

[RERE] – ATRenew Inc.
Q1 2022 Earnings Conference Call Transcript (Corrected)
Tuesday, May 24, 2022, 08:00 AM Eastern Time

Company Participants:

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

Other Participants:

Lynn Li, Goldman Sachs
Joyce Ju, BofA Securities
Gin Yu, Guotai Junan Securities
Bonnie Liu, China Renaissance

Presentation:

Operator:

Good morning and good evening, ladies and gentlemen. Thank you for standing by and welcome to the ATRenew Inc. First 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 first 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 first 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.

Please note that since Shanghai is under lockdown, management joined today's conference call via different lines in Shanghai. Kindly excuse us if there is any connectivity issue during the call.

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 ATRenew 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 年第一季度业绩电话会。

(Translated) Hello everyone, and thank you for joining us on our first quarter earnings conference call.

(Speaking Mandarin) 今年一季度，全国疫情频发。在有挑战的环境之下，我们的业务依然取得了快速增长：一季度 GMV 达到 93.8 亿人民币，同比增长 51.6%，收入达到 22.1 亿，同比增长达到 45.7%，超出之前的预期。3 月中旬开始，上海、深圳等地疫情严重突发，即便在春节影响和约半个月的疫情影响之下，我们仍然在一季度取得了 non-GAAP 的运营利润，继四季度再次取得盈利。并且我们的经营性活动的现金流转正，达到 1.2 亿人民币。

(Translated) In the first quarter, we realized rapid growth during a very challenging period of time due to the highly transmissible omicron variant. GMV for the first quarter increased by 51.6% year-over-year to RMB9.38 billion, and the total revenue increased by 45.7% year over year to RMB2.21 billion, both exceeding our guidance. Starting in mid-March, we faced headwinds of the pandemic. Against this difficult backdrop and off-season of the Spring Festival, we are delighted to announce that we have extended our past quarter's strong performance into this quarter to achieve non-GAAP operating profit. In addition, we recorded a positive cash flow from operating activities of RMB120 million.

(Speaking Mandarin) 这次特殊时期的业绩电话会，我希望借此机会来回答两个问题：

第一个问题是：疫情突发，万物新生如何面对当前疫情带来的阶段性困难？

第二个问题是：如何看待疫情对消费的长期影响，疫情之后，如何抓住二手经济的发展机会？

(Translated) As we navigate the pandemic's challenges, I would like to address two issues in today's earnings call. First, how do we respond to the transitory difficulties caused by the pandemic? Second, what is the outlook for consumer demand in the longer term and how can we seize opportunities in the post-pandemic circular economy?

(Speaking Mandarin) 首先，关于疫情应对的问题。熟悉我们的朋友，都知道我们的业务具备以下的几个特点：

第一个特点：线上业务占比其实不低：拍机堂和拍拍都是线上的交易平台，受疫情对线下封控的影响较小。爱回收虽然以门店为主要特征，但业务也有不少比例来自线上，以一季度为例，58% 的回收订单自京东 APP、爱回收 APP 和小程序的线上下单。Q1 线下门店交付口径的 GMV 占集团总 GMV 的 14.5%。

第二个特点：全国门店布局分散：通过自营和联营的布局，爱回收门店分散在全国 214 座城市，所以局部城市的封控不会造成全面的运营中断。

第三个特点：运营中心分散，相互支撑：除了全国 6 个大型运营中心之外，我们截至一季度末在全国分散化布局了 116 个城市运营中心（小仓），靠近货源并就近提供商家服务。大小运营中心互相支撑，分布式地发货和收货，高效率分配周边质检订单，一定程度上，减轻了城市封控和物流中断对我们的运营体系的影响。

(Translated) On the first issue regarding the pandemic and our reactions. There are three characteristics of our business which I trust many of our audience today are familiar with.

First, our online business constitutes a large proportion of our overall business. Specifically, PJT and Paipai marketplaces are both online trading platforms and therefore, experienced a limited impact from offline lockdowns. AHS Recycle - though characterized by offline stores - also receives a large proportion of its orders online. Taking the first quarter as an example, 58% of recycling orders were placed online through JD's app, AHS Recycle's app, and mini programs. GMV for the orders fulfilled through our offline stores contributed 14.5% of total GMV in the first quarter.

Second, our offline stores are located throughout China. As a result of our "self-operated + jointly operated" strategy, AHS stores have expanded throughout the country, with locations in 214 cities nationwide. Therefore, temporary regional lockdowns will not cause operational interruptions on the group level.

Third, our operation facilities are decentralized and function collaboratively. In addition to our 6 regional operation centers, we have rolled out 116 city-level operation stations throughout the country by the end of March 2022. This enhances the agility of our business and allows us to secure sources of supply and improves our ability to provide supply to merchants at convenient locations. Our major operating centers and city-level operation stations function collaboratively to source supply, deliver products, and allocate inspection orders with a high degree of efficiency, and this helped us mitigate the impact of lockdowns and logistics interruption on our operations.

