

**RLX Technology Inc.**  
**Q2 2024 Earnings Conference Call**  
**August 16, 2024 8:00 AM ET.**

Executives

Sam Tsang, Head of Capital Markets

Kate Wang, Chief Executive Officer

Chao Lu, Chief Financial Officer

Analysts

Lydia Ling, Citi

Peihang Lv, CICC

Yun Guo, CITICs

Charlie Chen, China Renaissance

**Presentation**

Operator: Hello, ladies and gentlemen, thank you for standing by for RLX Technology's Second 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 second 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 of the company.

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. 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'd like to start with a strategic overview highlighting our key achievements in product innovation and R&D. Following this, our CFO will provide a detailed review of our financial performance.

We delivered another solid set of results for the second quarter of 2024 as we deepened our exploration of overseas markets. Given the diverse and evolving regulatory environments across the regions we operate in, compliance remains our top priority in refining our localized strategies. Furthermore, varying income and penetration levels necessitate tailored product offerings across regions. As such, R&D and product design are playing an increasingly vital role in our international expansion.

Let me walk you through some details. This quarter, we focused on adapting our product designs to comply with various regional e-liquid volume and nicotine level requirements. We also incorporated child-lock features that automatically engage after 10 minutes of inactivity to prevent underage use. This innovation, demonstrating our commitment to youth protection, represents a significant step forward in our pursuit of safety and global compliance.

In terms of localized product strategies, we continued to research demand trends and economic factors influencing users' consumption habits and tailor our offerings accordingly. The prevailing high-inflation environment has prompted many users, both domestically and internationally, to seek products that offer enhanced value for their money.

In response, we launched the mega-sized Daqian series in mainland China, with 6ml and 10ml pods at a lower price than our Infinity pods. Internationally, we introduced the RELX Pod Real series, which offers up to 1,000 puffs per pod, or nearly double the quantity of our standard pod, to provide exceptional value.

Our keen understanding of consumer trends also keeps us at the forefront of product innovation, a critical factor driving user engagement in this highly-competitive industry. Smart features like Bluetooth for usage tracking and device settings control, as well as screens for monitoring battery and e-liquid status, are becoming standard at every price point.

As a leading global e-vapor brand with substantial R&D advantages, we are poised to capitalize on these trends with an exciting pipeline of new products for the rest of the year. This includes

an open-system device and a modular closed-system device at different price points, with various innovative features to meet a broad range of user needs. Notably, the modular device allows users to mix and match flavors with batteries and screens to create their own unique vaping experience. It also features an interactive screen for checking battery life, monitoring inhalation duration, and adjusting airflow.

I am also pleased to share that our quality and safety laboratory passed the CNAS (China National Accreditation Service) for Conformity Assessment expansion and modification assessment. The assessment certified our laboratory's capabilities in 10 testing areas based on international battery safety standard IEC 62133 and North American electronic cigarette safety standard UL 8139, enabling our lab to issue authoritative reports for 43 monitoring items, including waterproofing, pressure relief safety, and drop strength, based on national and international standards. This milestone achievement will ensure global recognition of our testing reports, facilitating our entry into new markets worldwide.

In short, we are successfully navigating the domestic landscape and our international expansion by remaining alert, agile, and responsive. We will continue to invest in R&D to maintain our competitive edge as we grow and expand globally.

Before I wrap up, I'd like to share an ESG update. We have recently published our third ESG report, which highlights our contributions to society, welfare and sustainability efforts throughout 2023. Our Golden Shield Program to combat the proliferation of counterfeit vaping products was one of the year's major success stories.

In 2023, we assisted the authorities in 187 anti-counterfeiting cases, seizing over 16 million counterfeit cartridges and 77,000 devices, substantial increases from 35 cases, 49,000 cartridges, and 5,600 devices in 2022. This program not only protects our consumers, but also upholds the integrity of the vaping industry by ensuring that only safe, high-quality products reach the market.

We also prioritize public health in our ESG efforts, investing in technological innovation to minimize the impact of e-vapor products on society. Through our 1+4 research chain, we conduct systematic scientific evaluations and research on harm reduction, efforts that continued to bear fruit in 2023. We partnered with renowned academic institutions such as Sun Yat-sen University, Qilu University of Technology, and Chang-an University to publish studies on harm reduction as well as the impact of smoking and vaping on public health and the environment.

