Event Name: Ucommune International Ltd. Q4 FY2020
Event Date: April 15, 2021, at 08:00 AM Eastern Time

Officers and Speakers
Siyuan Wang; Financial Controller
Daqing Mao; Founder
Cheong Kwok Mun; Chief Financial Officer

Analysts
Laura Liu; Stone Street Group

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to Ucommune International Limited's Fourth Quarter and Full Year 2020 Earnings Conference Call.

[Operator Instructions]

I will now turn the call over to the first speaker today, Mr. Siyuan Wang, Financial Controller of Ucommune. Please go ahead, sir.

Siyuan Wang: Thank you. Hello, everyone. Welcome to our fourth quarter and full year 2020 earnings call. Joining us today are Founder of Ucommune Dr. Daqing Mao, Chief Executive Officer Mr. Zhuangkun He, Chief Financial Officer Mr. Cheong Kwok Mun, Chief Operating Officer Ms. Xin Guan and myself, Siyuan Wang, Financial Controller.

You can refer to our fourth quarter and full year 2020 financial results on our company's IR website at ir.ucommune.com. You can access a replay of this call when it becomes available in a few hours on our IR website.

Before we start, please note that this call may contain forward-looking statements made relating to the safe harbor provision for the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on the management's current expectations and observations that involve known and unknown risks, uncertainties and other factors not under the company's control, which may cause actual results, performance or achievements of the company to be materially different from the results, performance or expectations implied by these forward-looking statements. All forward-looking statements are expressly qualified in their entirety by the cautionary statement, risk factors and details of the company's filings with the SEC. The company undertakes no duty to revise or update any forward-looking statements for selected events or circumstances after the date of this conference call.

I will now turn the call to our first speaker today, Founder of Ucommune, Dr. Daqing Mao.

Daqing Mao: Hi, hello, everybody. This is Mao Daqing. Thank you for joining our earnings call for the fourth quarter and the full year of 2020. As this is our first earnings call as a publicly listed company, I would like to take a moment to extend a hearty thanks to all our shareholders around the world for their vote of confidence and of support.

We founded Ucommune six years ago with a mission to create a new style of working space that fosters a culture of community, innovation, duty and success for all. Today, as a leading agile office space manager and provider in China, we have created an asset-light ecosystem serving economically vibrant regions throughout the country.

In recent years, especially since 2020, the development of China's commercial real estate market has shown two major trends. First, in line with the central government's announcement of the principle that houses are for living in rather than speculative investment, the government issued several related regulatory policies for the commercial property sector as well. The effect of such policies has been to significantly restrict development of China's commercial real estate industry.

Secondly, in core cities, the process of urbanization has gradually wound down while well sited land plots in these areas have also become relatively scarce. As a result, an increasing number of enterprises, especially small- and medium-sized enterprises, have found it more difficult to settle into these core cities. Meanwhile, the demand for commercial office space from existing enterprises remains strong.

Following these market trends and the government policies, at the end of the year 2019, we had started to shift our business from a self-operated model to an asset-light model to enhance our own operational flexibility. Interestingly, the pandemic has validated our asset-light model, through which asset owners are responsible for the lion's share of the startup costs, while we provide asset owners with low-cost floor space and building management services and share the related economics. Our asset-light model has enabled us to augment our scalability, better service customers' needs and accelerate our progress along the path to profitability without the shackles of heavy upfront investment.

During the outbreak of COVID-19, we have transformed our business significantly. During 2020, we added 180,300 square meters of managed area, 78 spaces and 21 cities under our asset-light model. Within our total managed area, 54% is now under the asset-light model, and the remainder, 46%, under self-operated model. With our asset-light model's operational leverage, we were able to expand our managed areas and spaces more rapidly while paring our financial loss significantly. As of December 31, 2020, we operated and managed 234 office spaces in 54 cities, including 52 in mainland China and two overseas.

Our asset-light model extracts the operations management aspect out of the generic commercial real estate operations and enables professionals to focus on their areas of expertise and maximize their output instead of being jacks of all trades. For real estate property owners, this model helps them to bring in more business tenants, improve their asset utilization rate, enhance their value per square meter and increase their brand equity. For tenants, the asset-light model provides them with premium office space and value-added corporate services in a timely manner, resolves their challenges of designing and fitting out their offices and empowers them with greater operational flexibility. For us, the asset-light model accords us superior customer acquisition capabilities, enables us to provide more value-added services on our platform and lays a solid foundation to generate high investment returns for our shareholders.

