

**RLX Technology Inc.**  
**Q3 2024 Earnings Conference Call**  
**November 15, 2024 7:00 AM ET.**

Executives

Sam Tsang, Head of Capital Markets

Kate Wang, Chief Executive Officer

Chao Lu, Chief Financial Officer

Analysts

Lydia Ling, Citi

Peihang Lyu, CICC

Charlie Chen, China Renaissance

Yun Guo, CITIC Securities

**Presentation**

Operator: Hello, ladies and gentlemen, thank you for standing by for RLX Technology Inc.'s Third 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 third 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 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 thank you to everyone for joining our earnings conference call today. I'd like to begin with an overview of our strategy for thriving in markets outside of China, followed by an update on our current and recent developments in the China market and a review of our intellectual property achievements. Finally, I will hand over to our CFO for a detailed financial review.

We delivered a robust performance in the third quarter of 2024, demonstrating our ability to consistently excel in diverse markets despite rapidly evolving demands and regulatory landscapes. This positions us as a leading brand beyond China. Following the termination of our non-competition agreement last year, we have successfully expanded into multiple international markets.

During this period, two key trends have emerged within the overseas e-vapor industry. First, we have observed an increase in regulatory activity across various markets. Governments are implementing new regulations, including bans on disposable products, new tax policies, and stricter enforcement against illegal goods. While these developments can foster sustainable growth within the industry, they also complicate operations for compliant brands like RLX. This makes it essential for us to develop dedicated local strategies, create multi-category product lines to facilitate user transitions, enhance inventory management across the value chain, and optimize costs to align with and adapt to regulatory changes.

The second trend is a growing demand from consumers for enhanced product functionality and cost-effective daily e-vapor products. Certain segments for adult smokers are seeking more advanced features in e-vapor products akin to the rising expectations in the consumer electronics sector, where personalization and technological innovation are paramount.

Simultaneously, and as inflation persists in several countries, some other user groups are demanding daily e-vapor products that offer good value for money. To meet these diverse needs, brand manufacturers must possess strong user insight capabilities and in-house product development expertise to create tailored solutions for different local markets and user segments. To address these trends comprehensively, we have developed an integrated business model supported by our talented workforce, which empowers our success in various local markets and product categories.

This model includes targeted route-to-market strategies, a comprehensive product portfolio, refined supply chain management, and focused user engagement strategies. We have refined this model in China, and are now successfully replicating it in international markets, making necessary adjustments based on local conditions.

Looking ahead, we anticipate that the international e-vapor industry will experience an annual growth rate in the teens over the next few years, as more adult smokers transition from cigarettes

to e-vapor products. Additionally, we expect a growing number of e-vapor users to shift from dual use of cigarettes and e-vapor products to exclusive e-vapor use.

Given the increased regulatory activities and rising user demands, we believe that only leading players with an integrated model will succeed. We are confident in our ability to capture incremental market share in international e-vapor markets over the coming years.

Turning to the latest developments in China, we note that illegal e-vapor products continue to dominate the market. Our internal estimates indicate that these products account for 80 to 90% of the total e-vapor market in China. Generally, illegal products are of subpar quality, and fail to meet national product standards, often being non-tobacco flavored. Furthermore, they do not contribute to consumption tax revenues.

As a compliant and responsible brand, we are actively combating these illicit sales through various initiatives, including targeting illegal sales on social media, delisting illegal zero-nicotine products from eCommerce platforms, and collaborating with authorities to shut down counterfeit production facilities. We remain committed to cooperating with regulators in these efforts and appreciate their support.

While addressing illicit sales, we have also launched a new product series to enhance our competitiveness. This quarter, we introduced the Feiliu series, our first compliant disposable product line since the implementation of national standards. We offer two disposable products with e-liquid volumes of 6 ml and 10 ml, designed for adult smokers seeking convenience at a lower entry cost compared to cartridge-based products. Feedback from retailers and users has been overwhelmingly positive, and we plan to expand this launch nationwide.

Finally, I am pleased to announce that our team has successfully passed the certification exam for the “Enterprise Intellectual Property Compliance Management System Requirements.” This certification, which encompasses research and development, production, and sales of e-vapor and electronic components, signifies that RLX has established a comprehensive intellectual property management system. This includes trademarks, patents, original designs, and software copyrights, forming a robust framework for technology and brand protection on a global scale.

In conclusion, RLX Technology is well-positioned to lead both domestically and internationally in an evolving e-vapor landscape. As regulatory shifts reshape this industry, we are leveraging our integrated model to remain agile, proactive, and focused on delivering value to adult smokers worldwide.

Moving forward, we will continue to prioritize regulatory compliance, in-house product innovation, and strategic adaptability to navigate complex environments while meeting rising user expectations and driving sustainable growth for the company.

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.

Since terminating our non-competition agreement with Relx Inc. in November 2023, we've substantially expanded our international presence, driving topline growth. Our net revenues grew to RMB 756 million in the third quarter of 2024, up 52% year-over-year from RMB 499 million and 21% quarter-over-quarter from RMB 627 million.

