

RLX Technology Inc.
Q4 and Fiscal Year 2021 Earnings Conference Call
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Executives

Sam Tsang, Head of Investor Relations

Kate Wang, Co-Founder, Chairperson of the Board of Directors and Chief Executive Officer

Chao Lu, Chief Financial Officer

Analysts

Louise Li, Bank of America

Lydia Ling, Citigroup

Charlie Chen, China Renaissance

Peihang Lv, CICC

Presentation

Operator: Hello, ladies and gentlemen. Thank you for standing by for RLX Technology Inc.'s Fourth Quarter and Full Year 2021 Earnings Conference Call. At this time, all participants are in listen-only mode. After management's remarks, there will be a question-and-answer session. Today's conference call is being recorded and is expected to last for about 50 minutes.

I will now turn the call over to your host, Mr. Sam Tsang, Head of Investor Relations for the Company. Please go ahead, Sam.

Sam Tsang: Thank you very much. Hello, everyone, and welcome to RLX Technology's fourth quarter and full year 2021 earnings conference call. The Company's financial and operational results were released through PR Newswire services earlier today and have been made available online. You can also view the earnings press release by visiting the IR section of our website at ir.relxtech.com.

Participants on today's call will include our Co-Founder, Chairperson of the Board of Directors and Chief Executive Officer, Ms. Kate Wang; Chief Financial Officer, Mr. Chao Lu; and myself, Sam Tsang, Head of Investor Relations.

Before we continue, please note that today's discussions will contain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. These statements typically contain words such as "may," "will," "expect," "target," "estimate," "intend," "believe," "potential," "continue," or other similar expressions.

Forward-looking statements involve inherent risks and uncertainties. The accuracy of these statements may be impacted by a number of business risks and uncertainties that could cause actual

results to differ materially from those projected or anticipated, many of which factors are beyond our control.

The Company, its affiliates, advisors, representatives, and underwriters do not undertake any obligation to update this forward-looking information, except as required under the applicable law.

Please note that RLX Technology's earnings press release and this conference call will include discussions of unaudited GAAP financial measures, as well as unaudited non-GAAP financial measures. RLX's press release contains a reconciliation of the unaudited non-GAAP measures to the unaudited GAAP measures.

I will now turn the call over to Ms. Kate Wang. Please go ahead.

Kate Wang: Thank you, Sam, and thanks, everyone, for making time to join our conference call today. As many of you might have become aware, just hours ago, the State Tobacco Monopoly Administration released an updated draft consultation paper regarding national electronic cigarette product standards. At the same time, Administrative Measures for Electronic Cigarettes has been made official, effective starting on May 1, 2022.

While we did not expect the announcements of these regulatory developments to coincide with our earnings release, we welcome the finalization of these regulatory measures, as it delivers certainty regarding timeline, mode of transactions, product specifics, amongst others. The removal of these uncertainties and accelerated timeline will provide our organization with more concrete directions in our business operations and planning.

We believe the new standards and measures will significantly improve adult smoke population's positive recognition of our product safety and the nature of harm reduction. We are confident that the likely restriction on flavors will not impact the core needs of our users and millions of traditional cigarette smokers for harm reduction. The experience and data from other markets support the same view.

Against the backdrop of the evolving regulatory landscape for e-cigarettes and recurring COVID-19 outbreaks throughout 2021, we remained committed to enhancing our vision and executing our founding strategy and mission, further cementing our industry-leading position as a trusted e-vapor brand for adult smokers. We ended 2021 on a solid note, with our core strengths and fundamentals thriving, although we faced our share of challenges during the year.

Our financial highlights include fourth quarter revenue growth of 17.7% year-over-year, which propelled a year-over-year increase of 123.1% in our full year 2021 net revenue. Our CFO Chao will share more details regarding our financial results and underlying drivers later.

With that, I'd like to start by outlining the backdrop of the regulatory environment in the fourth quarter. The fourth quarter ushered in meaningful regulatory developments for China's e-vapor industry. With the introduction of the draft administrative measures and draft national standards for e-vapor products, the regulators have introduced an electronic filing system to provide a means for all value chain participants, encompassing manufacturers, distributors, retailers and supply chain partners, to register their business details.

In addition, all e-vapor brands are also required to register each of their products' SKUs, including product characteristics and specifications. We believe that as these new rules and policies take hold, the barriers to entry in China's e-vapor industry will become more difficult to penetrate given the substantial compliance and product development requirements. Moreover, given ongoing regulatory scrutiny of e-vapor product quality and safety, sales of counterfeit products will be further curbed, and users' rights will be better protected.

