

**RLX Technology Inc.**  
**Q1 2024 Earnings Conference Call**  
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Executives

Sam Tsang, Head of Capital Markets

Kate Wang, Chief Executive Officer

Chao Lu, Chief Financial Officer

Analysts

Charlie Chen, China Renaissance

Lydia Ling, Citi

Peihang Lv, CICC

Bojia Feng, CITIC Securities

**Presentation**

Operator: Hello, ladies and gentlemen, thank you for standing by for RLX Technology Inc.'s First Quarter 2024 Earnings Conference Call. (Operator Instructions). 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 40 minutes.

I will now turn the call over to your host, Mr. Sam Tsang, Head of Capital Markets for the company. Please go ahead, Sam.

Sam Tsang: Thanks very much. Hello, everyone, and welcome to RLX Technology first quarter 2024 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](http://ir.relxtech.com).

Participants on today's call will include our Chief Executive Officer, Ms. Kate Wang, our Chief Financial Officer, Mr. Chao Lu, and myself, Sam Tsang, Head of Capital Markets.

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, and representatives 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 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 earnings conference call today. I'll begin with an overview of our international initiatives, followed by a discussion of illicit products' impact on our business before I hand it over to our CFO for a review of our financials.

2024 is off to a solid start. Our operations in Southeast and North Asia are running smoothly, and our international expansion is progressing well. Since terminating our non-compete agreement with RELX International in November 2023, our team has been diligently researching the regulatory environments and competitive landscapes of the markets worldwide to inform our strategic blueprint. After thoroughly evaluating various markets, we're ready to determine our next steps and develop tailored growth strategies for each region.

With our leading product development capabilities and broad portfolio of premium products for adult smokers, we're confident that we can meet each market's unique needs. We plan to expand into additional regions, and will keep you updated on our progress in future calls.

On product diversification, we're broadening our portfolio in response to rising living costs that are impacting users both domestically and overseas. By offering more SKUs across a wider price spectrum, we can cater to diverse consumer needs and capture additional demand. In overseas markets, we're expanding our offerings beyond closed systems, starting with e-liquid products, and we plan to introduce new open system devices at a later stage. Our recent launch of new e-liquid products in Southeast Asia has been well-received, showing promising initial results.

Regarding regulatory environments in overseas markets, we're seeing the early impact of bans on disposables. Retailers and adult users are shifting from disposables to other subcategories, such as pod systems. As a leading global player in the pod-system market, these regulatory changes present a prime opportunity for us to increase our future market share. We're poised to capitalize on this transition with an effective marketing strategy and a pipeline of compliant products that meet adult smokers' needs at every price point.

Turning to the impact of illicit products, domestically, illicit products continue to challenge compliant products. However, we're encouraged by Chinese authorities' announcement of another round of special actions to crack down on illicit products in March. This year's initiative, spanning 4 months, 1 month longer than last year's, will focus on improving case investigation and handling, and building an effective enforcement system for the industry. We're pleased to see China's regulatory authorities tackling these serious issues, though there is still a long way to go.

We're already seeing some positive outcomes. For instance, authorities in Zhejiang province successfully cracked a case involving the entire supply chain of counterfeit e-cigarettes, from production to sales. They dismantled one illegal manufacturer and two production lines, seizing 40 sets of production equipment, over 35,000 disposable e-cigarettes, over 30,000 cartridges,

over 2,900 devices, and 1 million e-cigarette accessories. The seized goods were valued at more than RMB 10 million, and the total amount involved in the investigation exceeded RMB 100 million.

Additionally, authorities in Gansu province recently uncovered an illegal e-cigarette manufacturing and sales enterprise operating online. They dismantled three illegal manufacturing sites, three storage sites, and six sales shops, seizing over 2,800 disposable e-cigarettes and over 290,000 cartridges. The total value of the seized goods exceeded RMB 8.8 million, with the total amount involved in the investigation surpassing RMB 110 million.

As an industry leader and socially responsible company, RLX remains committed to advocating for a well-regulated e-vapor industry and collaborating with regulators to create an orderly and healthy market.