Both our China and non-China businesses experienced sequential growth this quarter. We anticipate continued revenue growth as we expand into more international markets, capturing incremental market share and benefiting from anticipated category growth.

Turning to profitability, our overall gross profit margin improved to 27.2% in the third quarter of 2024, marking a 3.2 percentage point increase year-over-year. This improvement is primarily due to favorable changes in our revenue mix, including both channel and product diversification. On a like-for-like basis, gross profit margins across various revenue streams have also improved year-over-year.

We recorded a total operating loss of RMB 11 million this quarter. However, excluding the impact of share-based compensation, we achieved our fourth quarter sequential -- consecutive quarter of positive non-GAAP operating profit at RMB 82 million, driven by incremental contributions from our international business and effective cost-reduction strategies.

While our gross profit margin may fluctuate quarterly due to variations in revenue contributions and cost optimization efforts, we expect our overall non-GAAP operating profit margin to improve as we scale our business, while maintaining consistent middle and back office support during our regional expansion. Consequently, operating expenses are expected to grow at a slower pace than our topline growth.

As a result, our non-GAAP net income for the third quarter of 2024 increased by 30% year-over-year to RMB 262 million. For the same period, our non-GAAP basic net income per ADS was RMB 0.211, and non-GAAP diluted net income per ADS was RMB 0.200.

In terms of cash flow, we achieved an operating cash inflow of RMB 157 million in the third quarter of 2024, up from RMB 83 million in the same quarter of the previous year, driven by enhanced working capital and inventory management.

Additionally, we are currently experiencing a negative cash conversion cycle exceeding 1 month. Our inventory turnover days stood at just 16 days in the third quarter of 2024, a sharp decrease from over 100 days in the first quarter of 2023, and 30 days in the first quarter of 2024, as we continuously optimize slow-moving SKUs while growing our scale.

As of September 30, 2024, our total financial assets, including cash and equivalents, restricted cash, and various short-term and long-term deposits and investments, stand at RMB 15.4 billion.

Finally, we are pleased to announce our second cash dividend since our IPO, reaffirming our commitment to delivering value to our shareholders. Our objective is to return substantially all of our non-GAAP net profits at minimum through share repurchase programs and cash dividends, continuing the practice we have upheld over the past 2 years. We remain dedicated to generating sustainable, growing profits and enhancing returns for 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: This is Lydia from Citi. So here I have two questions regarding your overseas business. So firstly actually, we see some progress of our overseas business this year, and so congratulations on some progress. And so we are keen to actually understand what's your plan for the next year as we are at year-end, and so very keen to understand what will be your overseas expansion plan for 2025?

And my second question would be for those countries or regions that you already entered this year. It's very interesting to understand how will you further drive your organic growth and also, as Kate just mentioned, your target to gain your market share in the following year. So what will be your strategies to further gain your market share and what's your target market share looking ahead? And if any like your product or marketing strategies and any kind of that would be very helpful.

Sam Tsang: Thank you, Lydia. So there are two questions. One is about our future expansion and the other one is about the organic growth. So since the termination of our non-competition agreements last year, we have entered into multiple international markets. So this quarter marks the first anniversary of our company entry into the global markets outside of China. As of the third quarter of 2024, we operate directly in five countries in East Asia, Southeast Asia, and Oceania. Based on our internal estimates, we are currently the number one brand in three out of five countries in terms of revenue from the closed system e-vapor category.

We are also one of the leading brands in the remaining two countries. We also sell products to affiliates that sell to their overseas distributors. In the third quarter of 2024, non-China business revenue accounted for more than half of our net revenues.

Looking ahead to 2025, we are considering entering a couple of countries, which could be in EMEA region and Central America. As we mentioned last quarter, we only can enter a country when its regulatory development is stable, our business model is built, and we have the right team in place to operate there. We currently think of a couple of candidates may be ready for entry next year, but this will depend on internal and external factors.

So regarding the organic growth of the countries that we are currently operating in, we mainly focus on two aspects to gain incremental market share: an optimal product development portfolio and the right route to market strategies. Together, this creates the right product market fits. We deeply analyze the local market environments and user behavior, including new regulatory changes and user preferences in each market.

For example, we have a leading market share in one of our markets, but we are currently only strong in small-volume cartridge-based e-vapor products, and the disposable ban will become effective soon there. And user preferences are trending towards large-volume disposable products. Therefore, we have launched large volume cartridge-based products and advocates for users converts in new channels.

Regarding route to market strategies, we usually have one to two retail channels in which we excel, such as CVS, vape store channels, or RELX-branded store channels. Each country has its specific development path and reason behind it. In the past couple of quarters, we have been focusing on developing and enhancing retail channels by reaching out to new distributors and retailers.

With user preferences and market landscape in mind, we may launch a designated product series for these channels. This also shows we have a great potential to further increase our market share. The e-vapor category is expected to grow by double-digits each year in the next couple of years, and we believe we are on the right tracks to gain further market share and show growth as the category expands. Thank you for your questions.