In sum, we firmly believe that the new regulatory framework will support the overall e-vapor industry and allow its participants to move forward confidently and embrace healthy, sustainable long-term growth.

In response to updated regulations announced in December 2021, in the fourth quarter, we proactively implemented an array of refinements across both the front and back ends of our operations. On the product and supply chain end, we swiftly adjusted certain features in our product suites and pipeline products based on the draft national standards, drawing on our state-of-the-art product development capabilities to enhance our child-lock design, e-liquid formula, and other technical design elements.

Also, we embraced a more agile approach to supply chain management, prudently managing our key components and materials procurement orders according to the draft national standards, which may impact our inventory preparation.

On the sales and channel management front, we adopted a nimble approach to managing active inventory for distributors and retailers to avoid over-or-under-supply. In addition, we offer assistance to our distributors and retailers with the required registration on the electronic filing system, and maintain active communication with them to understand their needs and track the potential impact of the new policy enforcement on their operations.

Now, I'd like to provide some updates on our scientific research progress. We work diligently to improve our scientific research capability and are firmly convinced that scientific evidence-based communication is paramount when addressing users' and shareholders' concerns about the harm reduction efficacy of e-cigarettes.

One area of particular focus for RLX is cross-disciplinary fundamental research on atomization mechanisms, through which we explore the long-term health effects of vaping. As China's pioneering e-vapor brand, we initiated China's first clinical research on vaping safety, studying the acute effects of traditional cigarettes and electronic cigarettes on the human respiratory and cardiovascular systems.

In February 2022, we successfully registered our clinical research on the China Clinical Trial Registry (ChiCTR), a primary registry in the World Health Organization (WHO) Registry Network, further validating the strength of our scientific research capability and underscoring our progress in advancing these studies.

As China's national standards for e-cigarettes come into effect, RLX will continue to devote more resources to R&D and support a regulatory framework that recognizes this harm reduction opportunity for adult smokers' population.

Our accomplishments in 2021 position us for a good start as we head into the New Year of 2022. I'm pleased with our achievements so far in 2022. Our strategic initiatives are designed to capture any growth potential ahead of us within a clearer regulatory regime. As we continue to improve our product performance, advance scientific research and promote digitalization upgrades, we are poised to further grow and increase the value we bring to all of our stakeholders.

With that, I will now turn the call over to our CFO Chao Lu. He will elaborate further on some of last quarter's initiatives and go over our operational and financial results in more detail. Thank you.

Chao Lu: Thank you, Kate, and hello, everyone. I will start by sharing some major initiatives and developments from the fourth quarter and then walk you through our key financial results.

As Kate mentioned earlier, despite the backdrop of regulatory impact, we delivered quarterly net revenues of RMB1.9 billion, up 13.6% sequentially, and by 17.7% year-over-year, reflecting the momentum behind our efforts to optimize our distribution and retail channel network and to enhance our diversified product portfolio.

Notably, we witnessed that there have been increasingly more fact-based and neutral public voices commenting on the e-vapor industry and e-vapor products in recent months. According to a survey, in light of the release of the proposed draft national standards, 69% of our potential users are aware of the regulatory changes, and 87% expressed increased or unchanged willingness to purchase e-vapor products in light of the national standards, as they believe that the regulations will have a positive impact on product safety and quality.

Since December 2021, orders from our distributors and retailers have remained solid as end-user demand has remained strong. We have been closely monitoring the trade inventory level of our distributors and retailers, and cautiously fulfilling their orders to mitigate risks related to any excess inventory in our trade channels.

In addition, we continued investing in our Golden Shield Program to combat sales of counterfeit products and made meaningful progress during the fourth quarter. In December 2021, we successfully assisted Shenzhen police in busting a counterfeit factory site located in the Huaqiangbei electronics market, seizing over 20,000 counterfeit products.

Since launching the Golden Shield Program in 2019, we have assisted the police in solving more than 130 administrative and criminal cases of intellectual property right infringement and helped to seize more than 1.5 million counterfeit products, a testament to our commitment to protecting the rights and interests of consumers as a responsible corporate citizen.

We also strove to optimize our supply chain and streamline our operations. Our efforts of cost control and active supply chain management have been effective, further reducing the unit cost of

our products. Meanwhile, we have become more agile in managing our supply chain. For example, we have significantly increased the utilization rate of our logistics and warehousing facilities in recent months by closing unused or low-usage warehouses.

