

[RERE] – ATRenew Inc.
Q4&FY 2022 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:

Ronald Keung, Goldman Sachs
Joyce Ju, BofA Securities
Fay Lin, China Renaissance

Presentation

Operator:

Good morning and good evening, ladies and gentlemen. Thank you for standing by and welcome to ATRenew Inc. fourth quarter and full year 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 fourth quarter and full year 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.

The financial results were released earlier today. The earnings release and investor slides accompanying this call are available at our IR website. 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 年第四季度及全年业绩电话会。

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

第四季度，国内疫情防控政策调整，尤其在 12 月，给公司的主力城市北京上海等带来严峻的挑战；与此同时，新机的生产供应链也受到了不利冲击，iPhone14 等主力型号缺货，给我们开展以旧换新造成困难。直面这些挑战，我们尽可能地保证门店运营时间，让 1P 回收货源可控，最终在四季度如期实现了收入和利润目标。

COVID infections surged rapidly, especially in December, following the easing of pandemic controls. This posed a severe challenge to us in Beijing and Shanghai, etc., which contribute a significant proportion of our business. At the same time, production shortfalls meant that the popular models of the iPhone 14 lineup were in short supply, negatively affecting our trade-in business. To meet these challenges, we put every effort into maintaining store operating hours and ensuring the supply of 1P self-sourced products. We met our goals for revenue and profit during the quarter.

收入方面，四季度再创新高，同比增长 22.4% 达到 29.8 亿元，达到指引区间中端；2022 全年收入达 98.7 亿元，同比增长 26.9%。具体看增长来源，我们重点发展的 1P 业务贡献主要增长动力，全年增速达到 30.4%。

Starting with revenues. During the fourth quarter, our revenue reached a new record high of 2.98 billion, representing year-over-year growth of 22.4%, and arriving in the middle of our guidance range. In 2022, our total revenue reached 9.87 billion, increasing by 26.9% year-on-year. This was mainly driven by our focus on 1P business, which grew by 30.4% during 2022.

22 年消费增速放缓、疫情反复，我们更审慎地开设门店、更扎实地做门店管理，夯实了第一手回收货源来源的持续性。此外，“城市一体化”战略也为 1P 业务的增长夯实基础：三条业务线的揽货能力整合，强化了本地市场的控货效率，实现更快速的交易周转。即便在疫情严峻的第四季度，我们仍在杭州、南京、苏州、西安等多个重点城市看到回收渗透率的持续提升。

Facing slower consumption growth and the resurgence of COVID in 2022, we were more prudent in opening new stores and kept strengthening product sourcing capabilities by improving store management. In addition, implementing our city-level service integration strategy laid the foundation for the healthy growth of 1P business. The integration of frontline sourcing capabilities of three business lines facilitates efficient sourcing and transaction flow. Even in the fourth quarter, despite facing severe pandemic-related challenges, we grew the penetration rate of major cities in which we already operate at scale, such as Hangzhou, Nanjing, Suzhou, and Xi'an.

平台业务方面，我们从 IPO 时强调的规模增长优先，调整为“效率优先、稳健增长”。基于更好的供应链服务能力，平台的综合收费率回升到 4.8% 水平。其中，拍机堂在商家结构优化后，核心业务的收费率提升至 6.9%，商家的高粘性再次证明了拍机堂平台的价值；拍拍业务在四季度的物流妥投受疫情阻碍影响，因此 B2C 的收费率略有回落，但我们预期在 23 年通过品类和运营优化，会快速恢复。从我们提出 1P 业务作为主要的增长引擎后，平台业务更加注重效率优化，已经度过了亏损阶段。

Regarding marketplaces, we have pivoted from our IPO-era strategy of scale-first to “efficiency-first with steady growth”. Driven by enhanced supply chain services, the overall take rate of our marketplaces rebounded to 4.8%. To break this down, following the optimization of PJT Marketplace’s merchant structure, the take rate for the core services increased to 6.9%, demonstrating merchant users’ trust in us and the value of the PJT marketplace. For Paipai, fulfillment was hindered by the pandemic, leading to a slight decline in B2C take rate. However, we expect this to rapidly return to a healthy level following category and operation optimizations during 2023. Since we set 1P business as the main growth engine, third-party business prioritized efficiency optimization.