Under our asset-light model, the Ucommune community has spread across China and is now deeply entrenched in the urban development effort of local municipalities. Leveraging our asset-light model's advantages in operations management and resource integration, we have been able to attain management contracts with many metropolitan landmark buildings across the country within a very short period of time, including the Beijing 798 Guohui, Beijing Zhongxiruan: Ucommune, He Infinitie Space: Ucommune, Xi'an Aviation Base: Ucommune, Xinjiang Pangu Think Tank, Science and Technology University Zhigu Phase II, Shenzhen General Design Institution: Ucommune, Shijiazhuang Mixs: Ucommune and many more.

As China progresses through its urbanization process, Chinese companies' office location preferences have evolved. As a result, an increasing number of large- and medium-sized enterprises have chosen to move into Ucommune's co-working spaces. By the end of 2020, our roster of tenants increased by 17% year-over-year to include 31,093 enterprise members, including 11 A-share-listed companies, 11 Hong-Kong-listed companies, 18 U.S.-listed companies and 13 private unicorns.

In 2021, building on the foundation of our asset-light model, we have expanded our service offering to include corporate office space brokerage. By connecting commercial landlords, enterprise tenants, brokerage firms and independent brokers, we have constructed a one-stop platform providing full services throughout the entire office location selection process, thus enhancing the commercial leasing experience to a whole new level.

In January 2021, for example, we secured the renewal of a key contract with Zhongwang Group. Zhongwang Group is a subsidiary of China Zhongwang Holdings, which is Asia's largest and world's second largest developer and manufacturer of industrial aluminum extrusion products. Since the initiation of this cooperation in 2018, we have provided Zhongwang Group with a broad range of corporate workspace procurement and implementation services, covering office space sourcing, architectural design, building construction and management services across multiple cities, including Changsha, Shenzhen, Nanjing and Chongqing.

Beyond the success of our business transformation, the state-of-the-art technical solutions for office space management broadened our business horizon to new market opportunities. Utilizing the proprietary SaaS technology from our subsidiary company, Xiyu Information, we have built a fixed-asset management system called DOMES to provide office buildings and industrial parks with big data analytics and other smart services. As of December 31, 2020, the managed area on Xiyu Information's SaaS service platform increased by 93% year-over-year to 969,000 square meters.

Recognizing Xiyu Information's ongoing success and growing brand influence, we decided to raise our investment in the company in January 2021. As a result, we have increased our ownership in Xiyu Information to 53.2% from 51%. Our commitment to Xiyu Information is aligned with our long-term focus on better servicing the growth of the commercial workspace market, as well as its demand for quality office space management solutions, particularly in the realm of SaaS and IoT. Looking ahead, we will continue to work diligently in this area and capitalize on the growing market opportunities, cultivate more synergies between our members and further boost our user stickiness. As such, we currently expect the revenue contribution from our SaaS services to increase in 2021.

In summary, 2020 marked an important milestone for Ucommune. Our successful listing on NASDAQ stock exchange not only bolstered our capital reserves but also further validated the strength of our value propositions for customers and shareholders alike. As we continued to explore and develop our asset-light model for the agile office space management industry, we are witnessing remarkable results. We are confident that such efforts will further enhance our brand awareness, fortify our industry leadership position and drive our sustainable growth in the future.

Going ahead, we will continue our business transformation, enhance our operational efficiency and cultivate our healthy business expansion. At the same time, we will commit to developing a comprehensive service platform that is capable of providing lasting value to our members, partners and society at large.

With that, I will now turn the call over to our CFO, Mr. Cheong Kwok Mun, to provide more financial details.

Cheong Kwok Mun: Thank you, Dr. Mao. This is Cheong Kwok Mun, Chief Financial Officer of Ucommune, speaking. Good morning to our friends joining the call from the United States and good evening to those dialing in from Asia.

Before I explain our financial details, kindly take note that all our financial numbers are denoted in renminbi terms unless otherwise stated.

During the fourth quarter of 2020, we grew our revenue and improved our profitability on a sequential basis as we continued to shift our business toward an asset-light model. With the additional capital injection from our recent equity offering, we are well positioned to seize new growth opportunities in China's agile office management sector in the post-pandemic world.

In the fourth quarter of 2020, we grew our total net revenue by 39.4% sequentially to RMB 278.7 million. Although on a year-on-year basis, our total revenue decreased by 4.8% due to the lingering effect of COVID-19, we are on track to revitalize our revenue growth in the coming year.

