC products that were refurbished with compliance.

In terms of profitability, we had another profit-making quarter, with non-GAAP operating income of 10.8 million. This was primarily attributable to improved cost efficiencies in logistics and manpower that resulted from scale effects. In the future, we will continue to improve cost efficiency, especially in fulfillment and marketing, by leveraging automated inspection facilities to further realize scale effects and accurately capture recycling and shopping scenarios.

In the third quarter of 2022, we had a capital inflow from operating activities of RMB101.3 million, securing a third consecutive quarter with positive operating cash flow.

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

In the third quarter, total revenues increased by 29.2% to 2,536.0 million. Net product revenues increased by 33.7% to 2,225.7 million, while net service revenues increased by 4.4% to 310.3 million. Growth in net product revenues was primarily driven by an increase in sourcing volume and the corresponding sales of pre-owned consumer electronics through Paipai Marketplace, PJT Marketplace, and our offline channels. The increasing 1PtoC distribution of compliant refurbished devices also contributed to this growth in product revenues.

Growth in service revenues was primarily driven by increases in transaction volumes and improvements to the monetization capabilities of PJT Marketplace. The overall commission rate of our marketplaces was 4.45%. We further optimized operational strategy by cutting down rebates to merchant users as we became more comfortable to charge commission fees based on the established trust and user stickiness.

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 33.8% to 1,932.2 million. This was in line with the growth of the 1P product sales revenues. Gross margin at the group level was 23.8% in the third quarter. Gross margin for our 1P business was 13.2%.

Fulfillment expenses increased by 1.4% to 277.1 million. Excluding share-based compensation expenses, which we will refer to as "SBC" from here on, non-GAAP fulfillment expenses increased by 1.7% to 271.0 million. Under non-GAAP measures, the increases were primarily due to (i) an increase in personnel cost in connection with the Company's growing business, and (ii) an increase in technology expenses in relation to the upgrade of technology server, which was partially offset by a decrease in operation center related expenses as the Company optimized its strategy for its city-level operation stations. The non-GAAP fulfillment expenses as a percentage of total revenue reduced to 10.7% from 13.6% of the same period last year.

Selling and marketing expenses increased by 14.0% to 340.8 million. Excluding SBC expenses and amortization of intangible assets, non-GAAP selling and marketing expenses increased by 21.4% to 249.7 million. Under the non-GAAP measures, the increases were primarily due to (i) an increase in personnel cost in connection with the Company's growing business; and (ii) an increase in marketing expenses related with business development. The non-GAAP selling and marketing expenses as a percentage of total revenues decreased to 9.8% from 10.5% in the same period last year.

General and administrative expenses increased by 51.4% to 63.6 million. Excluding SBC expenses, non-GAAP G&A expenses increased by 76.7% to 46.3 million primarily due to (i) an increase in personnel cost in connection with the Company's growing business, and (ii) an increase in professional service fees. The non-GAAP general and administrative expenses as a percentage of total revenues slightly increased to 1.8% from 1.3% compared with the same period last year.

Technology and content expenses decreased by 23.2% to 50.1 million. Excluding SBC expenses and amortization of intangible assets, non-GAAP technology and content expenses decreased by 26.0% to 43.9 million. Under non-GAAP measures, the decrease was primarily due to the changes in personnel

cost in relation with the Company's adjustment to its spending in research and development. The non-GAAP technology and content expenses as a percentage of total revenues was 1.7%, compared with 3.0% in the same period last year.

As a result, our non-GAAP operating income was 10.8 million in the third quarter of 2022. Non-GAAP operating margin was 0.4%, compared with negative 1.5% in the same period last year. And once again, we had a cash inflow from operating activities during this quarter, which totaled 101.3 million. As of September 30, 2022, cash and cash equivalents, short-term investments and funds receivable from third-party payment service providers totaled 2.67 billion. The sufficient cash on hand safeguards a sustainable growth outlook.

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

During the third quarter of 2022, we have repurchased 0.5 million ADSs in the open market for a total cash consideration of 1.5 million US dollars.

Now turning to outlook. For the fourth quarter of 2022, the company currently expects its total revenues to be between RMB2,930 million and RMB3,030 million. The highly transmissible Omicron variant might impose adverse impacts on the operation of our stores and facilities, as well as the transaction activities of merchants in 2022. Thus, this forecast only reflects the company's current and preliminary views on the market and operational conditions, which are subject to change.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). Lynn Li from Goldman Sachs.