Moreover, our distributor survey showed that in the second half of 2021, our distributors' satisfaction level with our supply chain management improved immensely compared with the first half of 2021, validating our relentless efforts to improve our supply chain capabilities and strengthen our relationship with our value chain partners.

As we mentioned last quarter, we continue to strategically introduce new products tailored to various user segments, with the goal of engaging new users to support our sustainable and quality growth. To that end, we launched several new targeted products during the fourth quarter and have recently seen an upward trend in our new users' retention rate, which we believe is partially attributable to our successful product strategy. Our "Xiaojinzi" products, targeting adult smokers with a long history of smoking, complement our current product portfolio with a unique, compelling product design.

Meanwhile, we also released "Artist", a premium device line with a classy and trendy design, aimed at fashion-conscious users who are willing to pay a premium for an exquisite design. We will continue to expand and enhance our product offering to cater to China's distinct user groups' differentiated preferences and price sensitivity.

To further increase user engagement and build our brand equity, we also introduced accessories, including cartridge cases, device stands, and necklace lanyards, which can be purchased with cash or users' loyalty program points. As a user-centric company, RLX always puts our users first; they are the core of our business. During the transitional regulatory period, we will continue to prioritize our users' needs by creating new, innovative products that comply with the national standards and can be launched upon regulatory approval.

Last, but not least, I'd like to share with you some updates on our corporate social responsibility initiatives. RLX Technology has always been committed to CSR. We believe that prioritizing and fulfilling our social responsibility is essential to corporate growth. As vaping's popularity grows, disposal of used cartridges has become a major concern for both e-vapor companies and users. To solve the problem and create additional economic value, we launched China's first cartridge recycling program in September 2021, covering more than 16 cities in the program's first phase. Users can pick up special recycling bags in selected RLX-branded stores in China to collect used cartridges and return them to in-store recycling bins. The program has enjoyed great initial success with over 200,000 cartridges recycled to date.

By enhancing ties between RLX and our users, we believe that this environmentally friendly program will encourage more users to choose our products, as we fulfill our corporate social responsibilities and inspire eco-consciousness throughout our industry.

In recognition of these efforts, our 2021 CSR report recently received a Grade "A" rating from the Ministry of Industry and Information Technology (MIIT). This rating is a powerful endorsement of our work and commitment to advancing CSR initiatives nationwide. MIIT assessed RLX's

strong performance across a broad range of CSR metrics and commended our report's clear guidance on the Company's strategic planning and governance with respect to sustainable development concepts.

Moving forward, we will continue to increase RLX's positive social impact with substantive work and engaging projects to address industry, community, and environmental issues.

I will now provide a summary overview of our financial results for the fourth quarter and the full year of 2021. Net revenues increased by 17.7% to RMB1.9 billion in the fourth quarter of 2021 from RMB1.62 billion in the same period of 2020. The increase was primarily due to an increase in the net revenues from sales to offline distributors, which was mainly attributable to the expansion of the Company's distribution and retail network.

Gross profit increased by 10.3% to RMB765.5 million in the fourth quarter of 2021 from RMB694.1 million in the same period of 2020.

Gross margin was 40.2% in the fourth quarter of 2021, compared with 42.9% in the same period of 2020. The decrease was primarily due to (i) an increase in direct costs related to promotional activities and (ii) an increase in the inventory provision.

Operating expenses were RMB231.5 million in the fourth quarter of 2021, representing a decrease of 72.8% from RMB852.6 million in the same period of 2020. The decrease in operating expenses was primarily due to the change in share-based compensation expenses, which decreased by 93.6% to RMB42.1 million in the fourth quarter of 2021 from RMB656.1 million in the same period of 2020. The decrease in share-based compensation expenses was primarily due to the changes in the fair value of the share incentive awards that the Company granted to its employees as affected by the fluctuations of the share price of the Company.

Selling expenses decreased by 76.3% to RMB46.6 million in the fourth quarter of 2021 from RMB196.7 million in the same period of 2020. The decrease was mainly driven by (i) a decrease in share-based compensation expenses and (ii) a decrease in salaries and welfare benefits, partially offset by an increase in branding material expenses.

General and administrative expenses decreased by 62.6% to RMB167.1 million in the fourth quarter of 2021 from RMB447 million in the same period of 2020. The decrease was mainly driven by (i) a decrease in share-based compensation expenses and (ii) a decrease in salaries and welfare benefits, partially offset by an increase in software and technical service expenses.