Lydia Ling: Thank you.

Operator: Peihang Lyu with CICC.

Peihang Lu: This is Lyu Peihang at CICC. My questions are about domestic regulation because we have recently noticed several e-cigarette companies being penalized for adding illegal ingredients. So does the management see there has been a change in the domestic regulation or law enforcement? And as Mrs. Wang mentioned in the beginning, the illegal products still count as the dominant part in China. And how do you perceive the future of the illegal market?

Sam Tsang: Thank you very much, Peihang, for your question. So according to the news released on the State Tobacco Administrative official website last week, three brand manufacturers illegally produced e-vapor products that were inconsistent with the solution or part of formula previously approved by the regulators. These brand manufacturers have been fined a total of RMB5 million, and one must stop operating for 2 months.

Some industry participants suspect that these brands' motivation for producing a non-compliant e-liquid solution is that by increasing components like coolants, they can better attract users and increase their product competitiveness. As a compliance brand, we strongly support the regulatory crackdown on non-compliance solutions and regulatory actions against illegal e-vapor products in China.

And the overall regulatory framework and action have been consistent over the past 2 years. And we have consistently collaborated with regulators in combatting illegal products now and also in the future. Thank you for your questions.

Peihang Lyu: Thank you.

Operator: Charlie Chen with China Renaissance.

Charlie Chen: This is Charlie Chen from China Renaissance. I have two questions here. The first one is regarding the overall consumer market in China. So with this softening consumer sentiment in China, we noticed that Chinese consumers' purchasing behavior has been rather conservative this year. So have you noticed any changes in consumer behavior, or competitive landscape in China's e-vaping market this year?

And my second question is interest income has been a substantial part of your earnings in the past couple of years. So with U.S. Federal Reserve started to take a rate cut and possibly taking more cuts going forward, how do you see your interest income going forward?

Sam Tsang: Thank you, Charlie, for your questions. So the first one is about the confidence of Chinese consumers, especially the e-vapor markets, and the second one is about the U.S. Fed rate cuts. So for the first question, in the last 2 years, China's e-vapor industry has been deeply affected by illegal products.

The number of industry-level retail stores has declined from about 50,000 in the pre-regulatory era to about 10,000 stores. And we estimate the compliant e-vapor category has fallen by 80% to 90% from the pre-regulatory era. However, since the start of this year, our sales, number of point of sales, and market share have been relatively stable, with some upticks in certain months.

Furthermore, the sales proportion among our three cartridge-based product series, Qingyu, Phantom, and Phantom Plus, has been stable. These series span the categories low to high price points. This demonstrates that the e-vapor category has not been affected by the economic headwinds in the Chinese consumer markets.

In the last 2 quarters, we have launched the Daqian series, a cartridge-based e-vapor product series with a higher e-liquid volume, and the Feiliu series, a high-volume disposable e-vapor products. Users seeking products with good value for money can consider these two new series.

And regarding your second question, as of September 30, 2024, our companies had total financial assets of RMB14.8 billion, or approximately USD2.1 billion. Approximately 70% of this total is USD-denominated, and the remaining 30% is Chinese yuan or other currencies. Although the Fed cut rates in mid-September and early November, short and medium treasury yields began falling in late April, and have been going up since mid-September due to the key events in the U.S.

Like other market participants, we have been actively monitoring the money markets and are aware of interest rate movements. Given that we have been expecting interest rates to come down since the second quarter, and we have about 50% of our financial assets in long-term vehicles as of the third quarter of 2024, we do not expect any drag on our 2024 interest and investment income due to the Fed's recent interest rate cut.

Based on the current yield curve, we expect a slight decline in 2025 interest and investment income, but we believe the impact will be relatively minor. Thank you for your question.

Charlie Chen: Thank you, Sam.

Operator: Yun Guo with CITIC. Please go ahead.

Yun Guo: This is Guo Yun from CITIC Securities. My question is about our new products. I want to know how the new products are performing? And what are the future product plans?

Sam Tsang: Thanks, Guo Yun, for your questions. So in China markets, we have launched the Daqian and Feiliu series in the second quarter and third quarter. And we will advocate for adult smokers to use these new series instead of illicit e-vapor products or cigarettes. We hope Daqian will become a key player in the Chinese market in the short to medium term. We may also launch special products or series for different occasions subject to regulatory approval, and explore products with other functionalities, more advanced materials, and better core components.

Regarding international markets, we will continue to enhance our comprehensive product portfolio, which will help us craft the right product lineup for various local markets. For instance, we have launched RELX Prime, open system products with one kit and 16 flavors. They have received positive feedback from users for their minimal e-liquid leakage issues, longer usage time, and affordable prices.

And our new product is RELX Spin, which allows users to enjoy two flavors in one device, and switch the mouthpiece to change the flavors. We will continue to innovate new products to cater to different user segments' evolving needs. Thank you for your questions.

Yun Guo: Thank you.

Operator: Due to time constraints now, I'd 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.

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