效率方面，2022 年我们强化运营，细抠每一分钱。non-GAAP 口径下，我们在 22 年全年实现成本效率的提升，尤其是销售费用率和履约费用率，分别控制在 8.9%和 10.9%。销售费用率的优化主要得益于我们节约了拍机堂平台推广费、商家返利、地推团队成本，以及对新业务更加有纪律的投入。

Turning to operating efficiency. During 2022, we enhanced our operations and were highly disciplined with our spending. Under non-GAAP measures, we improved our cost efficiency. In particular, selling and marketing expenses and fulfillment expenses as percentages of total net revenue further decreased to 8.9% and 10.9%, respectively. We achieved selling and marketing expense optimization mainly by reducing PJT Marketplace's promotional fees and rebates for merchants, on-the-ground marketing fees, and by prudently investing in new initiatives.

履约费用率是我们长期优化的重点，回顾过去 3 年，我们通过自动化项目逐步在华东、华南大仓的质检定级流程自动化、大幅提升了仓储物流效率，并通过管理系统提升了全国门店回收、交付流程的标准化，成功将 non-GAAP 履约费用率从 2020 年的 13.7%降低到 2021 年的 12.9%，并进一步降低到 2022 年的 10.9%【更正】。这证明我们坚持投入自动化技术的战略是正确的，我们业务模式的盈利是可实现的。第四季度，第二代自动化运营中心在东莞开仓运营，进一步提升质检效率，将质检失误导致的损失同比降低 22%。随着经济生活回归常态，我们有信心看到交易量回升，自动化技术、规模化效应的经济效益逐步释放。

Fulfillment expense optimization is our long-term focus. Over the past three years, we have gradually automated quality inspection and pricing at our operation centers in South and East China, thereby enhancing the efficiency of warehousing and logistics. In addition, the upgraded management system has improved the standardization of recycling and fulfillment at our storefronts. As a result, non-GAAP fulfillment expenses as a percentage of total net revenues decreased to 10.9% in 2022, from 13.7% in 2020 and 12.9% in 2021. Such improvements validate our commitment to strategic investments in automation, and demonstrate the profitability of our business model. During the fourth quarter, our second-generation automated facility came online in Dongguan, further boosting inspection efficiency. As a result, losses caused by quality inspection failures decreased by 22% compared with the same period of 2021. As people's daily lives and the economy return to normal, we are confident in a revitalizing transaction activity, and we expect the benefits from automation to further scale.

在处置端，我们持续加强标准和价格体系建设，并通过开展合规翻新业务，提升自营回收商品的质量等级，持续提升适合 toC 零售货源的比例，并且通过产业链增值，延伸额外的毛利空间。22 年下半年整体的合规翻新手机产品的销售规模突破 2.2 亿元。

On processing, we continue enhancing our grading and pricing system, while providing compliant refurbishment services at a larger scale. We would recondition a larger part of self-sourced devices and this in turn helps to increase the proportion of like-new products that are suitable for retailing. Moreover, this value-added service will enable us to gain extra gross margin along the value chain. During the second half of 2022, our compliant refurbishing business achieved a GMV of over 220 million.

在 non-GAAP 口径下，我们在四季度实现了近 3460 万元运营利润，全年盈利 690 万元。包含现金及现金等价物、短期投资、第三方支付账户余额的综合现金储备共 28 亿元。此外，凭借清晰坚定的长期战略，我们对 23 年一季度及全年的运营盈利目标充满信心。

Under the non-GAAP measures, we achieved an operating income of 34.6 million in the fourth quarter and reported an operating income of 6.9 million for the full year. With a strong cash position of 2.8 billion, which included cash and cash equivalents, short-term investments and funds receivable from third-party service providers, along with a clear, firm long-term strategy, we are fully confident in our non-GAAP operating profitability targets for the first quarter and full year 2023.

