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SECO.OQ - Q3 2020 Secoo Holding Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Jingbo Ma** *Secoo Holding Limited - IR Executive*

**Rixue Li** *Secoo Holding Limited - Founder, Chairman of the Board & CEO*

**Shaojun Chen** *Secoo Holding Limited - CFO*

## PRESENTATION

### Operator

Hello, ladies and gentlemen, thank you for standing by for Secoo Holding Limited's Third Quarter 2020 Earnings Conference Call. (Operator Instructions) Today's conference call is being recorded. I will now turn the call over to your host, Ms. Jingbo Ma, Board Secretary of the company. Please go ahead, Jingbo.

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

Hello, everyone, and welcome to the Third Quarter 2020 Earnings Conference Call of Secoo Holding Limited. The company's results were issued via newswire services earlier today and have been posted online. You can download the earnings press release and sign up to the company's e-mail alerts by visiting the IR section of our website at [ir.secoo.com](http://ir.secoo.com). Mr. Richard Li, our Founder, Chairman and the Chief Executive Officer; and Mr. Shaojun Chen, our Chief Financial Officer, will start the call with the prepared remarks, followed by a question-and-answer session.

Before we continue, please note that today's discussion will contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the company's results may be materially different from the views expressed today.

Further information regarding these and other risks and uncertainties is included in the company's registration statement on Form F-1 and Form 20-F as filed with the U.S. Securities and Exchange Commission. The company does not assume any obligation to update any forward-looking statements, except as required under applicable law.

Please also note Secoo's earnings press release and this conference call include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. Secoo's earnings press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited most directly comparable GAAP measures.

I will now turn the call over to our Chairman and CEO, Mr. Richard Li. Please go ahead.

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**Rixue Li** - *Secoo Holding Limited - Founder, Chairman of the Board & CEO*

(foreign language)

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] Hello, everyone, and thank you for joining us today.

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**Rixue Li** - *Secoo Holding Limited - Founder, Chairman of the Board & CEO*

(foreign language)

**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] We are pleased to have maintained robust operational growth in the third quarter of 2020, highlighted by GMV increase of 12.5% year-over-year to RMB 4.12 billion. Supported by our exceptional technological capabilities in AI, big data, and cloud services as well as our well-established high-end supply chain system across the globe, we find ourselves uniquely positioned to capture the booming e-retailing market opportunities stemming from the rising adoption of online shopping in the aftermath of pandemic.

As a go-to luxury e-commerce platform in China, we are not just facilitating the digital transformations for domestic and foreign brands, but also providing numerous reliable online shopping options for a growing number of Chinese consumers who are pursuing lifestyles that feature an array of high-end goods and premium services. In particular, our ongoing efforts to place strategic focus on key brands not only allows us to generate universal brand awareness in the luxury e-commerce space, but increases the average spending per customer.

**Rixue Li** - Secoo Holding Limited - Founder, Chairman of the Board & CEO

(foreign language)

**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Since the beginning of the third quarter, we continued our efforts to roll out a series of online shopping festivals, including Secoo Anniversary Sales Festival on July 7, the Chinese Valentine's Day Campaign in August and the Outlets Offerings Promotional Campaign in September. These festivals featured personalized and efficient AI-driven marketing approaches alongside our technological innovations and upscale fashion content initiatives, which also focusing on operations of key brands. All these efforts have contributed to the loyalty of our existing customers and motivated them to purchase repeatedly on our platform, effectively boosting the GMV in the third quarter.

In addition, Secoo maintained momentum in the Chinese traditional e-commerce promotion event Double-11, shored up by presales of top-selling or the highly sought-after products, heightened efforts to host elite Brand Day campaigns, and the offering of one-on-one services to our VIP customers.

During the event, the GMV from presales of top-selling or highly sought-after products increased by 40% year-over-year. Meanwhile, through Brand Day campaigns, Chanel and Hermes, each grew their sales more than 100% year-over-year, while sales for Burberry, Dior and Moncler grew over 30% each.

Meanwhile, we built on our intelligence-empowered pricing strategy and advanced customer services to propel customers with higher spending power to place orders and increase average transaction value per order.

**Rixue Li** - Secoo Holding Limited - Founder, Chairman of the Board & CEO

(foreign language)

**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Furthermore, we have been constantly striving to expand and elevate our relationships with brands while bolstering our core platform capabilities in the high-end fashion space. Since the third quarter of this year, we have established the direct cooperation with a total of 181 new brands such as Kweichow Moutai and Gianvito Rossi. Furthermore, we continued to strengthen relations with top brands through various collaborations, such as Brand Day events co-hosted by Secoo and our brands. These events helped these brands expand their online retail market rapidly, especially benefitting from Secoo's massive high-end customer base, reputable brand presence, advanced technology capabilities and diverse traffic support. For example, our official brand partner, Roger Vivier, maintained a satisfying online sales performance with a high average

spending per customer in its Secoo flagship store, where in-season collections are available for purchase. The strong demand of Secoo's high-end customers augmented sales of Roger Vivier in the third quarter, resulting in a 109% year-on-year increase in GMV.