Lynn Li: (Speaking Mandarin) 恭喜公司本季度取得强劲的收入增长。请问如何看待在疫情和消费下行压力下的公司未来的收入增长趋势。同时看到 3P 业务的增速有些放缓，管理层怎么看未来的自营与平台业务的收入构成？多品类回收对于公司收入增长的贡献如何？

Let me translate for myself. Congratulations for another solid top line growth. And my question is about the future growth driver, and under the Covid impact, together with the consumption down-trading pressures, how should we look at the future growth drivers? And, also, regarding the 3P revenues, we see that there was some moderation in the growth phase. In the future, how much will be contributed from 1P revenues and how much will be contributed from the 3P part? And also, regarding the multi-category recycle, how much contribution are we expecting from the categories outside the phone?

Kerry Chen: (Speaking Mandarin) 感谢提问。从整体上看，相较二季度疫情封控对上海、北京等开展回收业务的主要城市的负面冲击，集团业务恢复还是比较快的，尤其是 1P 业务的增长超出预期，确实体现了特殊时期循环经济逆周期的特性。

(Translated) Okay. Thank you for the questions. Let me answer first question first. Overall, after being negatively affected by pandemic control measures in core 1P recycling business locations such as Shanghai and Beijing in the second quarter, our recycling business recovered to a normal growth track

during the third quarter. Notably, our 1P business grew beyond our expectations, demonstrating the countercyclical nature of the circular economy we are part of.

我们 1P 业务快速的恢复，一方面，得益于疫情冲击的缓和，门店回收体系的正常运营更有保障，让我们有更充沛的货源来源供给。另一方面，自今年起，我们战略上对平台拍拍代卖业务进行了转型，用更多的 1P 优质货源进行替代。这个出发点是今年 4 月深圳市人民检察院发布的“电子产品合规翻新指引”。在该指引出台前，我们的优质货源供给不足，策略是优先发展平台商家，更多地卖行业商家提供的货源。在指引出台后，二手 3C 产品可以经过批量合规翻新后 toC 销售，不仅让我们能够进一步发挥供应链优势，为集团在全产业链上带来了增量的利润空间，还为消费者提供了更多、更优质、更具价格竞争力的产品的选择。三季度，通过集团自主可控的翻新供应链，通过“焕新机”品牌进行 toC 零售的销售超过 9000 万，客单价也提升到 2600 元以上。

The recovery of 1P business growth rate is due to two factors. First, we essentially resume standard operating hours at our offline stores as pandemic control measures are lifted. This grants us a more abundant supply of products. Second, in 2022, we started shifting our strategic focus from a consignment model to a 1PtoC direct retailing model. This was an effort initiated following the launch of the first compliance guidance for intellectual property rights in the electronics refurbishment industry, as published by the People's Procuratorate of Shenzhen in April this year. Before the launch of this guidance, we did not have a sufficient supply of high-quality pre-owned products; as such, our strategy was to prioritize marketplaces, and help our merchant partners to sell their products. Since the launch of the guidance, we further leveraged our supply chain capabilities and started to refurbish pre-owned electronics and sell these products directly to retail customers. This brings additional profit margin over the value chain, and also provides more supply of higher-quality, better-priced pre-owned electronics to consumers. During the third quarter, we utilized our refurbishment supply chain to distribute "RERE Refurbered" branded products to retail customers. Our success was demonstrated by over RMB90 million in sales, and the ASP increased to (over) 2,600 RMB.

关于平台业务的增速，我们对平台业务策略确实进行了调整，更加注重平台业务有质量、有利润的增长。在拍机堂方面，我们在三季度主动地清退了一些供货质量和用户体验不达标的商家，提升平台对知识产权和用户权益的保护；拍拍上的商家代卖业务主动缩减规模，追求更好的商品质量控制——我们认为，更多比例的 1P 货源在通过爱回收自营回收后，通过合规翻新后 toC 零售，并提供质保维修等增值服务，可以让我们更完整地掌握二手 3C 全产业链的价值；在此基础上继续优化运营效率，相对单纯的平台经济更加符合二手行业的规律，也有利于集团的健康长期发展。我们相信，在疫情反复和消费下行的双重挑战下，信息透明值得信赖的回收服务、以及真正有质量保障的二手优品仍将受到更多消费者的欢迎。我们 1P 业务的增长更加具有确定性，值得进行长期投入。