Research and development expenses decreased by 91.5% to RMB17.8 million in the fourth quarter of 2021 from RMB208.9 million in the same period of 2020. The decrease was mainly driven by (i) a decrease in share-based compensation expenses and (ii) a decrease in salaries and welfare benefits, partially offset by an increase in consulting expenses.

Income from operations was RMB534 million in the fourth quarter of 2021, compared with a loss from operations of RMB158.5 million in the same period of 2020.

Income tax expense was RMB129.5 million in the fourth quarter of 2021, compared with RMB110.6 million in the same period of 2020.

U.S. GAAP net income was RMB494.4 million in the fourth quarter of 2021, compared with U.S. GAAP net loss of RMB236.7 million in the same period of 2020. Non-GAAP net income was RMB536.5 million in the fourth quarter of 2021, compared with RMB419.3 million in the same period of 2020.

U.S. GAAP basic and diluted net income per ADS were RMB0.367 equivalent to US\$0.058, and RMB0.363 equivalent to US\$0.057, respectively, in the fourth quarter of 2021, compared with U.S. GAAP basic and diluted net loss per ADS of RMB0.165 in the same period of 2020. Non-GAAP basic and diluted net income per ADS were RMB0.398 equivalent to US\$0.062, and RMB0.394 equivalent to US\$0.062, respectively, in the fourth quarter of 2021, compared with RMB0.292 in the same period of 2020.

Moving to the full year of 2021, net revenues increased by 123.1% to RMB8.52 billion in 2021 from RMB3.82 billion in the prior year. The increase was primarily due to an increase in net revenues from sales to offline distributors, which was mainly attributable to the expansion of the Company's distribution and retail network.

Gross profit increased by 140.4% to RMB3.67 billion in 2021 from RMB1.53 billion in the prior year.

Gross margin increased to 43.1% in 2021, compared with 40% in the prior year.

Operating expenses were RMB1.37 billion in 2021, representing a decrease of 9.3% from RMB1.51 billion in the prior year. The decrease in operating expenses was primarily due to the change of share-based compensation expenses, which decreased by 76% to RMB223.3 million in the fiscal year 2021 from RMB929.1 million in the prior year. The decrease in share-based compensation expenses was primarily due to the changes in the fair value of the share incentive awards that the Company granted to employees as affected by the fluctuations of the share price of the Company.

Selling expenses increased by 17.5% to RMB520.7 million in 2021 from RMB443.2 million in the prior year. The increase was mainly driven by (i) an increase in branding material expenses; (ii) an increase in shipping expenses; and (iii) an increase in salaries and welfare, partially offset by the decrease in share-based compensation expenses.

General and administrative expenses decreased by 12.9% to RMB672.7 million in 2021 from RMB772 million in the prior year. The decrease was primarily attributable to the decrease in share-based compensation expenses, partially offset by an increase in salaries and welfare benefits, and, two, an increase in legal and other consulting fees.

Research and development expenses decreased by 39.9% to RMB179.9 million in 2021 from RMB299.3 million in the prior year. The decrease was primarily due to the decrease in share-based

compensation expenses, partially offset by (i) an increase in salaries and welfare benefits; (ii) an increase in software and technical expenses; and (iii) an increase in consulting expenses.

Income from operations was RMB2.3 billion in 2021, compared with RMB13.1 million in the prior year.

Income tax expense was RMB631.4 million in 2021, representing an increase of 173.9% from RMB230.5 million in the prior year. The increase was primarily due to an increase in taxable income.

U.S. GAAP net income was RMB2.03 billion in 2021, compared with U.S. GAAP net loss of RMB128.1 million in the prior year. Non-GAAP net income was RMB2.25 billion in 2021, compared with RMB801 million in the prior year.

U.S. GAAP basic and diluted net income per ADS were RMB1.445 equivalent to US\$0.227 and RMB1.436 equivalent to US\$0.225, respectively, in the fiscal year 2021, compared with U.S. GAAP basic and diluted net loss per ADS of RMB0.089 in the prior year. Non-GAAP basic and diluted net income per ADS were RMB1.604 equivalent to US\$0.252 and RMB1.595 equivalent to US\$0.25, respectively, in the fiscal year 2021, compared with RMB0.557 in the prior year.