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**Rixue Li** - *Secoo Holding Limited - Founder, Chairman of the Board & CEO*

(foreign language)

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] In September, Secoo formed a direct cooperation with Kweichow Moutai, China's most prestigious liquor brand, making the highly sought-after the 53-degree Moutai Flying Fairy available on Secoo. This collaboration with respective advantages from Kweichow Moutai and Secoo will not only extend Kweichow Moutai's traditional sales and marketing channels to integrated online and offline platform, but also provide a premium purchase channel to meet the premium demands from Moutai fans.

Furthermore, in December, Secoo and Kweichow Moutai co-hosted an offline Moutai promotion event in Beijing, which featured a theme of looking for the best liquor in China, to attract and gather this legendary brand's loyal fans, along with VIP Secoo members.

This event showcased a sampling of different series of Kweichow Moutai liquor to allow participants to enjoy the legend and distinct culture along with this famous Chinese liquor brand and experience Moutai's brand image mission and values of inspiring a better, high-quality life through distillation.

Since 2018, Secoo has been expanding its high-end product portfolios to beverages and liquors and created a broad range of high-end liquor product offerings including Chinese liquors, red wines, imported alcohols, cocktails. Hosting Moutai Flying Fairy on our platform is a very significant supplement to our elite liquor product offerings.

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**Rixue Li** - *Secoo Holding Limited - Founder, Chairman of the Board & CEO*

(foreign language)

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] This quarter we stepped up our efforts for the livestreaming of the luxury retail, fully leveraging Secoo's extensive experience in the luxury industry along with its supply chain advantages. We also deepened our cooperation with the most popular social networking platforms, such as Douyin and Kuaishou, to forge our own livestreaming ecosystem to support the luxury consumption.

In December, livestreaming production base for luxury goods was established at Secoo's Beijing headquarters and led to Secoo becoming partner of choices for the livestreaming selling luxury goods. Through the livestreaming base, we facilitated the daily broadcast session of MCN agencies and broadcasters officially recommended by Douyin and Kuaishou, as well as livestreaming hosted by mid-tier and most popular KOLs, including a single livestreaming event that generated almost RMB 10 million of GMV.

At Douyin platform, Secoo has been running livestreaming selling activities through 8 accounts so far. Also, since September, the company began to expand its livestreaming sales operations from pre-owned luxury goods to a wider range of product categories.

We also explored cooperation with top KOLs at Douyin such as Luo Yonghao, in our livestreaming events. It is worth noting that Secoo offering a sample library of more than 1,000 luxury products for livestreaming sessions, providing KOLs from Kuaishou and Douyin with a wide selection of merchandise, and this library rolls out new products on a rolling basis per week and per month.

Meanwhile, our efforts to build Secoo's luxury and fashion content marketing strategy across a full spectrum of online channels, including Douyin, Kuaishou, Tencent's Video account is paid off with a growing fan base.

Specifically, we have created a number of promotional videos and each was able to attract over a million views, a strong indicator of support for our livestreaming sales and brand promotion. So far, 92.6% of active users of the Secoo App have watched our livestreaming sessions, and these users exhibit strong willingness to buy, and solid purchasing power.

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**Rixue Li** - *Secoo Holding Limited - Founder, Chairman of the Board & CEO*

(foreign language)

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] Looking ahead, Secoo will continue to enrich content, optimize forms and enhance services quality of its livestreaming business. Given our core competency in supply chains, key brands relations, AI-powered technology advancement and customer engagement capacities, Secoo aims to strengthen its strategy to build a go-to luxury platform and benefit global partners by reaching more high-end Chinese consumers. Secoo will bring more luxury and high-quality global goods to its platform to meet the growing demand for upscale products in the domestic market, seizing new opportunities as it harnesses the massive potential of China's high-end e-commerce industry.

In order to create the targeted shopping platform for luxury consumers, Secoo expects to leverage its livestreaming production base for luxury e-commerce to attract more broadcasters to participate as well as increase user traffic, which will finally allow luxury shoppers to enjoy high-quality, high-end products and premium shopping services, even staying at home.

In addition, Secoo will continue to invest in building a sophisticated value chain spanning product selection, merchandising operations, customer services and aftersales services. These efforts will enable Secoo to provide most valuable, standardized services for consumers, broadcasters, brand partners and livestreaming platforms, while increasing efficiency and provide empowerment to the entire luxury e-commerce sector.

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**Rixue Li** - *Secoo Holding Limited - Founder, Chairman of the Board & CEO*

(foreign language)

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] With that, I will now turn the call over to our CFO, Mr. Shaojun Chen, who will discuss our key operating metrics and financial results.

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**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] Thank you, Richard, and hello everyone.