This research not only contributes to the development of well-informed environmental and health policies, but also guides our targeted smoking prevention strategies and supports our goal of providing safer, harm-reducing alternatives to traditional cigarettes.

Going forward, we will continue to advance public health initiatives and promote an orderly, well-regulated vaping industry through forward-thinking ESG initiatives that benefit our company, stakeholders, and community alike.

In conclusion, our dedication to compliance, innovation, and sustainability is shaping a promising future for our company. As a trusted e-vapor brand for adult smokers, we will

continue to deliver high-quality, compliant products while capitalizing on diverse growth opportunities on the global stage.

I will now turn the call over to our CFO, Chao Lu, for a detailed financial review.

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.

Following the termination of our non-compete agreement with RELX Inc. in November 2023, we have consistently expanded our international presence. Our overseas business is thriving, resulting in a significant uptick in our top line.

Our net revenues grew to RMB 627 million in the second quarter of 2024, up 66% year-over-year from RMB 378 million in the second quarter of 2023 and 14% quarter-over-quarter from RMB 552 million in the first quarter of 2024. We anticipate continued revenue growth as our international expansion progresses.

Furthermore, as Kate mentioned, we are continuously refining our regional strategies for maximum effectiveness, including both route-to-market and go-to-market plans. Tailoring our strategies to each region's unique market dynamics and consumer behaviors optimizes our market penetration and enhances our competitive edge, driving sustained growth.

Turning to profitability. Our overall gross profit margin for the second quarter was down slightly year-over-year at 25.2%, largely due to changes in our revenue composition, including both channel and product mixes. On the other hand, the gross profit margins of several key revenue streams demonstrated year-over-year improvement on a like-for-like basis. To mitigate the impact of these mix changes, we have proactively implemented strategies to enhance operational efficiencies and cost management practices, including product design optimizations and supply chain efficiency improvements.

We recorded a total operating loss of RMB 33 million for the second quarter. However, excluding the impact of share-based compensation, we achieved a positive non-GAAP operating profit of RMB 45 million, our third consecutive quarter of non-GAAP profitability, thanks to strong cost management and profitable contributions from our international markets. Although our gross profit margin may fluctuate quarterly, we're confident that our overall operating profit margin will continue to improve, driven by the strategic leveraging of our existing workforce during our regional expansions. Consequently, operating expenses are expected to increase at a much slower rate than our top line growth.

As a result, our non-GAAP net profit for the second quarter of 2024 increased by 147% year-over-year to RMB 213 million. For the same period, our non-GAAP basic net income per ADS was RMB 0.171, and non-GAAP diluted net profit per ADS was RMB 0.164.

In terms of cash flow, we recorded an operating cash inflow of 197 million in the second quarter of 2024, a substantial increase from 41 million in the same quarter of the previous year. This notable improvement is primarily attributed to our enhanced working capital and inventory management strategies.

Additionally, we are currently experiencing a negative cash conversion cycle. Inventory turnover days stood at just 21 days in the second quarter of 2024, significantly reduced from over 50 days in the second quarter of 2023 and 30 days in the first quarter of 2024. As of June 30, 2024, our total financial assets, including cash and equivalents, restricted cash, and various forms of short-term and long-term deposits and investments, totaled 14.9 billion RMB.

In summary, we built a strong foundation for sustained growth and operational efficiency around the globe in the first half of 2024. Our international expansion is flourishing, supported by our healthy balance sheet and effective strategic execution. As we continue to expand our presence domestically and internationally, we remain committed to delivering sustained value to our shareholders.

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

## **Questions and Answers**

Operator: We will now begin the question-and-answer session. (Operator Instructions). Lydia Ling with Citi.

Lydia Ling: I am Lydia from Citi. So here I have two questions actually mainly related to your overseas business. So the first one, if we look at your first half results, we did see that your company actually made some progress in the overseas market. So could you share with us that what is the biggest challenge that you might face during your actually, overseas expansion?

And also, looking into the second half, how would you actually facilitate your expansion in the overseas market? Is there any detail target that you may share with us, such as like what countries or regions that you target to enter in like the second half, or consolidate in the second half?