接下来，让我再次强调下我们的核心战略，我们曾连续在过往的财报电话会中提出，我们的战略是坚定不动摇的，在长期执行中卓有成效：

Now, let me once again emphasize our core strategies. As we have mentioned over the past few quarters, we remain resolute in executing our productive strategies:

第一，通过城市一体化战略，促进更多消费者认识回收、参与回收，促进合作伙伴和商家更简单地开展以旧换新。据 CIC 报告，中国消费电子产品的回收渗透率仍处于低个位数，约 4-5%，万物新生施展的空间依然很大。我们的目标是率先在一线城市突破 15% 以上的回收服务渗透率，综合提升全国大盘渗透水平；此外，值得一提的是，今年年初，我们已经和全球领先的手机消费电子产品达成以旧换新的战略合作，预计在今年 Q3 的新机销售旺季能给公司业务带来有效增长。

First, our city-level service integration strategy has provided opportunities for a wider range of consumers to acknowledge and participate in recycling while simplifying how our partners and merchant users carry out trade-in services. According to a CIC report, the penetration rate of consumer electronics recycling in China remains low at four to five percent, indicating an extensive addressable market for us. Our target is to first achieve an over-15-percent recycling penetration rate in top-tier cities, while elevating the national average. In addition, as a highlight, we have established strategic partnerships with world-leading smartphone manufacturers in terms of trade-in programs this year. And we expect this to effectively benefit our business during the peak season of new phone sales in the third quarter.

第二，持续加强合规维修整备能力，更多的比例通过拍拍 B2C 业务直接零售，实现更完整的价值链，实现更多的增值利润空间，也更好地服务消费者，让购买二手合规翻新整备产品的体验与购买新品一样，同样有质量保障，但更加经济实惠。

Second, we continue advancing our compliant refurbishment capabilities, maximizing our value chain and profit margin through more 1PtoC retail distribution, while we improve customer service. For refurbished products, we provide new product shopping experiences and the same quality assurance but at more affordable prices.

第三，多品类回收，进一步放大爱回收的品牌价值。通过门店形象和服务能力的升级，承接用户更多品类回收的需求，为集团业务增加新的发展点，提升现有门店的坪效和运营利润；在循环经济发展的大背景下，鼓励更多用户参与回收与绿色生活方式，让有价值的产品的生命周期得以延续，践行“让闲置不用都物尽其用”的企业使命。

Third, we will further amplify the brand value of AHS Recycle across multiple new categories. By upgrading our storefronts, elevating our service capabilities, and meeting a more diverse demand, we are adding new growth drivers for our business and improving the unit economics and margin of existing stores. Against the backdrop of the development of the circular economy, we encourage a greener lifestyle of recycle and reuse. By doing so, our mission “to give a second life to all idle goods” comes to fruition.

第四，逐步实现自动化替代。我们相信，自动化研发已经度过研发阶段，进入项目实施和成本效益释放的阶段。我们会基于平台处置规模的提升，逐步对其余 6 个运营中心进行自动化升级，实现高精度质检和拣选机器人对人工操作的替代，进一步降低运营成本。

Finally, we will continue the steady automation of our supply chain. We have completed the R&D stages and are delivering positive cost-saving results following the initial implementation. As device volume increases, we will gradually automatize the 6 remaining operation centers, replacing manual inspection to realize high-precision quality control and improve cost efficiency.

万物新生处于循环经济长期且充满机遇的绿色赛道，我们相信供应链和技术驱动效率革新的力量，坚持把“回收”这一件事情做好，让闲置不用都物尽其用，做多品类，做大规模，做坚实的利润，为用户、为环境、为股东带来更多的价值创造。

The ongoing development of the circular economy provides us with a wide range of opportunities. We strongly believe in supply chain and technology as driving forces to realize efficiency advancement. Looking ahead, our mission “to give a second life to all idle goods” remains unchanged, and we stay dedicated to the recycling business. We will go further in product categories and will further scale. We will generate high-quality profits, and greater value for users, the environment, and 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 pleased to report that our fourth quarter revenue was in line with our guidance, even though COVID-related challenges continued to impact the operating environment. In the face of these headwinds, we leveraged our strong supply chain capabilities to maintain a stable product source supply, and further solidified the healthy growth of our 1P business.

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 22.4% year over year to 2,981.2 million, mainly driven by growth in net product revenues.