Internationally, authorities are also increasingly cracking down on illicit products. In the United States, for example, the State of Florida has implemented a registry for disposable vapes. Starting March 1, 2025, manufacturers that sell prohibited products in the state will face a \$1,000 daily fine per product until it is removed from the market. This regulation also applies to retailers, wholesalers, and distributors that ship products into Florida. Additionally, anyone who sells a nicotine product, including vapes, to someone under 21 for a third or subsequent time will face a third-degree felony charge, punishable by up to US\$5,000 in fines and 5 years in prison.

In the UK, authorities are cracking down on unlicensed imports amid a surge in youth vaping. Both border control and local authorities are working to seize unauthorized and counterfeit products. The government is expected to announce new rules for the industry, which could include a ban on disposable vapes, a licensing scheme for retailers, and new taxes, among other regulatory measures.

As a legitimate player, we view these actions as positive developments that will contribute to a healthy and orderly market, benefiting our future business development.

In conclusion, our strategic expansion initiatives are already yielding positive results, setting the stage for future success. We remain confident that e-vapor products will continue to gain traction as a harm-reduction tool for adult smokers, even as regulations evolve worldwide. With an outstanding product portfolio, agile operations, and deep industry expertise, we're ready to create and seize opportunities on a global stage.

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

Chao Lu: Thank you, Kate, and hello, everyone. Before I start the detailed discussion of our financials, please note, unless otherwise stated, all the financials I will present today are in renminbi terms.

First, I am pleased to report that our strategic expansion into Southeast and North Asia has continued to deliver positive outcomes this quarter. Total net revenues increased to 552 million, marking our fifth consecutive quarter of revenue growth.

The inherent benefits of geographic diversification, along with our reduced reliance on the domestic market, have allowed us to capitalize on opportunities arising from harm reduction initiatives in the international markets. We are increasingly capturing organic growth from adult smokers transitioning from combustible cigarettes to reduced-risk products like e-vapors.

We have a solid blueprint for ongoing expansion in place, and we are optimistic that our initiatives will continue driving progress across our financial metrics. We will provide further details in the coming quarters as we continue to assess various markets' growth potential, competitive landscapes, and regulatory environments.

Turning to profitability, our overall gross profit margin for the first quarter expanded year-over-year from 24.2% to 25.9%. Despite the excise taxes on e-vapor products in China, our ongoing efforts to enhance supply chain efficiency, improve product designs, and increase the utilization of our exclusive manufacturing plants are having a positive impact. Notably, the gross profit margin of our domestic business has improved quarter-over-quarter since the second quarter of 2023.

We recorded a total operating loss of 52 million for the first quarter. However, excluding the impact of share-based compensation, we achieved a positive non-GAAP operating profit of 23 million, marking our second consecutive quarter of non-GAAP profitability at the operating level. This represents a significant year-over-year turnaround compared to a non-GAAP operating loss of 133 million in the first quarter of 2023. Our cost reduction efforts and positive profit contributions from outside China were the main drivers of this quarter's success.

Driven by our turnaround in operating level profit, our non-GAAP net income for the first quarter of 2024 increased by 13% year-over-year to 208 million. For the same period, our non-GAAP basic net income per ADS was RMB 0.166, and non-GAAP diluted net income per ADS was RMB 0.159.

Our cash flow and balance sheet remain healthy and strong, supported by enhanced working capital and inventory management. We recorded an operating cash inflow of 4 million in the first quarter of 2024, a meaningful improvement from an operating cash outflow of 231 million in the same period last year.

Additionally, we are currently experiencing a negative cash conversion cycle. Inventory turnover days stood at just 34 days in the first quarter of 2024, significantly reduced from over 100 days in the first quarter of 2023. As of March 31, 2024, our total financial assets, including cash and cash equivalents, restricted cash, and various forms of short-term and long-term deposits and investments, totaled 14.7 billion.

In summary, we are confident that we are on the right track with our international expansion. Moving forward, we will continue to optimize costs and efficiency, as we enter new markets and scale our operations. Our goal remains to deliver premium products to users while creating sustainable, long-term value for our shareholders.