(Speaking Mandarin) 自从3月中旬起，上海疫情对我们的业务产生影响，并在Q2进一步地加剧。我们估算，Q2疫情对于整体收入的影响约为20%-25%。但是由于以上的业务特点，疫情对我们的业务影响只是局部的，并不是全局性的。

(Translated) The regional lockdown in Shanghai since mid-March has dragged our business growth and its adverse impact expanded into the second quarter. In the near term, when quantifying the impact, we anticipate such headwind to drag on 20-25% of our overall revenue in the second quarter. However, taking a holistic view, the pandemic will not fundamentally impair our business thanks to the resilience of our business model as I mentioned earlier.

(Speaking Mandarin) 此外，面对疫情，我们还采取了一系列应对措施：

- 1) 上海全员居家办公，通过在线办公软件，提高居家办公的效率；
- 2) 聚焦核心业务，我们评估并调整了部分非核心业务，减少不必要的费用支出；
- 3) 同时，我们履行企业责任，公益投入约100万人民币，为员工和社区居民提供生活用品和防疫物资。并且，我们发挥二手3C供应链的优势，为上海市杨浦全区提供了核酸检测登记使用的专用手机。

(Translated) Furthermore, we responded quickly to the covid resurgence. Our measures included introducing a work-from-home policy for employees in Shanghai and leveraged remote working tools to ensure productivity. We also budgeted for operating expenses through optimizing non-core business. We donated approximately RMB1 million into supporting our employees and local communities by providing daily necessities and anti-covid supplies. Leveraging the pre-owned consumer electronics supply chain, we provided dedicated mobile devices for PCR testing registration to Yangpu District in Shanghai.

(Speaking Mandarin) 相比短期的疫情冲击，我们更关注二手行业随经济周期波动的长期发展。我们相信，在中国政府强有力的措施之下，疫情终究会过去。但是，我们谨慎判断，未来一段时间的宏观经济，尤其是居民的消费增长会进入缓行期。这对很多行业来说，都将是重大的负面影响。

但是，从日本和欧洲的过往经验来看，在消费增长放缓阶段，往往是二手经济实现逆势增长的机会。这种机会主要有两方面：一方面，在消费收缩时，用户的回收变现需求可能放大，有更强的意愿把高价值的产品拿出来回收变现。另一方面，在消费压力之下，相比价格高昂的新机，用户更加倾向于高品质的、具有性价比的二手产品。

(Translated) Instead of being trapped by the short-term volatilities caused by the pandemic, we take a long-term view of looking into the post-pandemic world as well as the evolving circular economy amid the economic cycles. The general belief is that the pandemic will eventually be brought under control. However, consumer spending is likely to grow at a slower pace for certain period of time. This would lead to significant negative consequences for many industries.

Based on the precedents in Japan and Europe, the second-hand economy demonstrated resilience in the face of consumption slowdown and possesses the potential to flourish amid economic headwinds. We perceive opportunities from two angles. First, consumers' demand for cashback tend to increase under financial pressure, and they are more likely to recycle idle devices with high residual value. Second, consumers tend to opt for more economic solutions of purchasing high-quality pre-owned devices.

(Speaking Mandarin)为了抓住疫情后的发展机会，我们会在既有的几点策略上继续深耕，坚持不懈：

第一点，继续深化“城市一体化”战略，提升城市回收渗透率：

手机回收是一个本地化服务，有很强的区域属性。当前，各城市的回收渗透率仍比较低。我们相信，以城市为单位，拉通业务、组合资源，以城市的综合渗透率作为衡量标准，以城市的整体损益作为团队的考核依据，可以有效拉动回收业务的增长。

从数据看，一季度推行“城市一体化”战略的 22 座城市中，16 座城市的成长跑赢了全国大盘，其中多数超大盘增长 30% 以上。“城市一体化”战略对商家获客同样提升显著，截至今年一季度末，拍机堂注册商家数突破了 30 万，商家数同比增长 39%。

(Translated) As such, we remain committed to four key business strategies to seize growth opportunities in the post-pandemic world.

First, we will further implement our city-level service integration strategy and expand in more cities to gain broader market coverage.

Mobile phone recycling is a local service and needs to be close to customers. Currently, the penetration rate is still at a very low level and has large growth potential. We believe that our refined strategy through synergizing service offerings locally and the performance review system across each city will benefit the growth of recycling penetration rate and business scale.

Statistically, among all the 22 cities that implemented the city-level service integration strategy in the first quarter, 16 of them exceeded the average growth rate while the majority of these 16 cities exceeded by 30%. The city-level service integration model also noticeably improved new customer acquisition. By the end of the first quarter of 2022, registered merchants on PJT marketplace surpassed 300,000, representing an increase of 39% year-over-year.