In terms of profitability, we had another profit-making quarter, with non-GAAP operating income of 34.6 million. This was primarily attributable to improved cost efficiencies in logistics and manpower that resulted from scale effects powered by automation inspection upgrade. This was also attributable to improved cost efficiencies in optimized promotional and advertising strategies for our marketplaces. Facing the challenges brought by the pandemic, we made some short-term operational adjustments that resulted in a temporary decrease in our fulfillment costs this quarter. We leveraged sources of supply of industry partners to ensure ample quality product listings. Although the gross margin of the batch was thin, we didn't have to invest heavily into inspection and grading – this was considered as a trade-off. During 2022, our core strategies and tactical flexibility safeguarded us from market volatilities. And we are pleased to report a non-GAAP operating breakeven milestone as well as 881 million positive cash flow from operating activities in 2022.

In the future, we expect the adverse impacts of covid-19 variants to fade away and our sourcing as well as fulfillment functions to recover. We will continue to improve our cost efficiency, leverage our automated inspection facilities to further realize scale effects, and accurately capture recycling and shopping scenarios. We expect to further improve our non-GAAP operating margins in the coming years. Now let's take a detailed look at the financials.

In the fourth quarter, total revenues increased by 22.4% to 2,981.2 million. Net product revenues increased by 29.5% to 2,687.9 million, while net service revenues decreased by 18.5% to 293.3 million.

Growth in net product revenues was primarily driven by an increase in the sales of pre-owned consumer electronics through our offline channels in mainland China and overseas markets, and Paipai Marketplace.

The decrease in service revenues was primarily due to the lessened consignment business of Paipai Marketplace as we shifted our strategic focus to prioritize 1PtoC sales while we further ramp up our compliant refurbishing business. We prioritized scale growth with stable profit, and eliminated some businesses with low take rates of PJT Marketplace. The overall commission rate for our marketplaces rebounded to 4.8% during the fourth quarter.

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 31.7% to 2,370.5 million. This was in line with the growth in product sales revenues. Gross margin at the group level was 20.5% in the fourth quarter. Gross margin for our 1P business was 11.8%.

Fulfillment expenses decreased by 5.2% to 274.9 million. Excluding share-based compensation expenses, which we will refer to as "SBC" from here on, non-GAAP fulfillment expenses decreased by 7.3% to 259.3 million. Under the non-GAAP measures, the decrease was primarily due to a decline in operation center-related expenses as we optimized our strategy for city-level operation stations and Paipai selection stores, as well as a decrease in logistics expenses. Non-GAAP fulfillment expenses as a percentage of total revenues decreased to 8.7% from 11.5% in the same period last year.

Selling and marketing expenses increased by 61.1% to 594.0 million. Excluding SBC expenses, and amortization and impairment loss of intangible assets, non-GAAP selling and marketing expenses decreased by 18.3% to 222.1 million. Under the non-GAAP measures, the decrease was primarily due to decreased marketing expenses in relation to our more prudent spending strategy for our marketplaces. Non-GAAP selling and marketing expenses as a percentage of total revenues decreased to 7.5% from 11.2% in the same period last year.

General and administrative expenses increased by 47.6% to 76.6 million. Excluding SBC expenses, non-GAAP G&A expenses increased by 66.3% to 54.7 million, primarily due to an increase in professional service fees. Non-GAAP G&A expenses as a percentage of total revenues slightly increased to 1.8% from 1.4% compared with the same period last year.

Technology and content expenses decreased by 12.1% to 54.5 million. Excluding SBC expenses, and amortization and impairment loss of intangible assets, non-GAAP technology and content expenses decreased by 26.6% to 38.7 million, primarily due a decrease in personnel costs in relation to our adjustments to spending in research and development. Non-GAAP technology and content expenses as a percentage of total revenues decreased to 1.3% from 2.2% compared with the same period last year.

As a result, our non-GAAP operating income was 34.6 million in the fourth quarter of 2022. Non-GAAP operating margin was 1.2%, compared with 0.4% in the same period last year. As of December 31, 2022, cash and cash equivalents, short-term investments and funds receivable from third-party payment service providers totaled 2.8 billion. Our sufficient cash on hand safeguards a sustainable growth outlook.

Considering negative impacts on market demands resulting from the outbreak COVID-19 pandemic and the changes in market conditions, the Company performed quantitative impairment tests on the goodwill and intangible assets, and recognized impairment losses of 1,819.9 million and 206.9 million on goodwill and intangible assets, respectively, for the period ended December 31, 2022.