In terms of platform business, we adjusted our business strategy and focus on high-quality and profitable growth. On PJT Marketplace, we took the initiative to remove merchants with substandard supply and service quality. In addition, we provided more protection for intellectual property and consumer rights. On Paipai, we took the initiative to scale down third-party consignment business, and pursued better quality control measures. We believe that a higher proportion of 1P self-sourced products can be refurbished and sold to retail customers with quality assurance and maintenance services. This will give us strong pricing power over the consumer electronics value chain. In addition to these strategic developments, we also optimized our operating efficiency. Compared with running our company purely as a platform, we believe that prioritizing 1P business is more beneficial to the company's long-term development. Facing challenges from the pandemic resurgence and slowed consumption, our trustworthy recycling services and quality-assured pre-owned products are becoming

increasingly popular among consumers. Our 1P business is thus demonstrating greater growth prospects, and we believe the growth of 1P business is worth investing in for the long term.

展望明年及未来的增长，一方面来自于我们的业务基本盘—手机 3C 品类的自营回收和销售业务的增长，另外一方面来自我们多品类业务的发展。作为自身基础能力的延伸和对消费者多样化回收需求的满足，我们基于爱回收的 1,800 家线下门店，进行分层运营，逐步叠加多品类回收。三季度我们已经在上海、北京 50 家主力门店试点了多品类回收业务，平均单店的业绩额外增加 30 万元左右，每家门店额外增加利润在 2 万元以上，这是非常好的数据验证。我们预计在 Q4 以及 Q1，会把在全国一二线城市的覆盖进行进一步扩大，覆盖门店会达到 150 家左右，并且在 2023 年希望为集团整体业绩的增长产生更多的贡献。关于多品类业务在 2023 年的具体的数字的贡献占比，我们希望在下一次财报会有更多的数据可以提供。谢谢。

Let's now turn to discuss our future growth. On the one hand, this growth will come from the stable development of our core business of consumer electronic devices recycling and sales. And on the other hand, it will come from the new revenue stream of our multi-category recycling business. This effort is an extension of our service capabilities. In an attempt to cater to consumer demand for multi-category recycling, we applied a tiered store operating system to 1,800 stores, gradually introducing multi-category recycling services in these locations. During the third quarter, we piloted these services across 50 stores located in Shanghai and Beijing. On average, we generated an additional monthly GMV of RMB300,000 and a profit of (over) RMB20,000 for each store. During the fourth quarter, we will continue to refine our structured SKU database, enhance user experience including price inquiries, and improve the conversion rate. We expect to have further breakthroughs in terms of city coverage, extending our consumer reach across over 150 core AHS stores across China. And we aim to share more detailed color about our multi-category recycling business in the fourth quarter. Thank you for the question.

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

Joyce Ju: (Speaking foreign language). 我的第一个问题是，想请管理层分享一下“双十一”的销售情况以及最近中国部分地区疫情对业务的影响。第二问题，想问一下对盈利路径的预期以及对利润率发展的预期。Now I will translate myself. The first question is could you please comment on the recent consumption momentum during Double-11 Shopping Festival, including impact from the Covid disruptions in China recently? And second question is about could you give us more color on the path to profitability and the medium to long-term margin expectations?

Kerry Chen: (Speaking Mandarin) 谢谢提问，我来先回答第一部分的问题，我们的 CFO Rex 来回答第二部分的问题。关于今年“双十一”的业绩表现，今年的“双十一”市场进入销售常态化的时代，整个促销的形式也比较朴实。今年“双十一”筹备期间，我们与京东形成联动，扩大以旧换新所支持的新品销售范围，首次超出手机 3C 范围，与京东家电合作推出了跨品类的以旧换新，支持用户在买家电品类时，使用手机 3C 回收抵扣，减轻用户的购买负担。大家看到京东的电子产品及家用电器的整体业绩增长还是非常稳健的，依然是京东大盘的中流砥柱，我们希望借助京东的优势品类流量，进一步加强回收场景的覆盖，提升我们主营的手机 3C 的回收渗透率。(Translated) Thank you for the questions. I will take the first one, and our CFO, Rex, will take the second. This year, the Single's Day grand promotion showed moderate growth. Promotions have now become regular and straightforward. When preparing for this grand promotion, we collaborated with JD's home appliances business unit to provide our trade-in services across more product categories. Users purchasing new home appliances on JD could trade in their used consumer electronics to reduce the economic burden. JD has been reporting steady growth in its core revenue stream from electronics and

home appliances. Leveraging JD's traffic in electronics and home appliances, we further diversified our trade-in scenarios. This can increase the penetration rate for our core mobile phone and consumer electronics recycling business.