(Speaking Mandarin) 第二点，对门店结构进行升级，满足用户的更多回收需求：

爱回收品牌的线下门店，是线上线下融合的模式典范，也是万物新生集团多年积累的核心能力之一。截至一季度末，我们在全国的 214 座城市总共有 1446 家门店，其中，自营门店 598 家，加盟合作门店 825 家，严选零售门店 23 家。

在手机品类以外，为了满足消费者更多品类的回收变现需求，我们正在对门店分层升级。以北京和上海为例，第一层是数量众多的标准门店，以现有的手机 3C 业务为主，定位为社区周边的手机数码服务站；第二层则是 10-20 家的主力门店，位于城市副中心商圈，除了手机 3C 业务之外，还将提供更多的创新服务，例如奢侈品回收、影像器材回收等。

通过爱回收的分层门店体系，复用了我们门店的服务能力，在不额外增加过多投入的前提下，满足用户的更多回收需求，不仅能优化门店经济效益，也为爱回收的业务扩展和品牌延伸打开了空间。

(Translated) Second, we have implemented a tiered store system to satisfy differentiated demand for recycling.

The offline store network of Aihuishou is a good demonstration of online-merge-offline and one of our core competencies. As of the end of March, we have 1,446 offline stores across 214 cities in China. Among these offline stores, 598 are self-operated stores, 825 are franchise stores, and 23 are retail selection stores.

In order to adapt to rising consumer awareness of environmental protection and demand for cashback from categories other than cellphones, we are upgrading our tiered store system. Take stores in Beijing and Shanghai as an example: firstly, we operate a large number of regular stores that efficiently recycle phones from neighboring communities. Then we added on or selectively transform some regular stores to a dozen iconic stores located in newly-developed central business districts, offering multi-category recycling services, such as pre-owned luxury goods and camera equipment.

By implementing a tiered store system and expanding service offerings, we meet customers' evolving demands for recycling, improve store economic returns without too much extra budgeting, create further growth opportunities, and in return elevate the brand equity of AHS Recycle.

(Speaking Mandarin) 第三点，抓住合规翻新的机会点，增加产业链价值：

今年4月，全国首个由检察机关主导的“电子产品合规翻新指引”由深圳市检察院发布试行。该指引规定，企业可以使用官方配件或第三方配件进行合规的翻新。这是行业的大事件，填补了产业规则的空白，对行业和企业发展有以下几点积极意义：

第一点：万物新生将全面开展规模化的合规翻新业务，产业链增值空间多了一层；

第二点：从个人消费者回收回来的货源，将有更多比例能通过合规翻新后，以严选品牌的形式销售给消费者，实现端到端的全产业链闭环；

第三点：政策的出台有利于产业繁荣，更多的从业商家可以扩大业务规模。

(Translated) Third, we will add more value to the industry chain as compliance guidelines for the electronics refurbishment market are further upgraded.

In April 2022, the first guidelines for refurbishing pre-owned electronic devices in China was announced by the People's Procuratorate of Shenzhen. This marked a leap forward for the industry by establishing compliance guidelines that lead to healthier growth as industry participants are able to adopt either officially launched or certified third-party parts and components during repair. Furthermore,

1) We plan to roll out compliant refurbish and repair services at scale, further expanding our margin along the value chain.

2) We expect a larger proportion of directly sourced goods to undergo compliant refurbishment, before retailing directly to consumers using the white label. We can further complete the closed-loop from the supply side to the demand side.

3) The guidelines are expected to lead us to a more prosperous future of the pre-owned electronics transaction and services industry via participant inclusion.

(Speaking Mandarin) 目前针对 iPhone 12 系列的屏幕更换服务已经在4月在拍机堂上线，东莞运营中心承接维修，维修毛利约150元/台，仅4月份已服务4000多台机器。除官方换屏之外，我们还提供其他例如更换电池、外观打磨提升成色等服务。预计今年上半年有望为实现对6-7万台手机进行合规维修增值服务。

(Translated) As of now, we launched a screen replacement service for the iPhone 12 lineup in PJT Marketplace and carried out the maintenance services in Dongguan operation center since mid-April.

The 2-week trial program processed [more than] 4,000 phones, each bringing in a gross profit of roughly RMB150. Besides screen replacement, we also provided other services including battery replacement, exterior restoration, and phone reconditioning. We anticipate conducting a compliant recondition of 60-70 thousand smartphones in the first half of 2022.

(Speaking Mandarin) 第四点,加快通过自动化实现降本增效:

我们在自动化检测技术上的长期投入已经逐见成效。从各功能项的自动检测,到外观细微划痕的计算机视觉检测、X光透视检测,以及屏幕质量和真伪检测,我们领先行业,实现了全流程的自动质检,效率得到了有效验证。在常州自动化运营经验基础上,东莞运营中心正在抓紧升级建设,全面的自动化运营体系将于今年6月逐步投入运营,工序自动化率在常州基础上进一步提升60%。我们坚持供应链能力为本,也坚信技术驱动和规模效应所带来的“效率制胜”。

(Translated) Finally, we will accelerate the automation process to improve efficiency and manage costs. We are delighted that our investments in the automated inspection system have been proven worthy. We are a pioneer in realizing an automated streamline process from scratch and dent detection, AI exterior scanning, X-ray components inspection to screen verification. Building on our automated operation experience in Changzhou, our Dongguan operation center is accelerating the initiation and testing of various automation modules. The comprehensive automation operating system will be put into use this June with an estimated automation processing improvement of 60% compared with Changzhou. We are a true believer in “supply chain capability as the key”. We also firmly believe “efficiency wins”, which is driven by technology and scale effects.