As a recap, on December 9, 2022, we announced an extension of our existing 100-million US dollar share repurchase program for another twelve-month period starting from December 28, 2022, based on management's strong confidence in the company's solid fundamentals and growth momentum.

During the fourth quarter of 2022, we repurchased 383,304 ADSs in the open market for a total cash consideration of 0.9 million US dollars. As at the end of 2022, we repurchased a total of 8.5 million ADSs for approximately 33.9 million US dollars under our share repurchase program.

Now turning to outlook. For the first quarter of 2023, the company currently expects its total revenues to be between RMB2,770 million and RMB2,870 million due to the seasonality of our business. During 2023, we expect the negative impact from covid-19 variants to fade out and anticipate a full-year operating income under the non-GAAP measures. This forecast only reflects our current and preliminary views on the market and operational conditions, which are subject to change.

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

Questions and Answers

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

Ronal Keung: (Speaking Mandarin) 恭喜管理层，四季度有好的增长。想问两个关于增长的问题，一个是关于行业，管理层如何看待手机行业的增长空间？现在疫情影响基本结束，今年能否看到一个加速的增长。第二个问题关于其他品类，可否分享一下多品类开展的情况？

Thank you, management. And I want to ask about two questions about growth. One is for the overall industry, how are we seeing the long-term industry and growth opportunity, particularly after the COVID impact for this year, can we expect an acceleration in growth? And second is about your category expansion, could you share a bit more on how this is progressing and your expanding of categories? Thank you.

Kerry Chen: (Speaking Mandarin) 感谢提问。我们对行业的判断是，这依然是一个供给端驱动的行业，货源的获取非常重要，有很多用户不熟悉回收，或者没有接触到体验好、价格好的回收服务。因此我们的增长策略是：增加更有效的场景覆盖，抓到更多回收和以旧换新机会。

(Translated) Thank you for the questions. In our view, the supply-driven industry remains unchanged and sourcing is of vital importance. Many users are unfamiliar with recycling services, or may not have had satisfying recycling experiences with good pricing yet. Our growth strategy for recycling and trade-in is to cover more efficient conversion scenarios.

一方面，围绕我们的根据地——爱回收门店，我们保持有节奏的开城和拓店，升级现有门店的用户体验，增加更多回收品类，这些都会增加用户对回收服务的认知，产生更多的回收复购，提升爱回收门店运营和后端质检中心的效率；另一方面，我们新增优质的主力回收场景，持续和领先的电商平台、头部的手机 3C 品牌加强合作，在稀缺的客流量集中的购新场景提供回收与以旧换新服务。我们相信，回收服务渗透率的提升空间依然显著。

On one hand, we have continued developing our AHS offline stores, which are the foundation of our business. We open new stores and cities at a suitable pace, while enhancing user experience at existing stores. We have also been expanding the category coverage of our recycling business. As a result, we have grown user awareness of our recycling services and generated more repurchases. Our strategy has improved efficiency in both storefronts and back-end quality inspection centers. On the other hand, we have developed new recycling scenarios that have provided significant contributions to our business growth. We continue to enhance our collaborations with industry-leading e-commerce players and top consumer electronics brands. Through these collaborations, we provide recycling and trade-in services in scenarios where user traffic is highly concentrated on new product purchases. We believe there is still great potential for us to further penetrate China's market.

关于增长趋势，随着疫情防控政策的调整，经济的复苏，我们在 2023 年春节前后看到：1) 回收端交易回暖，越来越多的用户愿意走出家门，来到商场里的爱回收的门店，回收家里闲置但仍有一定价值的物品。我们也因此延续了“春节不打烊”的活动，满足用户节假日期间的回收需求：春节 7 天假期的回收单量有显著的同比增长。2) 在购买端，我们相信用户对“低价优质”商品的追求，是符合零售本质规律的。我们看到用户在经济复苏阶段【更正】的支出仍偏审慎，有供应链保障的二手商品是重要的选项。我们也在重点提升自身产业链能力和价值，精准筛选适合合规翻新的货源，加强自营货源的整备翻新提升和 toC 销售，为消费者带来更具性价比、更有品质保障的购买方案。总的来说，我们对于一季度以及全年的业务增长以及业务达成充满信心。

