

SY Earnings Call Transcript

Date: 2025-11-17

Quarter: 3

Mona Qiao: Our business practices received recognition from mainstream media. In October, People's Daily online a special commentary noting that So-Young International Inc. is setting an example for the rational development of the industry through the supply operations, transparent pricing, and compliance management. We believe the industry landscape is shifting from marketing-driven to trust-driven. We will continue to uphold transparency, standardization, and inclusive access to build a service system that truly puts customers at ease. We continued to strengthen our medical aesthetic supply chain. In Q3, shipments of elasticity exceeded 59,800 units, up above 53% quarter over quarter. Due to the combined impact of seasonal factors and industry prosperity, in Q3, revenue of pulp declined by million quarter over quarter. GMV for verified medical aesthetic services was around RMB260 million, with per capita incentive GTV up 6% year over year. We continue to optimize the content recommendation and traffic distribution mechanisms to improve conversion efficiency. Looking ahead, we will continue pursuing our long-term goal of centers, expand build-out in core cities and commercial hubs while further elevating standardized and digital management to raise the bar for service delivery and user experience. We believe our durable competitive advantage comes from long-term commitment and accumulated trust. We will drive daylight medical aesthetic industry towards maturity with more measured case and more professional capabilities, creating long-term value for shareholders. Now I will hand over to our CFO, Nick Zhao, who will walk through the financial results followed by the Q&A session.

Nick Zhao: Hello, this is Nick Zhao. Please note that all amounts are quoted in RMB. Please also refer to our earnings release for detailed information on our comparative financial performances. On a year-over-year basis, total revenues during the quarter were RMB386 million, up 4% year over year, primarily due to our business expansion of the branded aesthetic center. Aesthetic treatment services revenues reached RMB183.6 million, showing 304.6% year over year, once again exceeding the high end of our guidance. This was primarily driven by the robust business expansion of our branded aesthetic centers. Information on the reservation services revenues was RMB117.2 million, down 34.5% year over year, primarily due to a decrease in the number of medical service providers subscribing to information services on our platform. Revenues from sales of medical products and maintenance services were RMB67 million, down 25% year over year, primarily due to a decrease in order volume of Bangkok equipment. Revenues from other services were RMB18.9 million, down 67.6% year over year, primarily due to a decrease in revenues from So-Young Prime. Cost of revenues were RMB203.8 million, up 43.4% year over year, primarily due to the business expansion of our branded aesthetic centers. Within the cost of revenues, the cost of aesthetic treatment services was RMB100 million, up 333.2% year over year, primarily due to the business expansion of our branded aesthetic centers. The cost of information and reservation services was RMB12.9 million, down 44.7% year over year, in line with the decrease in revenue generated from information reservation services. The cost of medical products sold and maintenance services was RMB million, down 18.3% year over year, primarily due to a decrease in costs associated with the sales of medical equipment. The cost of other services was RMB15.2 million, down 64.6% year over year, primarily due to a decrease in costs associated with So-Young Prime. Total operating expenses were RMB255.6 million, up 13.6% year over year. Sales and marketing expenses were RMB130.7 million, up 13.8% year over year, primarily

due to the increase in expenses associated with the branding and user acquisition activities for our aesthetic centers. G&A; expenses were RMB88.6 million, up 26.7% year over year and 12.4% quarter over quarter, primarily due to the one-time accrual of approximately RMB5.8 million year-end bonuses, and the business expansion of our branded aesthetic centers. R&D; expenses were RMB36.3 million, down 9.6% year over year and up 16.5% quarter over quarter. The year-over-year decrease was primarily due to improved staff efficiency, while the sequential increase was due to the one-time accrual of approximately RMB3.6 million year-end bonuses, and continued investment in Miracle Laser products, particularly in clinical trials. Income tax expenses were RMB1.1 million compared with RMB2.1 million in the same period of 2024. Net loss attributable to So-Young International Inc. was RMB64.3 million compared with a net income attributable to So-Young International Inc. of RMB20.5 million during the same period last year. Non-GAAP net loss attributable to So-Young International Inc. was RMB61.6 million compared with non-GAAP net income attributable to So-Young International Inc. of RMB22.2 million during the same period of 2024. Basic and diluted losses per ADS attributable to ordinary shareholders were RMB0.64 and RMB0.64, respectively, compared with basic and diluted earnings per ADS attributable to ordinary shareholders of RMB0.2 and RMB0.2, respectively, during the same period of 2024. As of September 30, 2025, our cash and cash equivalents, restricted cash, term deposits, and short-term investments were RMB942.8 million, primarily due to an increase in investment in branded aesthetic centers. Looking ahead to 2025, we expect Treatment Services revenues to be between RMB216 million and RMB226 million, representing a 165.8% to 178.1% increase from the same period in 2024. This outlook reflects our confidence in the strong growth momentum of our branded aesthetic center business. As we near the 50-center milestone, we have also seen continued improvement in center-level profitability and operating cash flow, demonstrating our model's scalability and operational efficiency. Going forward, we will pursue disciplined expansion while maintaining our focus on operational excellence and cost optimization to drive sustainable and quality growth. These efforts will reinforce the financial resilience of our aesthetic center business and create enduring value for our shareholders. This concludes our key remarks. I will now turn over the call to the operator and open the call for Q&A.; Thank you.