(Speaking Mandarin) 最后总结一下,2020年疫情时期,我们果断决策、成功应对。当前的疫情之下,我们更加齐心协力,一定可以克服暂时的困难。

(Translated) To conclude my part, we responded swiftly and effectively to the COVID-19 outbreak in 2020. Even though Omicron infections surge today, we have more faith in navigating through the near-term challenges and are steadfast in our clear strategic roadmap.

(Speaking Mandarin) 更重要的是,我们坚信二手经济是一个政策稳定的、有着长期价值的赛道。中长期来看,我们的发展策略清晰:

- 1) 通过城市一体化战略,提升市场渗透率并保持业务基本面的良好增长;
- 2) 通过门店分层结构及高价值多品类的回收业务,延伸业务空间;
- 3) 通过规模化的合规翻新,增加产业链利润;
- 4) 通过加快自动化技术应用,进一步提升运营效率。

只要我们方向坚定且执行有力,一定可以抓住特殊时期二手行业逆势发展的机遇。

(Translated) And more importantly, we firmly believe that circular economy in China is away from policy interruptions, and this business - when goes into a synchronizing trajectory - is a sustainable business. In the mid to long term, we are committed to the clear core strategies, namely:

- 1) increase market penetration rate and maintain healthy growth through city-level service integration;
- 2) extend business scope through tiered store management and high-value recycling across categories;
- 3) capture more value through compliant refurbishment at scale;
- 4) and further improve operational efficiency by accelerating the application of automation technology.

As long as we implement these strategies effectively, we surely will be able to unlock the next wave of growth.

(Speaking Mandarin) 下面请公司 CFO Rex 介绍一下财务情况。

(Translated) 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 our first quarter revenue exceeded our previous guidance despite the macroeconomic headwinds.

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 first quarter of 2022, despite the fact that it was an off-peak season, we delivered 45.7% revenue growth to achieve total revenues of over 2.2 billion, exceeding the high-end of our previous guidance range provided in the fourth quarter earnings conference call.

Total GMV grew by 51.6% to 9.4 billion, driven by strong growth in both product sales GMV and online marketplace GMV which were 57.1% and 50.0%, respectively.

In this quarter, the commission rate of our third-party marketplaces was 4.1% at the group level, relatively stable compared with that of the first quarter 2021.

Gross margin at the group level was 25.7% in the first quarter. Gross margin for our 1P business was 14.1%.

In the first quarter, we meaningfully optimized cost structure compared with the same period last year - this is seen in non-GAAP fulfillment expenses, selling and marketing expenses, general and administrative expenses as well as technology and content expenses. As such, we are delighted to report an operating margin of 0.2% under the non-GAAP measures.

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

In the first quarter, total revenues increased by 45.7% to 2,206.5 million. Net product revenues increased by 45.7% to 1,908.9 million, while net service revenues increased by 46.0% to 297.6 million. Growth in net product revenues was driven by continued increases in the density of our AHS stores, our reinforced trade-in collaboration with JD.com, and a greater consumer mindshare that benefited the growth of direct-to-consumer sales through Paipai Marketplace. Growth in service revenues was primarily driven by growing transaction volumes and an increase in value-added service from our marketplaces, especially through inspection and delivery fees on PJT Marketplace in the first quarter 2022.

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.

Operating costs and expenses increased by 44.7% to 2,352.5 million. Non-GAAP operating expenses, which exclude share-based compensation expenses and amortization of intangible assets resulting from business acquisitions, increased by 43.0% to 2,213.9 million.

Merchandise costs increased by 49.7% to 1,640.0 million. This is in line with the growth of the 1P product sales revenues.

Fulfillment expenses increased by 32.8% to 296.2 million. Excluding share-based compensation expenses, which we will refer to as “SBC” from here on, non-GAAP fulfillment expenses increased by 26.2% to 281.5 million. Under non-GAAP measures, the increases were primarily due to (i) the increases in logistics expenses and operation center and self-operated store related expenses, which were in line with the increase in sales of pre-owned consumer electronics and the addition of 155 self-operated AHS stores compared with the first quarter 2021; and (ii) an increase in personnel cost in connection with the Company’s growing business. The non-GAAP fulfillment expenses as percentage of total revenue was 12.8%, consistent with that of 2021 and decreased 1.9% from that of the first quarter 2021.