In terms of growth trajectory, we observed several changes prior to and after the Spring Festival as pandemic restrictions were lifted and the economy began to revitalize. First of all, more consumers were willing to go out and visit our stores in shopping malls to sell their idle goods with residual value. We continued our uninterrupted services during the holiday and to meet the rebounding demand. During the seven-day holiday, recycling volume had a significant year-over-year increase. Second, we believe “high-quality products at low prices” is a natural and reasonable pursuit of consumers. Consumer spending is still cautiously recovering. Pre-owned products with quality assurance backed by strong supply chain capability are essential options. We are also improving our operating capabilities and maximizing our value chain. Our goal is to precisely select sourced goods that are suitable for compliant refurbishment, and enhance self-operated sourcing and to-consumer sales, thus bringing consumers quality-assured value-for-money options. In a nutshell, we are confident that the first quarter and full year growth trajectory will be delightful and we will expect profitable quarters in the coming year.

关于多品类的问题：十二年前，我们从二手手机切入，在发展中看到循环消费是一个大的趋势，我们的边界也可以更大。越来越多的用户愿意将家里有价值的东西回收变现，不只是二手手机

3C, 还有箱包、腕表、名酒、黄金首饰等——我们之前成功解决了二手手机 3C 行业的服务品质、质检标准化、定价问题, 我们同样有抱负去解决多品类回收的服务体验差、质检标准参差不齐、回收高度分散的问题。

Let me now turn to our multi-category recycling business. Twelve years ago, we started recycling pre-owned mobile phones, and saw the huge potential in the circular economy as our business grew. We believe that our business scope can be expanded. A growing number of users are willing to sell their valuable goods for cash, and this is beyond consumer electronics. A growing demand is coming from luxury bags, watches, prestigious liquor, gold, and jewelry. We have successfully solved problems regarding service quality, inspection standardization, and pricing that had plagued the pre-owned electronics industry. We also have the ambition to tackle the problems of these categories, such as poor user experience, inconsistent quality standards, and highly fragmented recycling channels.

为此, 我们制定了多品类回收战略, 并将我们主品牌“爱回收”的 slogan 升级为“为你回收更多”, 给品牌赋予更多爱和温度, 对更多的非标产品回收提供标准的服务和报价体系。四季度, 基于全国一千多家爱回收门店布局, 我们进一步筛选了高线城市的优质门店, 陆续增加了上述高价值商品的回收业务, 试点开展鞋服、卡券回收等新业务。在今年的 1-2 月份, 多品类业务在保持盈亏平衡的前提下, 单月 GMV 突破了 5000 万以上, 并且增长势头良好。

In order to achieve future success, we have strategically developed our multi-category recycling business and upgraded our slogan to “Recycle more for you”, which endows the brand with more love and care. It also demonstrates our goal of realizing more standardized service and pricing systems for non-standard recycling. During the fourth quarter, we selected the top-performing stores in higher-tier cities from over 1,000 AHS offline stores across the country to pilot the above-mentioned high-ASP categories, followed by clothing, footwear, and gift cards, among others. From January to February this year, the new-category business has not only achieved breakeven but also surpassed 50 million RMB in monthly GMV with strong growth momentum.

今年上半年, 我们计划在 150 家主力门店完成多品类回收能力、品牌形象的升级。同时进行基础能力的全面建设, 丰富商品结构化数据、优化价格策略, 提升各环节的转化率, 加强后端买家渠道建设, 坚持“用户体验第一”的原则, 持续提升门店服务能力, 让爱回收的门店能力成为高值非标商品回收的关键基础能力。

By the end of June, we plan to allocate the new category recycling offerings across 150 tier-one stores and upgrade the brand image of these stores. We will also further enhance the overall fundamental capabilities. These enhancements include diversifying the product database, optimizing pricing strategies, increasing the conversion rate at every stage of the recycling process, and enhancing the distribution channels. Putting user experience first will be our long-lasting principle. And we will continue to improve our service capabilities in offline stores, making them our fundamental capabilities in the high-value non-standard products recycling business.

谢谢。

Thank you for the questions.