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

## Questions and Answers

Operator: Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions). Charlie Chen with China Renaissance.

Charlie Chen: (Speaking foreign language). I've got two questions regarding the domestic market. First of all, can you share with us a little bit more on the momentum of monthly sales in domestic markets? Is there any marginal changes month-over-month that you can see and share with us? And also, based on current run rates, do you have any new guidance or new sales target for the full year? So that's the first question.

And the second one is about domestic product pipeline. Can management share with us a little more color on new directions or requirements that you heard from the regulators in terms of flavor, packaging, and technology requirements, etc.?

Sam Tsang: Thank you very much, Charlie, for your question. So the first question is about our monthly sales trend, as well as our target internally. So the monthly sales of our China business has been relatively stable, so each month, sales could be subject to calendar effects. For example, Chinese New Year and public holidays and the overall trend has not changed. So as you may aware, there is a special action led by the Chinese authorities has been ongoing, and we hope that positive trends will emerge as this initiative concludes.

We are also working on launching new products with new design and characteristics to compete effectively with illicit products. We are innovating and expanding our offerings to meet our user demands. We will share more details once our new products launch. So overall, our China business remains on track with our annual expectations and targets. And we remain optimistic about the market as the regulatory actions take effect and our new products enter the markets.

So the second question is about is there any regulatory change, especially regarding like flavors or other requirements? So in late April, so there are a few draft consultation papers being published by the Chinese regulators. So the first change is concerns about the product approval. So compared with the previous versions published in early 2022, the new draft did not include certain clauses related to the exports of e-cigarette products. Also, it has stated that if an applicant is under investigation for suspected illegal activities, the regulators will not accept such an applicant's technical review application.

And the second change mainly concerned the marketing campaigns. So all marketing activities must be registered on the national transaction platform, and not violate applicable regulation. So we believe the draft consultation papers aim to promote a healthier and orderly industry development. Thank you for your questions.

Charlie Chen: Thank you.

Operator: Lydia Ling with Citi.

Lydia Ling: And so here I have two questions. The first one is on your overseas market. And we want to know if you could share that slide of the year-to-date growth trend for the market that you already entered. And also, we want to know that if you have seen any impact from the weak macro on this category consumption. And we understand that you entered this new market step-by-step. So actually want to check if any new markets are consolidated in the first quarter, and what would be your expansion plan in the second quarter? So this is my first question on the overseas market.

And then my second question is on the China market. As you just also mentioned that the ongoing measures against the illegal products in China market, so wanted to know what could be the rescue to the second quarter sales trend in China. So is actually like improving trends in the second quarter should be expected?

Sam Tsang: Thank you very much, Lydia, for your questions. So regarding your first question is about the international markets. So we have made significant progress in strengthening our presence in Southeast and North Asia, and have yet to enter new markets in the first quarter. So our non-China business has maintained steady growth despite the first quarter traditionally being a low season for this category, primarily due to weather effect of store traffic and the holy month of Ramadan in Southeast Asia.

So we are also aware of the weak macro of the international markets. The rising living cost encourages more adult smokers to consider value for money, nicotine alternatives like e-vapor products. The trend of switching from cigarettes to harm-reduction nicotine products like e-cigarettes has been clear, and the rise in living costs could also help accelerate the switch and user penetration.

Our expansion strategy calls for prudent and calculated entries into new markets in the second quarter. We are working on expanding to certain countries in this quarter, starting with Asia. So overall, we are optimistic about the growth potential of our international markets by capturing increasing market share to drive our growth in this quarter and beyond.

So regarding your second question about the special action and also what's the impact towards the second quarter, so the special action against illegal products in China are positive developments for the industry. This year's special action is more comprehensive with 4 months of inspection and evaluation, a month longer than that of last year. The extended period allows for a more thorough inspection of the value chain from manufacturing and wholesale to retail.