And then my second question is for the market that you already entered for the overseas market, and so what could be the growth targets that management is thinking about a target? How to further drive the market share in so like countries? And also, is any color on the product, like the channel strategies that you target of planning for looking forward, that'd be very helpful.

Sam Tsang: Thanks very much, Lydia, for your questions. So uncertainties in the regulatory environment remains our primary challenge. One significant concern is the upcoming ban on disposable products in certain countries. Some nations, such as Poland, have postponed the implementation of this ban. It was originally scheduled for the start of the summer, but it has been delayed until early 2025. Regulatory changes in local markets require us to frequently adjust our product development and inventory management plans.

Another challenge is how to learn to conduct business locally. So far, consumer brands like us, we need to expand beyond our home market. Such change includes identifying specific products, designs and flavors that resonate with consumers in different regions to cater to local demand.

Despite these two major challenges, we have prepared a series of products for launch in various markets. And we are confident we can earn the trust of adult smokers across different countries. We are on track to meet the targets we set at the beginning of the year.

Regarding the countries we plan to enter for the rest of the year, we will continue to focus on expanding in Asia, where we first started our international expansion, before gradually entering into other continents.

So regarding your second question, how to grow the local market share in overseas market, so compared to Mainland China, where we have established market share, we are still relatively new in many parts of the world. This presents significant opportunities to expand our user base and point of our sales penetration. As discussed in previous earnings call, our primary focus will be increasingly the availability of our products to reach more potential consumers.

The main distribution channels for our category remain modern trade channels, including convenience stores, supermarkets, and specialty vape shops. We have different products in the pipeline tailored for these channels, which you will see in the market soon. Thank you very much for your two questions.

Lydia Ling: Thank you.

Operator: Peihang Lv with CICC.

Peihang Lv: This is Peihang from CICC. I have two questions here. The first one is about overseas competition. We have noticed currently, overseas brands like iMiracle, Elf Bar and GeekVape are aggressively entering the pod system and four-in-one categories. How does the company perceive your product advantages among other competitors?

And my second question is regard to the domestic market. And what is the current status of new GB products submitted for approval in China? And what is the approval progress? And how has the market share of illegal products changed, along with enhancing of regulatory enforcement in the second quarter?

Sam Tsang: Thank you very much, Peihang, for your question. So first question is about the overseas competition. Since months after our inception, we have been the leader in the pod system category in Mainland China. So as we expand into other countries, we are confident that our pod system products will continue to win the trust of adult smokers worldwide. We can also leverage our long-established brand equity as a reputable e-vapor brand. Compared with other brands, primarily those for disposable products, this is one of our key competitive advantages.

Furthermore, we have been increasingly and independently developing e-vapor products since the release of our second-generation pod system product, RELX Alpha. And we have in-house e-liquid R&D and manufacturing capabilities. These industry-leading capabilities allow us to

collaborate closely with our consumer insights team, and respond quickly to the changing user behavior, another significant advantage that sets us apart.

So regarding your second question, is about our current status, national product in China, as well as the market share of illegal products. As mentioned in previous quarters, we are submitting new products on a rolling basis. We're seeing more products being approved by the regulators. To give you an idea of the progress, as of the end of last year, we had 21 flavors approved. And as of June 2024, over 30 flavors have received approval, including our newly-launched product series, Daqian.

We understand the market concerns regarding the prevalence of illegal products, which significantly threaten the recovery of compliance products in mainland China. However, tracking the illegal products' market share has become increasingly difficult, more sales shift online and transactions are conducted more discreetly. Based on our on-the-ground assessments, illegal products still account for a significant majority of sales in China. And of course, our market share amounts the compliance products as being stable and healthy. Thanks for your questions.

Peihang Lv: That's very helpful. Thank you, Sam.

Operator: Yun Guo with CITICs.

Yun Guo: This is Yun from CITICs. I have two questions here. The first question is that which product categories are showing strong growth momentum in overseas markets? What is the current contribution of disposable products to overseas revenue?

And my second question is that since the second quarter this year, there has been a surge in product innovation. How does the company plan to capture market opportunities in Europe before the disposable ban takes effect?