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**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

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**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] In the third quarter, amid a recovering COVID-19 environment in Mainland China, we delivered net income of RMB 20.8 million, representing an increase of 252.5% quarter-over-quarter. Our sequential improvement in profitability demonstrates the resilience of our business model to navigate through market dynamics. Going forward, we remain confident to capture immense potential in China's online high-end consumer market in the long run.

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**Shaojun Chen** - Secoo Holding Limited - CFO

(foreign language)

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**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Now, I'd like to walk you through our detailed financial results in the third quarter of 2020.

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**Shaojun Chen** - Secoo Holding Limited - CFO

(foreign language)

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**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] GMV increased by 12.5% to approximately RMB 4.12 billion for the third quarter of 2020, from RMB 3.66 billion for the third quarter of 2019.

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**Shaojun Chen** - Secoo Holding Limited - CFO

(foreign language)

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**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Total number of orders increased by 7.1% to approximately 1.11 million for the third quarter of 2020 from around 1.04 million for the third quarter of 2019.

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**Shaojun Chen** - Secoo Holding Limited - CFO

(foreign language)

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**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Total revenues for the third quarter of 2020 was approximately RMB 1.37 billion compared with RMB 1.94 billion in the third quarter of 2019, primarily attributable to the increase in the proportion of business contribution from our marketplace platform business that recognizes revenues on a net basis, and short supply of some luxury goods and delayed logistics services due to the impact of COVID-19 pandemic.

**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] Cost of revenues decreased by 29.1% to approximately RMB 1.14 billion for the third quarter of 2020 from RMB 1.61 billion for the third quarter of 2019, primarily due to the decrease in total revenues.

**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] Gross profit was approximately RMB 231 million for the third quarter of 2020, compared with RMB 329 million for the third quarter of 2019. This decrease was mainly due to the decrease in total revenues and the increase in discount on sales to boost customers' willingness to purchase during the pandemic.

**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] Operating expenses decreased by 22.3% to RMB 182 million for the third quarter of 2020 from RMB 235 million for the third quarter of 2019.

Now, I'd like to walk you through the company's expense items in detail.

**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] Our fulfillment expenses decreased by 16.3% to RMB 41.5 million for the third quarter of 2020 from RMB 49.6 million for the third quarter of 2019. The decrease was primarily attributable to the decreased freight and staff costs during the period.

**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Our marketing expense decreased by 47.6% to RMB 58.1 million for the third quarter of 2020, from RMB 111 million for the third quarter of 2019, primarily due to the reduced online and offline advertising expenses as well as the decreased staff costs.

**Shaojun Chen** - Secoo Holding Limited - CFO

(foreign language)

**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Technology and content development expenses increased by 8.8% to RMB 28.5 million for the third quarter of 2020 from RMB 26.2 million for the third quarter of 2019. The increase was primarily due to the continuous investment in the technology department in order to strengthen our technological capacity to improve operating efficiency.

**Shaojun Chen** - Secoo Holding Limited - CFO

(foreign language)

**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Our general and administrative expenses increased by 13.2% to RMB 54.1 million for the third quarter of 2020 from RMB 47.8 million for the third quarter of 2019. The increase was primarily attributable to the additional provisions for bad debts, over which the company considered many factors in assessing the collectability such as the financial conditions of the debtors given the impact of COVID-19 pandemic, among others.

**Shaojun Chen** - Secoo Holding Limited - CFO

(foreign language)

**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Our income from operations was RMB 48.3 million for the third quarter of 2020 compared with income from operations of RMB 94.9 million for the third quarter of 2019.

**Shaojun Chen** - Secoo Holding Limited - CFO

(foreign language)

**Jingbo Ma** - Secoo Holding Limited - IR Executive

[Interpreted] Non-GAAP income from operations, which excludes share-based compensation expenses, for the third quarter of 2020 was RMB 50.8 million compared with RMB 97.5 million for the third quarter of 2019.

**Shaojun Chen** - Secoo Holding Limited - CFO

(foreign language)



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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] We recorded a net income of RMB 20.8 million for the third quarter of 2020 compared with RMB 62.1 million for the third quarter of 2019.

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**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] Non-GAAP net income, which excludes share-based compensation expenses, for the third quarter of 2020 was RMB 23.2 million compared with RMB 64.7 million for the third quarter of 2019.

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**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] As of September 30, 2020, the company had cash, cash equivalents and the restricted cash of RMB 794 million.

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**Shaojun Chen** - *Secoo Holding Limited - CFO*

(foreign language)

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

[Interpreted] This concludes our prepared remarks. We will now open the call to questions. Operator, please go ahead.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) As there are no questions, I'd now like to turn the call back over to company for the closing remarks.

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**Jingbo Ma** - *Secoo Holding Limited - IR Executive*

Thank you, once again for joining us today. If you have further questions, please feel free to contact Secoo's Investor Relations through the contact information provided on our website of The Piacente Group Investor Relations, whose information is also on our website.

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### Operator

This concludes today's conference call. You may now disconnect your lines. Thank you.

[Portions of this transcript that are marked [Interpreted] were spoken by an interpreter present on the live call.]

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