在 2022 年“双十一”的开门红阶段，即 10 月 31 日晚 8 点起的 28 小时内，京东以旧换新的用户数同比增长超过了 310%。我们加深与京东的合作，在今年叠加的 3C 跨家电品类以旧换新业务中，支付单量占“双十一”全程以旧换新业务总量的约 20%。这次“双十一”，万物新生以跨品类换新增加对消费者换新需求的服务能力，帮助品牌挖掘消费者购新需求，形成了互惠和共赢。此外，拍拍严选业务全渠道实现了扭亏为盈，优先控制利润进行操盘，通过补充自营货源和合规翻新货源进行销售，在扣除平台和一线人员成本后，实现了 2% 以上的运营利润率。

During the first 28 hours when the Single's Day grand promotion kicked off at 8 pm on October 31st, the number of JD customers who traded in their used devices for the new increased by 310% year-on-year. Home appliance cross-category trade-in orders accounted for 20% of all the paid trade-in orders during the grand promotion. This year, we further advanced our service capabilities to satisfy consumer demand for economic shopping options, thus mutually benefiting consumers and JD's new product sales. In addition, excluding frontline personnel costs and platform expenses, Paipai Selection realized an overall operating margin of (over) 2% as we prioritized profit and supplemented 1P refurbished products.

在品牌服务方面，我们服务的主要品牌是苹果，苹果依然保持市场领先地位。在三季度其他智能手机品牌新品出货量承压的情况下，苹果仍然保持新品出货量的逆势增长。我们大盘业务中 70% 是手机，苹果品牌在整体规模中占比是 45%。虽然 iPhone 14 系列在近期遇到供应链紧张的压力，但消费者对 Pro 和 Pro Max 等高端机型仍有强烈的需求。我们相信，随着苹果逐步恢复其产能，以旧换新的需求也有可能出现反弹，我们也有信心通过更好的服务、更顺畅的场景承接用户的换新需求。对于安卓机型，在消费下行的环境下，用户需要比平时更强的换机的理由，我们相信我们的业务能为消费者提供更具性价比的换新方案，品牌厂商也更加愿意以以旧换新带动新机的销售。

In terms of brands we support, Apple has maintained its industry-leading market share. When other smartphone brands were under downward pressure, Apple retained its growth in new device shipments in the third quarter. Mobile phones account for 70% of our total transaction value, whereas APPLE's products account for 45% of our overall transaction value. Although the supply chain of the iPhone 14 lineup was under pressure recently, consumer demand for Pro and Pro Max models remained strong. We believe that, as Apple gradually resumes its production capacity, trade-in demand can rebound, and we are confident that we will fulfill that demand with a better and more seamless service process. For Android models, in the context of declining consumption, consumers need a stronger incentive to shop for new products. We believe that our cost-efficient trade-in solutions could be that incentive that manufacturers also find encouraging.

Rex: Ok, thank you, Joyce. I will take your second question, related to the profitability. There are two main drivers for our mid-term to long-term profitability.

First, the improvement in 1P gross margin, in particular, due to the contribution from our new business initiative – compliant refurbishment. Our 1P business was less impacted by pandemic control measures during the quarter as our operation of offline stores gradually resumed. We were able to meet consumers' recycling demand with stable pricing.

In addition, the strategic shift from the consignment model we mentioned in the last quarter has allowed us to transfer Paipai's high-quality 1P product sales. This will allow us to continue to improve the quality and reputation of the pre-owned products that we re-commercialize. Meanwhile, we are on track in developing compliant refurbishing capabilities. By replacing components in poor condition with certified third-party batteries and screens, we recondition these 1P products and better satisfy retail buyers' needs. As our "RERE Refurbered" business scales, we improve our product mix, thus further widening our gross margin.

Secondly, our operating efficiency has continued to improve. During the third quarter, we realized a non-GAAP operating profit of RMB10.8 million. This was attributable to our optimization of fulfillment expenses and selling expenses. The non-GAAP fulfillment expenses as a percentage of total net revenues decreased by 2.9 percentage points year-on-year to 10.7%. This was mainly due to the refinements made to the management structure in our offline stores and the implementation of a new system for our operation stations.

As we gradually roll out the above-mentioned refurbishment business and further achieve cost efficiency improvements, we anticipate our topline to be between RMB2.93 billion to RMB3.03 billion in the fourth quarter. We'd also anticipate a non-GAAP operating income in the fourth quarter and realizing a profitable year under non-GAAP basis as we forecasted. Looking ahead, we expect our total revenues and profitability to further escalate in the coming quarters. Thank you.

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

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

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