Selling and marketing expenses increased by 38.3% to 307.8 million. Excluding SBC expenses and amortization of intangible assets, non-GAAP selling and marketing expenses increased by 41.2% to 206.6 million. Under the non-GAAP measures, the increase was primarily due to (i) an increase in sales promotion and coupon expenses in connection with business development, where we increased the investment into promoting Paipai by 45 million year-over-year – for context, we started off 1P toC business through Paipai in the first quarter of 2021 and enlarged our investments in the following quarters. And secondly, the growth of non-GAAP selling and marketing expenses was also due to an increase in personnel cost in connection with the Company’s growing business. The non-GAAP selling and marketing expenses as a percentage of total revenue was 9.4%, slightly lower than 9.7% in the first quarter 2021. In light of a traditionally off-peak season in the first quarter, we saved such expenditures in coupons on Paipai, sales promotions and commissions to JD.com.

General and administrative expenses increased by 53.1% to 45.0 million. Excluding SBC expenses, non-GAAP G&A expenses decreased by 3.4% to 28.4 million. Similar to the fourth quarter of 2021, the decrease in non-GAAP G&A expenses showed an improved cost efficiency in our middle and back offices.

Technology and content expenses increased by 14.4% to 63.5 million. Excluding SBC expenses and amortization of intangible assets, non-GAAP technology and content expenses increased by 6.5% to 57.4 million. Under non-GAAP measures, the increase was primarily due to the increases in operation center and automated inspection system upgrade related expenses in connection with the Company’s growing business and R&D expenses related to innovation projects.

As a result, our non-GAAP operating income was 3.9 million in the first quarter of 2022. Non-GAAP operating margin was 0.2%, compared with negative 2.2% in the same period last year.

As of March 31, 2022, cash and cash equivalents, short-term investments and funds receivable from third-party payment service providers totaled 2.4 billion. With stable and sufficient cash on-hand, we are confident in sustainable business operation.

As a recap, we announced a 100-million US dollar share repurchase program on December 28, 2021, out of the managements’ strong confidence in the Company’s solid fundamentals and growth momentum. As of March 31, we have repurchased over 4.7 million ADS in the open market for a total cash consideration of 22 million US dollars.

Now turning to outlook. For the second quarter of 2022, the company currently expects its total revenues to be between 2,000 million and 2,050 million. The highly transmissible omicron 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: Thank you. We will now begin the Question-and-Answer session. (Operator Instructions). Today's first question comes from Lynn Li of Goldman Sachs. Please go ahead.

Lynn Li: (Speaking Mandarin) 请管理层分享下 3 月和 4 月以及近期疫情对公司各业务条线的影响，尤其是供应链的运行、订单的履约、消费者需求层面的变化。以及能否拆解下二季度指引背后的关键假设？对于下半年的预期是怎样的？

Thank you, management for taking my question and congratulations on the solid 1Q result. Can management share with us the COVID impact on supply chain and consumer demand across business lines especially in Shanghai where the headquarter is located and what are the key assumptions behind our second quarter guidance? So, looking forward, what are our expectations on the second half of 2022? Thank you.

Kerry Chen: (Speaking Mandarin) 我来回答这个问题。一季度疫情对业务的影响体现在：点状的疫情反复，对几个省会城市的线下回收造成干扰，比如西安、天津、长春、上海、深圳先后出现疫情，实际上并不影响业务全局。我们认为 Q1 季报只是一个截面，可能无法体现疫情影响的全貌。

(Translated) During the quarter, the impacts of the pandemic were limited to several provincial capital cities, including Xi'an, Tianjin, Changchun, and tier-one cities, such as Shanghai, and Shenzhen with a stronger impact on offline recycling businesses. We consider this quarter's result as only a cross-sectional view of the pandemic's overall influence on our business.

(Speaking Mandarin) 从 C2B 回收业务看，3 月中旬开始，区域性的封锁对我们上海的业务带来短期的挑战，为响应防疫政策，我们的总部员工开始居家办公，上海门店全面暂停运营。虽然爱回收的 1400 多家门店分散在全国，但产出最高的约 600 家自营门店仍主要分布在经济发达的一二线城市，其中上海有 102 家门店，北京有 89 家门店，深圳有 56 家门店。当前，深圳已经恢复正常生活，北京和上海的管控措施还在继续。也就是说在 Q2，我们预计有三分之一的自营门店的经营受到了不同程度的影响。

(Translated) From the perspective of our C2B recycling business, starting in mid-March, regional lockdowns posed short-term challenges for our business in Shanghai. To comply with the zero-covid policy, our Shanghai-based employees started to work from home and all offline stores in Shanghai were temporarily closed. Although our 1,400 AHS stores are located throughout the country, the most productive ones are the 600 self-operated stores, mainly located in the first- and second-tier cities where users have stronger recycling awareness and the unit price is high, but they are negatively affected by the lockdown. We have 102 stores in Shanghai, 89 in Beijing, and 56 in Shenzhen, respectively. At present, Shenzhen has returned to normal, but the control measures in Beijing and Shanghai are still continuing. That is to say, in the second quarter, we estimate that the operation of one-third of self-operated stores has been affected to varying degrees.