Operator: We will now begin the question and answer session. The first question comes from Hai Jingpang with Citec Securities. Please go ahead.

Hai Jingpang: So, okay, let me briefly translate myself. Thank you for taking my question. This is He Jin Kai from Citi Securities. So first of all, congratulations on the company's continued rapid expansion of the chain clinics. So could you share more about the open plans for next year, including your regional strategy and expected pace for the new clinic openings by quarter? Thank you.

Mona Qiao: By 2025, we will reach 50 centers. Our goal is to lay a solid foundation focusing on customer acquisition efficiency and growing the user base. As the business scales, we will enter a new stage of development, relying more on digitalization and AI capabilities to replicate service processes. This will drive breakthroughs in the bottlenecks the industry often faces, providing support for a broader build-out in the following stage. The number of new centers to be opened next year will remain consistent with previous plans and will not be less than thirty-five. We will keep the overall pace of center opening balanced, progressing on a quarterly basis to ensure every new center quickly enters the operational phase following its establishment. Our focus will remain on fourth-tier cities since they have strong demand and high repurchase rate potential, which will help us quickly build up regional density and amplify brand equity. At the same time, we will also systematically establish a presence in second-tier cities with a mature consumer base to validate our model and gain experience for long-term expansion. Thank you. The next question comes from Stacey Chen with Haitong International. Please go ahead.

Stacey Chen: I will check with myself. First of all, congratulations to the management for achieving such rapid growth even during the off-season quarter. I noted that you have renewed the core member data this quarter. So could you explain more about the membership system for the aesthetic center business and how we conduct the membership operations? Thank you.

Mona Qiao: The membership system is core to our aesthetic center's operations. Each time a user completes a visit, a record is created, which helps us build a clear, tiered membership from level one to eight and identify high-value users with more committed and ongoing engagement. Level three and

above are defined as core members. They have higher center visit frequency and greater flexibility to select additional services, with annual spending 2.5 times higher than the average, making them the growth driver for the aesthetic center. During Q3, they contributed a high double-digit percentage of our aesthetic center business revenue with a repurchase rate of nearly 30%. We provide tiered benefits and service touchpoints based on individual user consumption patterns, which ensures they continuously perceive brand value and receive positive reinforcement for their boosting repeat purchase rates. In Q3, our membership operations made solid progress. Users with verified visits increased by nearly 40,000, 36% quarter over quarter, including over 10,000 new core members, up 40% quarter over quarter. Additionally, we have also enhanced repeat customer value operations. Specifically, repeat customer revenue reached RMB120 million in Q3, up 32% quarter over quarter, accounting for 65% of aesthetic treatment service revenues. Verified treatment leases from repeat customers surged over four times year over year to 50,000, while ARPU also increased. These metrics exceeded our targets. Going forward, we will continue to focus on the conversion of highly active users and extending the life cycle of high-value users. Thank you. The next question comes from Nelson Cheung with Citi. Please go ahead. Nelson, is your line muted? Nelson, do you want to check if your line is muted? We will move on to James Wong with GS Securities. Please go ahead, James.

James Wong: And my question for the company is how is the Miracle PLA version 3.0 starting since its September launch? And what is new compared to the previous version? And what is the plan for promoting it?