Moving to the balance sheet, as of December 31, 2021, the Company had cash and cash equivalents, restricted cash, short-term bank deposits, net, short-term investments, and long-term bank deposits, net of RMB14.86 billion, compared with RMB3.42 billion as of December 31, 2020. As of December 31, 2021, approximately US\$1.62 billion was denominated in U.S. dollars.

Lastly, turning to our share repurchase program, on December 8, 2021, the Company announced that its Board of Directors authorized a share repurchase program under which the Company may repurchase up to US\$500 million of its shares over a period until December 31, 2023. The program, which is integral to our commitment to providing shareholder value, is proceeding smoothly. It demonstrates our continued confidence in our core capabilities, business growth, long-term market potential, and the further development of the e-vapor industry.

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

Questions and Answers

Operator: Thank you. (Operator Instructions). Louise Li of Bank of America.

Louise Li: My question is could you share with us the latest year-to-date shipment and sell-through trend? Do you expect there are any significant changes from now to 1st of May and after 1st of May?

So just another quick question on the newly released regulation. So according to the China National Standard File, so we see that only tobacco flavor can be sold. So, if this is the case, why do they still put a partial list of ingredients? So, is there any conflict?

Sam Tsang: Thanks, Louise. So how about more on the year-to-date shipment trends first; and then respond to your question regarding the latest regulations. So in December, we have still seen a continuous improvement in multiple operating metrics that we are confident in our commercial development, including the number of potential e-vapor users, which have been driven by increasing willingness to consider e-vapor products by adult smokers, as mentioned by Chao, a retention of new users, and the number of cartridges per user, which we think is reflecting a higher number of potential users together with a higher user lifetime value.

We believe the primary reason is that the increasing users have high confidence in e-vapor products and our products after the release of the first draft of national standards being released in December, recognizing the benefits of harm reduction tobacco alternatives. So due to the above trends, we have and will gradually optimized our shipment level to respond to the latest developments.

And regarding the latest regulations, given that it was released article, it will require more time for us to value internally, and like to see how it will evolve regarding the commercial results. Thank you for your question.

Operator: Lydia Ling at Citi.

Lydia Ling: I have two questions here. The first one is on the regulation side. And so, regarding today's regulatory update, including administrative measures and also the second draft on the national standard, so can management evaluate the potential impact on your business, and how to deal with the evolving regulation and increase the penetration among the adult smokers, particularly the restrictions on the flavor product? So, could you give us more color on that?

And my second question is on the product side. And in light of the new national standards, could you share any progress on the new product launch?

Sam Tsang: Sure. Thank you very much, Lydia. So, two questions. One is on the regulations and the other one is on how will be the changes to new product launches. So for today, the State Tobacco Monopoly Administration announced the administrative measures of e-cigarette to further strengthen the supervision of next-generation tobacco products, such as e-cigarettes, to regulate the market order, to ensure the health and safety of adult smokers and promote the legalization and standardization of the industry, which will be effective on the 1st of May.

So we have to see the key changes, when you compare with the public consultation paper being released in early December, includes having a greater emphasis on underage access prevention, dissuading minors to use e-vapor products, retailers obtain integrated retail license to procure products from local license e-cigarette wholesalers, and shall not exclusively distribute listed e-cigarette products; and finally, prohibits exhibition and events promoting e-vapor products.

And also, the regulators have announced to seek for the public opinion regarding the second draft of national standards with a commission deadline of March 17. Some key changes include such products should not be inducted to minors and shall not have flavors other than tobacco. But in contrast, we do see that key components in the existing product portfolio have been included. For example, WS-23, the cooling agents, which RELX Lab publish a scientific study in the Journal of Applied Technology. So, we believe such a wide list will be continuously evolving with evidence shown inside the research and through effective fact-based communication.

So, we are delighted to see the formalized regulations, which has been significantly improving our smokers' positive recognition of e-vapor product safety with the nature of harm reduction compared with tobacco products. And we believe that these measures could better progress the development of our industry with higher standards, higher entry barrier and higher clarity, with a promising aspects or prospects to each value chain participant.

And regarding the product launches, given that it's still a draft national standard, so we have to wait till the national standards are being formalized in order to have our products being approved. But through the process, we have been diligently to modify products together with some potential new product launches. So first is on product safety. So, it includes the change of requirements for raw materials, including ingested and released substances; and safety requirements on electronic products, for example factory, waterproofing, anti-leakage protection, child-lock and prevention of accidental device activation.

And indeed, our product safety standards have been always in line with, if not higher than global standards, including the draft national standards. For example, our standards for ingested and released substances are much higher than such requirements.