More importantly, total net revenues in the full year of 2020 reached RMB 877.1 million, exceeding the high end of our previously announced revenue guidance range. Worthy of note is the revenue from our asset-light model, which grew by 220.8% year-over-year to RMB 10.8 million in the fourth quarter of 2020, up from RMB 3.4 million a year ago, validating the effectiveness of our business transformation.

To break down our revenue further, let us look at the segmental contributions. Our workspace membership service revenue declined 44.5% year-over-year to RMB 76.8 million in the fourth quarter, mainly because we streamlined our number of spaces in operation as well as the provision of our co-working space services because of COVID-19 restrictions.

At the same time, we grew our marketing and branding services revenue by 36.1% sequentially to RMB 110.1 million in the fourth quarter of 2020 as the industry gradually recovered from the pandemic.

Above all, our other services revenue grew by almost seven-fold, up by 672.6% sequentially, and almost three-fold, by 297.3% year-over-year, to RMB 91.7 million in the fourth quarter of 2020, mostly because of our SaaS services, which grew rapidly, and our interior design and construction services, which similarly enjoyed strong demand as well.

Our gross loss narrowed to RMB 6.6 million as our gross loss margin was reduced to 2.4% in the fourth quarter of 2020 from 18% in the previous quarter and 20.2% a year ago. As Dr. Mao has mentioned earlier, the margin from our asset-light businesses was much higher than that of our self-operated businesses. During the fourth quarter, gross margin for our asset-light businesses was 47.1%. As we continued to accelerate our business transformation toward an asset-light model, we remain confident of our path to profitability in the foreseeable future.

Within our operating expenses, G&A expenses jumped by 341.7% to RMB 233 million in the fourth quarter, up from RMB 52.7 million a year ago, primarily due to the increase in our share-based compensation expense. Share-based compensation expenses accounted for RMB 202.3 million of the total RMB 233 million during the fourth quarter.

Sales and marketing expenses decreased by 12% to RMB 24.2 million from RMB 27.5 million a year ago, mostly due to the reduction in our staff costs and promotional marketing costs. However, that was partially offset by the increase in our share-based compensation expenses.

EBITDA loss narrowed by 40.1% sequentially and 51% year-over-year to RMB 94.8 million in the fourth quarter of 2020. Adjusted EBITDA loss narrowed by 87.7% sequentially and 91.4% year-over-year to RMB 9.4 million in the fourth quarter.

Net loss in the fourth quarter of 2020 was RMB 149.1 million, compared to RMB 169.3 million in the previous quarter and RMB 236 million from a year ago. Adjusted net income in the fourth quarter of 2020 was a healthy RMB 62.8 million, compared with RMB 122.8 million in the previous quarter and adjusted net loss of RMB 194.6 million a year ago.

For the full year of 2020, net loss was RMB 507.9 million, a 37% improvement from net loss of RMB 806.7 million a year ago. Adjusted net loss for 2020 came in at RMB 219.3 million, a significant 59.2% shrinkage from the RMB 537.7 million adjusted net loss from a year ago.

Basic and diluted net loss per share were both RMB 2.23 in the fourth quarter of 2020. Basic and diluted adjusted net income per share were both RMB 1.02 in the fourth quarter of 2020, compared to basic and diluted adjusted net loss per share of RMB 3.95 in the fourth quarter of 2019.

As of December 31, 2020, cash, cash equivalents and restricted cash were RMB 400.8 million, as compared to RMB 196.3 million as of December 31, 2019.

For the first quarter of 2021, we expect net revenues to be in the range of RMB 210 million to RMB 230 million. This forecast reflects the seasonality impact from the Lunar New Year, our current and preliminary views on the market, as well as our operating conditions, which are all subject to change.

This concludes our prepared remarks for today. Operator, we're now ready to take questions.

Questions & Answers

Operator: [Operator Instructions]

The first question today comes from Laura Liu with Stone Street Group.

Laura Liu: Thank you. Good morning. This is Laura. So WeWork is going public in a merger with a SPAC later this year. So what's the main difference between Ucommune and WeWork?