Mona Qiao: PLA version 3 was an important upgrade on the supply chain. In China's medical specialty market, PLA is still mostly used as an injectable for shaping. Before launching, we conducted research in South Korea and found that practitioners adopt a more standardized and safer bolster technique. After multiple rounds of testing, we launched Sutiem. In terms of products, its ultra MicroSphere comes with five key features, including ultra smooth, ultra solid, ultra fine, ultra pure, and ultra active across safety, results, and longevity. These features make each product the best fit for single use. Moreover, with its overall performance upgraded, Miracle PLA version 3 is also more competitively priced, offering consumers a high-quality, yet value-for-money experience. Regarding the promotion, we made upgrades based on the market's landscape and user pain points. To capture user mindshare, we adopted Sutiem, a miracle more suitable for skin boosters, and introduced the concept of ultra micro CS to take the lead in the segment. We also released two versions, Miracle PLLA version 3 and version 3 Pro, to address different users' needs and budgets, thereby lowering the decision threshold for users. The first batch of 5,000 units was fully sold out within a short time. The massive restock is expected in late November. We will continue to drive market penetration rates for Miracle PLLA version 3, converting users more efficiently and increasing ARPU and user loyalty. Market feedback shows that Miracle PLA version 3 is receiving high attention. We implemented an online purchase limit of one per purchase per user. From this purchase, we can see that about 56% of users paid the promotion price at RMB4,999, reflecting the trust we placed in our blockbuster product. In the next year or two, the PLA that we have been working on upstream is expected to receive approval for launch, which should reduce procurement costs by several times. Overall, Miracle PLA version 3 is not just a product upgrade. It is an important part of supply chain construction and blockbuster strategy. We will adopt the same approach for future categories. We will continue to deepen the vertical integration of our supply chain, further enhance safety, and continuously convert manufacturers into long-term supply partners. Simultaneously, we will leverage our growth stage in marketing products, doctors, and channels to build differentiated areas and solidify our brand moat. Thank you. The next question comes from Nelson Cheung with Citi. Please go ahead.

Nelson Cheung: Congratulations on the solid quarter. With the expanding aesthetic center count, how do we ensure the safety and compliance of the entire chain system? And how does the internal quality control mechanism work? Thank you.

Mona Qiao: This is our top priority. We have built a six-pillar compliance framework covering compliance, risk control, supervision, internal audit, medical service delivery, and information security departments, and we will continue to make this framework more refined and systematic. We adhere to high standards and resources. On the treatment side, we only offer three mature medical aesthetic treatments with clear mechanisms and solid user feedback to avoid potential risks. On the personnel

side, we implement rigorous doctor's qualification assessments with an acceptance rate of around ten percent. All doctors are also required to complete pre-employment training and regular emergency drills to ensure the highest professional service and emergency response capabilities. In medical service delivery, we implement tiered diagnosis that matches treatments with doctors based on their qualification levels. We conduct regular online and offline sessions as part of our control, ensuring reliable medical service across all centers. If there is any user feedback or dispute, we handle it at headquarters with a crisis response team composed of key departments, including user experience, PR, GR, and legal. Currently, our average response time is under two hours, with issue resolution completed within two days. The compliance rate is below 1%. Going forward, we will continue to uphold the highest standards of safety and compliance. With digital and AI tools, we aim to maintain high-quality control efficiency and ensure consistent medical service quality and user safety across all centers as the business continues to grow rapidly. Thank you. The next question comes from Jenny Xu with CICC. Please go ahead. Let me repeat it in English. So how does the management view the potential for improving the profitability of the aesthetic center business in the future? Thank you. We believe it is paramount to demonstrate our user base spending, the improvements of operating profit as it scales. As the operating model gradually matures, we are confident profitability will improve. On the cost side, we continue to optimize the structure of our customer acquisition channels, including referrals from existing customers and both public and private domain traffic, continuously consolidating our advantage in customer acquisition costs. In addition, there is significant room to lower the consumable cost. For instance, we recently upgraded Miracle PLLA from version two to version three. As the new product gains volume, it will strengthen our bargaining power with upstream partners and further optimize our cost framework. In the future, with the gradual realization of digitalization, AI, and economies of scale, the fixed cost in data operations will be fully diluted. On the revenue side, as users increasingly prioritize resource and professionalism, they are willing to spend on premium treatments. Coupled with high-quality medical aesthetic products, leveraging our robust strategy, business volume has gradually concentrated on a number of SKUs with the value share of blockbuster products increasing. The top nine products contributed over 30% of revenue in Q3. This lays a solid foundation to further improve our margins through proprietary customized products. Once the number of aesthetic centers and verified treatment visits reach the center level, we will focus on enhancing LTV of core members, further driving profit margin. Therefore, we believe there is great potential for the profitability of the aesthetic center business to increase from its current base. Thank you, operator. The conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.