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

Joyce Ju: (Speaking foreign language). 管理层晚上好, 非常感谢接受我的提问, 也恭喜公司在这个季度获得不错的业绩。看到这个季度与全年 non-GAAP 的利润都非常亮眼, 所以想了解一下, 管理层怎么看公司整体的盈利来源, 以及长期如何看盈利的持续性?

I will translate my question. Actually, we have seen this quarter and even for the full year that the company actually achieved a non-GAAP profitability, which is pretty remarkable compared to last year's loss. So, just want to understand like how management looking at in the future what's the key source of our profit and how should we look at our profitability sustainability. Thanks.

Rex Chen: Thanks, Joyce. I will take this question. During the second half of 2022, we adjusted our revenue mix and profit strategy by prioritizing the high-quality, controllable 1P business. We also pivoted from consignment business to 1PtoC retailing by leveraging our compliant refurbishing capabilities. This is expected to generate scaled 1PtoC sales and gross profit in the long run. In addition, we optimized our sales and marketing spending in the marketplaces and improved fulfillment spending efficiency as we further advanced our automated inspection capabilities. As a result, we successfully realized our profit targets in 2022.

In our last earnings call, we explained the details of the compliant refurbishment policy and the logic of the overall refurbishment business. By polishing device screens and replacing batteries and screens with certified third-party parts and components, we improve the functionality of pre-owned products. We also inform customers how we have refurbished devices, offer 7-day free return and one-year quality warranties.

During the fourth quarter, we elevated the overall capabilities of our South China operation center's team, and production capacity increased as planned. As a result, total sales of compliant refurbished phones surpassed 220 million in the second half of 2022. Meanwhile, we further improved supply for our self-operated business. By simplifying the screening process and more precisely locating devices suitable for compliant refurbishment, the ASP for 1PtoC products increased to RMB2,700. By enhancing our operating efficiency and product quality, we further expanded our operating margin.

Looking ahead to this year, we are going to implement these same improvements at our East China and North China operation centers. We expect to complete our supply chain upgrades for tablets as we test out new categories for our recycling business. Our goal is to provide retail users with more cost-efficient, high-quality products. In the full year of 2023, we expect our compliant refurbishment business to generate revenues of RMB600 million, with an additional margin of five percent.

We encourage you to focus on our non-GAAP operating margin. In the fourth quarter, we realized RMB34.6 million in non-GAAP operating profit and achieved non-GAAP operating profit for the full year. This is mainly due to our long-term investments in, and large-scale implementation of, automated quality inspection, stocking, and pricing technology. As a result, fulfillment efficiency has improved significantly. We also adjusted our strategy for our operation stations, reducing costs that had arisen from fragmented dispatching and logistics. As a result, our non-GAAP fulfillment expense as a percentage of revenue decreased from 13.7% in 2020 to 12.9% in 2021, and further dropped to 10.9% in 2022. We also remained prudent in our marketing efforts. By refining our operations, we strive to achieve greater organic growth for each of our business lines.

Operator: (Operator Instructions). Fay Lin from China Renaissance.

Fay Lin (Speaking foreign language). 谢谢管理层接受我的提问，我们看到 non-GAAP 销售费用率收窄到 7.5%，想请管理层解释一下其中变动的原因。

Thanks, management, for taking my question. We noticed that non-GAAP sales and marketing expense as percentage of revenue was lower to 7.5% in the fourth quarter. So, just wondering, can management elaborate more on the measures taken to improve efficiency behind? Thanks.

Rex Chen: In the last year, we have been prudent with our selling and marketing expenses and related personnel costs. Apart from the marketing budget used to develop consumer mindshare of AHS Recycle, our assessment for each business line prioritized ROI. For PJT Marketplace, we optimized its frontline marketing team. For Paipai Marketplace, we prioritized profitability and were more focused on its brand image and reputation. We also reduced subsidies provided on JD.com and our investments in user traffic of new channels.

In the fourth quarter, excluding SBC expenses, and amortization and impairment loss of intangible assets, non-GAAP selling and marketing expenses were 222 million. It accounted for 7.5% of total revenue, down by 3.9 percentage points from 11.2% in the same period of 2021. We believe the non-GAAP measures reflect a better picture of our expenses.

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 IR website shortly, followed by a transcript when ready. If you have any additional questions, please feel free to email us at ir@atrenew.com. Have a good day.

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