This year's special action focuses on multiple aspects, ensuring all entities fully comply with the regulations and cracking down on unlicensed entities. For manufacturers like us, this requires complying with production and operational standards and robust product quality assurance systems. Also, authorities identify unlicensed entities' activities, collaborate with our departments to shut down illegal operations and pursue legal responsibility for such violations. So we fully support and are thankful to the Chinese authorities for their efforts to address these issues, and promote a well-regulated e-vapor industry.

So for the second quarter, we expect these actions can help stabilize the markets, and remain optimistic that these efforts can support our growth and achieve our goals, although it is still a bit early to predict specific outcomes towards the second quarter. Thank you for your questions.

Operator: Peihang Lv with CICC.

Peihang Lv: I have two questions here. My first question is, what is the current level of the illicit market share in the domestic market? And how does the company perceive your share in the legitimate market?

And the second question is that given the intensifying competition in the overseas market, we have also noticed increasing pressure on product ASP this year. So how does the company view the price competition of the industry and its impact on your business?

Sam Tsang: Thank you very much, Peihang, for your questions. So the first question is about the illegal markets in China. So we do see that the illicit market continues to pose great challenges in the China market. Some market estimates suggest that illegal products account for a majority of the total market size. These black market transactions are conducted through social media platforms, which is difficult to monitor and trace. Regulators are tracking down on illicit activities in the industry, including the two cases we mentioned in the opening remarks, and special actions are still ongoing. We hope better enforcement and new product launches will reduce the illicit market share.

In terms of our market share in the legal markets, we are a leading brand and maintain a stable market share over the last 12 months. We have strong brand equity and provide quality and extensive products that can meet our user needs.

So your second question is about our international markets competitions. So we think the competition in our industry is primarily related to product innovation, rather than just pricing. Unlike other consumer categories, the growth of the e-vapor markets and market share movements among brands are driven by product innovation that could meet users' evolving demand, while complying with regulatory requirements.

For instance, the tobacco product directive in the EU region limits the capacity of cartridges to no more than 2 millimeter. In response to user preferences for more puffs, products like four-in-one have emerged. These products provide four cartridges, and each cartridge contains no more than 2 milliliters of e-liquid. This can cater to user demand for convenience, while complying with EU requirements.

Also, we see more new products are offered to provide users who seek value for money options. Many brands, including us, have introduced e-liquid products, offering diversified options at various price points. Product diversification can ensure we can meet different user segments' needs without competing in pricing.

Overall, succeeding in the e-vapor market requires product innovation, but not price cuts, as this would harm brand equity. As the market and penetration of the e-vapor category continue to grow, we believe we can grow with the industry and increase our share by launching products that cater to user needs. Thank you for your questions.

Operator: Bojia Feng with CITIC Securities.

Bojia Feng: I have one question here. We have observed that UK e-cigarette exports experienced a significant decline in March. Could you please share whether this downturn is related to the recent ban on disposable products?

Additionally, could you provide some insights into which major overseas markets are currently driving the sales for the company's disposable products, Waka? How has growth been in these markets? And how do you view the future trends?

Sam Tsang: Thank you very much, Bojia. The decline in the UK e-cigarette exports in March is partially attributed to the anticipated ban on disposable products, which could take effective as early as April, 2025. We observe trends indicating that players across the value chain are preparing for the change. For instance, some brands with a significant focus on disposables have already launched and promoted their pod-system products. Some retailers are also converting existing disposable users to other subcategories, such as pod system and open system products.

So regarding our disposable products or Waka, we primarily sell our disposables in markets where they are allowed. Disposable products have gained popularity due to its convenience and a relatively-affordable pricing, and our disposable products have experienced growth as well.

So regarding the future trend of disposables, each market situation is different, and it largely depends on local regulatory developments. If such disposable products are banned in certain markets, we can convert users to others subcategories, given that we are a leader in cost system, while offering e-liquid solutions in certain markets as well. Thank you for your question.

Operator: Thank you. And due to time constraints now, I would like to turn the call back over to the company for any closing comments.

Sam Tsang: Thank you once 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 of Piacente Financial Communications. Thank you.

Operator: Thank you. This concludes this conference call. You may now disconnect your line. Thank you.