(Speaking Mandarin) 从 B2B 平台业务看，各地区加码疫情封控，阻碍了 B2B 的商家触达和进仓出仓、物流配送的时效。尽管我们的运营中心和城市小仓分布分散，互相支撑，履约能力受到的冲击有限，但我们对本地商家拓展和运营仍然受到了较大影响。此外，宏观消费需求的疲软，尤其是一季度的手机出货量的同比下降，同样影响到 B2B 所覆盖的广大商家的回收量。

(Translated) For our B2B platform business, strict pandemic control policies disrupted our interactions with merchants. Although our operating centers and city-level operation stations are geographically dispersed and can support one another during lockdowns, which reduced some pressure on fulfillment, we still faced significant difficulties in terms of operations and expanding local merchant coverage. In addition, soft consumer demand for new phones also affected the volume of the supply of pre-owned devices sourced by merchants, especially for the number of cell phone orders shipped out during the first quarter.

(Speaking Mandarin) 从 B2C 零售业务看，消费购买需求的下降和暂时的物流阻碍，同样造成了一些压力，但我们看好消费下行环境下消费者对高性价比产品的需求，以及中长期通过拉通供应链、规模化的合规翻新，提升我们从 toC 回收的货源中适合 toC 零售的比例——这将真正拉通产业链，实现产品质量和产业链利润的优化。

(Translated) For the B2C retail business, although we faced headwinds including the decline in consumer spending and recent logistics interruptions, we are optimistic about consumers' need for good value products — a particular virtue in shoppers' eyes during a recession. We also feel confident that in the mid-to-long term, compliant refurbishment at scale can increase the proportion of goods recycled from our service offerings that are suitable for direct-2C retail. This helps to include more dots to the industrial chain and realize the optimization of product quality as well as profit from value-added services.

(Speaking Mandarin) 我们也看到的恢复增长的希望：上海宣布将于从 6 月 1 号开始，逐渐实施疫情常态化管理、恢复全市的正常生产生活秩序。总的来看，虽然业务面临短期的挑战，但我们对扎实的业务能力、供应链的灵活和抗风险能力、以及 toC 零售新的利润增长点还是十分有信心。

(Translated) We have also seen hopeful signs of a recovery. According to the Shanghai officials, starting June 1, pandemic controls will be downgraded to a regular level and a gradual recovery of work and life is expected. Although we are still facing challenges in the near term, we are very confident in our business model, the resilience and flexibility of our supply chain, and additional margin improvement from compliant refurbishment.

Operator: Thank you. The next question comes from Joyce Ju of Bank of America. Please go ahead.

Joyce Ju: (Speaking Mandarin) 我的问题是有关于我们之前提过的“城市模型”的，请问“城市模型”战略在今年一季度的执行进展如何？投资者与行业普遍关注当前疫情与消费下行的压力，请问管理层在第二、三季度或者下半年有怎样的应对策略？特别是今年在一体化战略、开店计划等重大方向上，是否会有所调整？

I would like to ask how's the progress in the first quarter of the city level service integration as it was the strategic focus of the company mentioned for this year. But we are facing a new macro situation, which is the challenging economy and also the risk of pandemic [ph] new wave (00:44:21). So, we would like to know like if the management are going to have any change or adjustment in terms of the service integration strategy or on the launch of new store fronts nationwide. Thanks lot.

Kerry Chen: (Speaking Mandarin) 谢谢，我们会更加审时度势，考虑到疫情封锁的挑战仍未解除，可能会有持续的影响，今年我们会更加注重控成本、提效率、优化现金流。需要重申的是，我们坚持全年实现 non-GAAP 运营利润为正的目標不变。

(Translated) Thank you, we will be even more meticulous when assessing market conditions.

Considering lockdown restrictions are still in place in some parts of China, the impacts created by the pandemic are ongoing. Therefore, we will increase our focus on cost management, efficiency improvement, and healthy cash flow this year, and our goal to achieve a positive non-GAAP operating income for this year remains unchanged.

(Speaking Mandarin) 扩张节奏方面，我们全年门店拓展目标不变，还是每年新开设 200-300 家门店，但会采用更审慎的门店扩张策略，主要是控制一二线城市自营店的新开店，更多以三四线城市联营店作为门店数量的增长动力，保持全国回收交付范围的继续扩大。

(Translated) In terms of store network expansion, we are targeting the same number, opening 200 to 300 new stores for this year, with a more disciplined approach while prioritizing the opening of jointly-operated stores. This enables us to extend our branded recycling network nationwide, sharing profits while handling risks together with local partners.

(Speaking Mandarin) 同时，在第三方商家和零售端，我们继续通过城市一体化的战略下沉获客，通过同城业务提升二手回收和服务市场的渗透率。在今年一季度，除了我们提到的 16 座城市的成长跑赢了全国大盘，湖州、合肥、昆明、石家庄等千万级以上规模的城市，C2B 加上 B2B 的业务不仅逆势实现环比增长，而且实现了更高的高双位数的增长。石家庄在 C2B 和 B2B 交易规模上分别取得了 120% 和 200% 的同比增长，这是我们通过城市一体化，在抓货源和服务本地市场商家的标杆成绩。

(Translated) On the third-party merchants and retail end, we continue to acquire new local customers through city-level service integration, enhancing the penetration rate of the second-hand market through the rollout of intra-city business. Among the 16 cities where growth exceeded the nationwide average, we achieved high double-digit year-over-year growth of our C2B plus B2B businesses in Huzhou, Hefei, Kunming, and Shijiazhuang. Growth momentum was especially strong in Shijiazhuang, where we achieved about 120% YoY growth in GMV for C2B business and almost 200% YoY growth in GMV for B2B business. These are benchmarks for implementing the city-level service integration model in terms of sourcing supply and penetrating local markets.