Siyuan Wang: Well, thank you for your question. To answer your question, we are different from WeWork in the following areas: First, we are focusing on China. We have a natural advantage in the Chinese market with deep local knowledge and operations knowhow. We also have bases in selected international cities, but our major market is expected to be China in the near term. By focusing on developing in China, we're also mitigating risks related to cross-culture, cross-language and cross-region. China has a significant amount of emerging companies with huge potential. Employees of these fast-growing companies demand work spaces that are more innovative and dynamic. So the market is huge. We also have strong relationships with the government and have received government grant recognition in many areas.

The second is, we deem this as a hospitality management company. We've developed an asset-light model versus WeWork currently mainly focused on staff-operated spaces. As mentioned by Dr. Mao earlier, by the end of the year 2020, within our total managed area, 54% is under an asset-light model. Under this model, it does not require us to incur significant capital investment to build and launch new spaces. So this helps us to improve our overall profitability, and our Q4 number has already proved it.

I hope this information will be helpful.

Laura Liu: Yes, that's great. It's super helpful. I also have another question. You mentioned the asset-light model is one of the company's advantages. Can you please share more details about it?

Siyuan Wang: Yes, sure. So, for asset-light model itself, we currently have two types of business, so -- which are U Brand and U Partner. So, on U Brand, landlords engage us to design and build spaces in accordance with our standards, and landlords bear the associated costs. Alternatively, landlords can deliver us fully furnished spaces that meet our standards. Under this model, our revenue mainly consists of, like, consultation fees relating to branding, design and build services, and management fees for operating services and incentive fees based on the financial performance of the spaces.

So the other model is called U Partner. So we generate revenue under a revenue-sharing mechanism with landlords. We enter into a partnership with landlords, where the landlords offer the right to use spaces and we operate and manage the spaces under our brand. So under this model, the landlords also deliver us fully furnished spaces that meet our standards. If the landlord engage us to design and build the spaces, we will actually charge a separate service fee for this.

Yes, that's the information for the asset-light model we currently have.

Laura Liu: Yes, that's great.

Cheong Kwok Mun: Hi, this is CFO speaking. Maybe I could just add one or two points on what you had mentioned earlier on. The way to look at Ucommune is that we are no longer operating under the traditional rental arbitrage model that most previous companies within this space have operated. Under our asset-light model, we essentially charge a management fee for companies or asset owners who use our brand as well as our design services without committing to all the upfront cost of fitting out and renovating the space. Look at Ucommune more as a hotel/hospitality service kind of company within the hotel space, but as we offer that kind of similar services within the commercial real estate space in China.

Also, to follow up on your point of differentiation with WeWork, you will have read that WeWork has actually exited from the Chinese market as of beginning of this particular year. So that leaves the market with quite a bit of runway for Ucommune in the coming years to build on our business, but fully using our asset-light initiative. Hope that helps answer some of your queries.

Laura Liu: Yes, this is great. Thank you. So one last question. Can you also talk about the SaaS products offered by the company?

Siyuan Wang: Yes. So for our SaaS business, it is actually a real estate digital management platform. We named it DOMES, so it's spelled D-O-M-E-S. It can provide standard or customized service like smart industrial parks, smart buildings, smart office space. So this platform includes functions such as lease contract management and CRM promotion management, IoT intelligent device management, et cetera. So our DOMES clients include major real estate companies in China.

So far our SaaS business, it has low marginal costs, which means it is a one-time investment in a long-term service-charging model. We charge fees based on software, hardware and related value-added service. So for example, the after-sale service, or customization service based on the customer's intelligent transformation needs. In the meantime, by providing this SaaS service, we are also accumulating the customer data and operating data. By utilizing this information, we can analyze supply and demand data, establish an online matchmaking trading platform to provide intermediary services.

Giving a -- from the bigger picture, given China is currently in the process of industrial intelligent upgrading, our SaaS business has great match with this trend. Our asset-light model we just talked can integrate with our SaaS service, and on the other hand, the rapid expansion of SaaS business can also further promote asset-light business. So asset-light and SaaS will be the two complementary businesses that we will focus on in the future.

Well, so this is -- hope this information will be helpful, so it's -- just wondered if you have any more questions.

Laura Liu: Thanks. This is very helpful. So these are all my questions. Thank you very much.

Siyuan Wang: Thank you.

Operator: [Operator Instructions]

As there are no further questions at this time, I'd like to hand the conference back over to our management for any closing remarks.

Siyuan Wang: Thank you again for joining our call. If you have any further questions, please feel free to contact us or request through our IR website. We look forward to speaking with everyone in our next earnings call. Have a good day.

Unknown Speaker: Thank you. Bye-bye.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.