Regarding child-locks and the prevention of accidental device activation, we are technically fully prepared to comply with the new standards, and our product prototypes are fully ready.

And next is on the e-liquid components. So, we do see that we have provided greater clarity with respect to the allowed ingredients with a list of additives that are permitted for use in e-liquid, while non-listed additives will be subject to higher safety assessments. So, we will continue to make modifications in response to the second draft of national standards that are released today. Thank you for your question.

Lydia Ling: Thank you.

Operator: Charlie Chen at China Renaissance.

Charlie Chen: I have one question. So, during this transition period where you cannot extend your sales network, you cannot launch new products, so what is the main focus of your day-to-day work during this period? And can you share with us some of your major achievements or progress in your work for the past quarter?

Sam Tsang: Sure. Thank you very much, Charlie. So, I can share our progress for the last quarter in three aspects, and first is on the sales and distribution. We have been closely monitoring our

partners' operating and financial performance. So, we have been putting great efforts into driving single-store sales by introducing operational efficiencies and trainings. And after the regulations and draft measures been released, we do see that distributors and retailers have high confidence in the e-vapor industry and RLX, which drives our robust order book. We have also launched internal trainings to equip our sales experts with the right skill set considering the potential change of our industry.

And on the product development front, other than modifying our portfolio, as mentioned in the previous Q&A, we have invested resources in developing new technology and products and there are a couple of new product pipelines. So far, the process will continue to invest in developing new products and technology and expect to obtain approvals after national standards become effective.

And lastly, on organizational upgrade, we have invested heavily in digitalization and optimizing work efficiency. We have been building an all-in-one digitalization system that monitors and tracks our operating and financial performance from front to back end, from the supply chain, ourselves, and distribution channels. These new initiatives could better our day-to-day decision-making and increase our operating efficiency. Thank you for your question.

Charlie Chen: Thank you.

Operator: Peihang Lv with CICC.

Peihang Lv: I have two questions here. And the first one is we noted a shortage of certain flavors in your stores. Could you provide some color on the trade channel inventory level? And the second question is that how will the second draft of national standards affect our existing portfolio?

Sam Tsang: Thank you, Peihang. So, the line is not very clear, but I think the first question is mainly on you have seen that some of our flavors are out of-stock in our store. And the second one is on vapor again, and what we'll see how the national standard's affecting our current portfolio.

So, on the first one, after the administrative measures being released back in December, we have taken a prudent approach in lowering our trade and inventory, as we consider multiple factors, including restrictions on product launches and new store openings during the transitional period. Time required to evaluate distributors and retailers order sentiment, together with the fact that production capacity is more than enough to be increased again in a timely manner.

Since December until now, we have seen continued improvement in operating metrics, as mentioned, including user-related metrics and store-related metrics for single-store sales. As a result, order book from distributors has been robust and we have been cautiously fulfilling those orders. And therefore, our trade channel inventory has stayed at a low level since the first quarter of last year to date. In light of the potential regulations, together with the draft national standards, we will monitor and adjust our shipment level to fulfill our distributor and user needs.

And the second one is about our flavors. So, to advocate, the primary reason for adult smokers to use e-vapor products mainly is the harm reduction effects compared with other tobacco products,

mainly cigarettes. And together with other secondary factors, for example, more hygienic with no dust and flame, more convenient, and have less disturbance to peoples around it based on our internal user survey. Flavors contained in cartridge are not the main reason for adult smokers switching from cigarettes to e-vapor products.

And also, in reference to overseas market experiences, when there is a restriction on flavor, it will only cause short-term turbulence to a trade channel, especially on existing inventory management and preparation; but has limited impacts on the long-term trend for adult smokers switching from cigarettes to e-vapor products.

We are strongly confident that China e-vapor users will continue to use RLX after the draft national standards become effective. Those affected are likely to switch from their best preferred flavors to tobacco flavor. Thank you for your question.

Peihang Lv: Thank you very much.

Operator: Thank you. Ladies and gentlemen, this concludes the question-and-answer session. I'd like to turn the conference back over to management for closing remarks.

Sam Tsang: Thank you again for joining us today. If you have further questions, please feel free to contact RLX Technology's Investor Relations team through the contact information provided on our website or TPG Investor Relations.

Operator: Ladies and gentlemen, this concludes today's conference call. We thank you for attending today's presentation. You may now disconnect your lines and have a wonderful day.