(Speaking Mandarin) 疫情是一个无法回避的问题，4 月份，疫情导致全国多地的防控政策趋严，我们对商家的触达和零售端的服务受阻，“城市一体化”试点城市的成长出现短暂放缓，但这些城市的 GMV 和单量相对全国大盘，都体现出更多的韧性。

(Translated) The pandemic remains a challenge for us. In April, the recurrence led to stricter controls in many regions across China. We faced interruptions in both connecting with merchants and providing platform services on their retail front. Growth temporarily slowed down in those pilot cities, but we saw GMV and order volumes in those cities demonstrated higher resilience compared with the national average.

(Speaking Mandarin) 销售费用方面，我们会进一步控制支出，做长期的品牌建设尤其是爱回收品牌的消费者心智建设，为消费者提供有品质的商品和及时的体验，而不是过多地投入短期促销。其他的各项后台管理费用控制是我们的强项，连续四个季度控制在较低的水平，中后台组织架构是紧凑有序的。

(Translated) We pay more attention to our own operating efficiency. For sales and marketing expenses, we will further optimize our costs. Instead of spending on short-term promotions, we will pivot to the

long-term by further investing in building the brand equity of AHS Recycle and acquiring greater consumer mindshare by providing timely and quality services to our customers. In addition, we did well in controlling our back-office fees, in particular general and administration expenses. We have kept these at a low level for four consecutive quarters by implementing a compact but organized structure for our mid and back offices.

(Speaking Mandarin) 宏观经济和消费增长放缓是一个全国性的、各行业都在面对的挑战，从长期看，我们看到的是一个巨大的、还未被满足的二手 3C 交易与服务市场。我们在前面已经讲到，我们主要通过坚持核心战略，坚持一体化城市模型的进一步铺开提升回收市场渗透率、通过多层门店战略促进现有门店的服务能力差异化、持续投入自动化质检技术，通过规模化降本、并借势合规翻新政策的放开提升产业链的利润，从而抓住二手经济发展的机遇。

(Translated) Macro headwinds and consumption slowdown are challenging issues to almost every industry. In the long run, what we see is a huge and underserved second-hand electronics transaction and service market. As we mentioned earlier, we believe in our core strategies of expanding the city-level service integration model to increase the penetration rate, using a tiered store strategy to offer differentiated services, continuing to improve cost efficiency by investing in automated quality inspection technology and seizing the chance to profit from the open policy window in the electronics refurbishment market.

Operator: (Operator Instructions). The next question comes from Gin Yu of Guotai Junan International. Please go ahead.

Gin Yu: (Speaking Mandarin) 管理层在之前的分享中提到了行业出台的维修翻新的新政策，可否多分享一下有没有具体的业务计划？

In the previous sharing, the management mentioned the new recycling policy of the industry. Are there any specific business plans to share with us?

Rex Chen: I will take this question. In April, Shenzhen issued the first guidelines for electronic product refurbishment, which for the first time clarified the boundary of engaging in compliant refurbishment, including the sources of goods must be legal; the purpose of repair is to restore the function and appearance; official accessories or third-party accessories with quality assurance can be used, such as batteries and screens of third-party brands; personal data must be strictly cleared when recycling; products should be clearly marked as "pre-owned or refurbished" to avoid confusion; quality warranty should be included.

Traditionally, the repair and refurbishment industry had many holdbacks. The refurbishment was mishandled by merchants as there were no relevant regulations. Merchants were worried about potential risks and operated on a small scale. Meanwhile, mobile phone brand manufacturers control the supply of repairing components. Since they do not recognize the use of third-party components, the supply of high-quality goods suitable for toC sales in the market is insufficient. As a leading platform, ATRenew has always carried out operations cautiously to avoid selling risky products, and since it had little participation in refurbishment, it has always lacked a segment of the industry chain profit.

We believe that guidelines for refurbishment can benefit the industry and the company. More merchants can conduct repair and refurbishment with confidence, which will help expand the business scale of recycling and sales. We also aim to seize such opportunity, and here's our plan:

We adhere to compliant repair refurbishment on a large scale and increase the profits reasonably.

Previously, our self-recycling products and third-party supplies were not repaired or refurbished, hence

we only earned gross profits and service fees from testing and reselling. Our value chain lacked maintenance and value-added links. Recently, we conducted a pilot project which verified that by changing the screen and the battery, the gross profit per unit can be increased by 15%, excluding the cost of the component.