Sam Tsang: Thanks for your questions. So the first one is about the sub-category of our product category. And the second question is about the potential European disposable ban. So for the first question, the popularity of different sub-categories varies from countries to country. And it largely depends on local regulation, including taxation and product restriction. So in markets where disposable products are still permitted, there are few restrictions on nicotine content. We are seeing strong traction among products with higher e-liquid volume.

Additionally, some disposables now feature smart technologies, such as Bluetooth and display screens, which are gaining popularity among users. In these markets, disposables continue to contribute a significant portion of sales. In countries where a ban on disposables is announced or anticipated, pod and open systems are gaining market share. This shift is partly driven by distributors and retailers actively reducing their disposable inventories and migrating users to pod or open systems to prepare for upcoming regulatory changes. To capitalize on this trend, we are launching our open system product, RELX Prime, this month, which will pair perfectly with our e-liquid solutions.

So regarding your second question about the European ban, so as mentioned previously, our leading product development capabilities, coupled with our consumer insights team, enable us to

quickly identify emerging product trends and rapidly develop products that can cater to demand. Accordingly, we have several new products in the pipeline.

It's worth noting that our presence in Europe is smaller than in Asia. So we focus on gaining market share from competitors. As users migrate from disposables to other sub-categories, we will leverage our brand equity in pod systems to attract them. This migration plays to our strengths and presents a significant opportunity for us. Thank you for your questions.

Yun Guoo: Very helpful, thank you.

Operator: Charlie Chen with China Renaissance.

Charlie Chen: I have two questions. The first one is about the China market, and the second one is about operations. So for the first one, I just want to take step back and see the overall Chinese market size. So in the past year, there were a lot of changes in the e-vaping market in China. So I just want to know based on your best estimate, is the e-vaping market in China still growing, or at what kind of growth rate?

And also, how is the penetration rate in adult Chinese smokers, as well as how has the market share changed between GB product and non-GB products? Also, can you comment a little bit on the overall product price, including tax, and how much does China's consumers paying for e-vaping? Is that increasing or going down because of competition?

So the second question is about the operations. So I noticed that there was volatility in your gross margin in this quarter. So going forward, how should we think about the gross margin, as well as the cost of goods sold of your product?

Sam Tsang: Thank you for your questions, Charlie. So the first one is about the domestic market, market pricing, etc. So first, I think it's important to note that data for the illegal market is challenging to track. So as mentioned, sales in this segment tend to be more concealed, making it difficult to capture accurate figures. The demand for compliance products remains relatively stable, though there are occasional fluctuations occur due to adjustments in channel inventory. So currently, non-compliance products still dominate the market.

So regarding the market penetration, the overall penetration rate, including the compliance and non-compliance products in combined, has slightly declined compared to the period before the regulation. This decline is primarily due to some light users discontinuing using e-vapor products because of flavor restrictions. In contrast, users of compliance products gradually return to their previous per-capita consumption level, which have not fully recovered -- which previously have not been fully recovered. So the market share between compliance and non-compliance products has yet to stabilize fully.

As previously discussed, the share of non-compliance products remains high, despite regulatory efforts. The compliance segment is gradually stabilizing, but the prevalence of non-compliance products is the overall market dynamic.

As for pricing, the average selling price for compliance products has remained stable over the past year, partially because of regulatory measures have limited brand promotional activities. We



have also yet to make any price adjustments in the past year. However, with more e-liquid products like Daqian, the average selling price per milliliter of our products may decrease if the sales of these products we have increase. At the same time, the average selling price per unit is likely to remain stable or increase slightly.

Regarding the outlook of the overall gross margins, our gross profit margin level has remained relatively stable. We have continuously enhanced supply chain efficiency for each SKU, and improved product design and packaging to boost profitability. Also, certain regions have introduced excise tax on e-vapor products and conduct annual rate adjustments. To address these external changes, we typically adjust our pricing accordingly to maintain a sustainable and stable gross profit margin from a reporting perspective. Thank you very much for your questions.

Charlie Chen: Thank you.

Operator: Due to time constraints now, I would like to turn the call back over to the company for closing remarks.

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 or Piacente Financial Communications. Thank you very much.

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