On average, a phone with B2B selling price of RMB1,600 - after compliant refurbishment - can be sold on the B2C platform at around RMB2,100. After deducting the cost of the component, the gross profit per unit increases by RMB300 - about 15%. After deducting labor costs and platform fees, the net profit margin per unit is about 6%. By further carrying out compliant refurbishment in our operation centers, we are confident to obtain higher gross profit and service fees brought by such add value to the industry.

With standardized refurbishment, we aim to increase the proportion of our recycled products that are suitable for toC retail. Doing so can help us achieve a closed-loop circular economy model and maximize the value of reused products. In the past, as products sourced from users had various defects and cracks, only 20% of them were suitable for direct-to-C retail if no repairs were done. We believe that in the future, combined with refurbishment at scale, we can further increase the proportion of sourcing products that are suitable for direct 2C retail, so as to improve the gross profit of product sales. We have just begun to engage in refurbishment, and there is a lot of room for growth. We shall gradually explore, such as selecting some types of products to sell overseas after compliant refurbishment.

Thank you.

Operator: Thank you. The next question is from Bonnie Liu of China Renaissance. Please go ahead.

Bonnie Liu: (Speaking Mandarin) 关于用户换机周期，最近我们看到一些第三方报告显示新机销量在下滑，整体用户换机周期也变长了，想请问这对公司业务的影响？

(On longer mobile phone replacement cycle's impact on the Company's business) Thank you, management for taking my question. [indiscernible] (00:57:34) longer-term, and if so, how are you planning to reduce the impact? Thank you.

Kerry Chen: (Speaking Mandarin) 谢谢提问，我来回答一下。我们看到新机在今年一季度，尤其从3月起面临较大的出货量下滑压力，用户的换机周期也是在延长，从过去的一年到了现在的20个月左右。但在万物新生，我们有点自身的优势：

(Translated) I'll take this question. In the first quarter - especially since March, we see that OEMs are facing greater downward pressure on new phone shipments, and the replacement cycle is also extending, from about a year to more than 20 months now. But we do have several advantages against downside risks:

(Speaking Mandarin) 第一点，二手市场的整体空间很大，目前万物新生的市场渗透率比较低，有很大的提升空间。另外，在经济发展放缓阶段，用户对于回收变现的需求增加，我们认为转化率有提升的机会。

(Translated) The total addressable market of the second-hand consumer electronics is huge and now we only have obtained some of it. Thus, we are posed to further expand our penetration rate. Besides, we believe that consumers' demand for instant cashback increases as economic growth becomes flattish, and there are opportunities for converting more recycling orders.

(Speaking Mandarin) 第二点，我们主要服务的品牌还在增长。我们回收的主力机型是苹果手机，2021年，苹果的机型占到我们总体回收交易量的45%。相对其他品牌，苹果保持了更高的新机出货量增速，因此我们的回收大盘相对稳定。今年新机出货压力大的主要是国产品牌。在这种情况下，我们也联合京东一起，为品牌厂商提供以旧换新，作为更好的促销措施。

(Translated) The key brand we serve is still growing. The main model we recycle is APPLE, which accounted for 45% of the total GMV [corrected] in 2021. Compared with other brands, Apple has maintained a higher growth rate of new device shipments, so our recycling fundamental is relatively stable. This year, the pressure on new phone shipments is mainly from domestic brands. In this case, we work closely with JD.com to provide brands with trade-in solutions as a better promotion measure.

(Speaking Mandarin) 第三点，我们在尝试布局多品类回收，以承接手机之外的回收变现需求，比如奢侈品回收、影像器材回收、以及其他高值产品的回收。我们认为开展多品类回收，重要的是品牌信任、交付场景、质检鉴定的能力。爱回收长期积累的品牌有号召力，我们认为多品类是爱回收品牌和服务的延伸。爱回收的全国门店是很好的履约交付基础，复用我们已有的门店能做多品类回收，不额外增加过多的投入。质检的鉴定能力，我们可以通过自建或者合作的形式实现。综合以上能力，我们可以为用户提供“线上获得报价，线下到门店现场回收”的最佳服务体验。总结一下，新机销量下滑是不可忽视的问题，但我们整体上保持谨慎乐观，谢谢。

(Translated) Thirdly, we are also trying to deploy multi-category recycling beyond mobile phones, such as luxury goods, camera equipment and other high-value products, to meet customers' varied demand for recycling. We believe that to carry out multi-category recycling, the most important things are brand trust, delivery scenarios, and quality inspection capability. AHS Recycle has a long-term accumulation of brand recognition, and we believe that multi-category is an extension of our recycling brand and services. Also, our national stores have set a good basis for fulfillment and we do not have to budget for extra investment to handle the non-3C categories. In terms of quality inspection, we aim to achieve it through self-built or collaboration with specialty retailers. As such, we trust online quotation plus offline fulfillment make the best combination of recycling services. Although new phone shipment flattened, we remain prudently optimistic about our business outlook. 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 IR website shortly. If you have any additional questions, please feel free to email us at ir@atrenow.com. Thank you.

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