

YSB (9885 HK)

Digitalizing outside-of-hospital pharmaceutical circulation market in China

YSB specializes in providing digital solutions in China's outside-of-hospital pharmaceutical circulation market. According to Frost & Sullivan (F&S), the Company is the largest digital pharmaceutical platform serving businesses outside of hospitals in China, taking a market share of 21.0% in 2022 in terms of GMV (gross merchandise volume). YSB's business model mainly includes Online Marketplace and Self-operation Business (including Targeted Product Launch Business).

■ **Abundant market opportunities driven by fast digitalization.** According to F&S, the market size of China's outside-of-hospital pharmaceutical circulation industry is expected to grow at a CAGR of 9.6% (vs 0.4% for in-hospital market) from RMB639.7bn in 2022 to RMB1.0tn in 2027. Nevertheless, the digitalization of outside-of-hospital pharmaceutical circulation is still at an early stage, with a penetration rate of only 28.2% in 2022 in terms of GMV, leaving abundant growth room for participants. However, there exist challenges in the market, including fragmented market with supply and demand mismatch, multi-layered market with high transaction costs and low efficiency, opaque pricing and product tracking difficulties, and the lack of digital management tools. Through its digitalized solutions, YSB can effectively address the aforementioned challenges for upstream sellers and downstream buyers.

■ **Self-operation + Online Marketplace to form a vibrant ecosystem.** Business growth of YSB is fuelled by its dual growth engines consisting of Online Marketplace and Self-operation Business. A digitalized marketplace can provide buyers direct and easy access to a vast selection of SKUs while Self-operation Business brings YSB additional benefits including gathering aggregate purchasing power to increase bargaining power against upstream suppliers, proactively selecting products based directly on downstream demand, and exercising full control on warehousing and fulfilment to improve quality and stability of delivery. In 2022, Self-operation Business accounted for 40.2% (vs 23.7% in 2019) of total GMV while Online Marketplace generated 59.8% (vs 76.3% in 2019) of total GMV. Targeted Product Launch Business is part of YSB's Self-operation Business and generally processes a higher gross profit margin. Via this service, YSB conducts market analyses to help pharmaceutical companies better understand and capture downstream demand and collaborates with them to promote products through digital marketing solutions. The GMV of Targeted Product Launch Business was RMB1,009mn in 2022, contributing 6.6% of the GMV of Self-operation Business in 2022.

■ **Initiate at BUY.** Our TP of HK\$ 57.97 is based on a 10-year DCF model with WACC of 13.7% and terminal growth of 3.0%. We forecast YSB's revenue to grow by 25.4%/ 39.4%/ 36.3% YoY, and to achieve positive non-IFRS adjusted net profits of RMB179mn/ RMB716mn/ RMB1,415mn in 2023E/ 2024E/ 2025E, respectively.

Earnings Summary

(YE 31 Dec)	FY21A	FY22A	FY23E	FY24E	FY25E
GMV (RMB mn)	27,513	37,833	50,423	68,139	90,727
YoY growth (%)	39.7	37.5	33.3	35.1	33.2
Revenue (RMB mn)	10,094	14,275	17,902	24,960	34,030
YoY growth (%)	66.4	41.4	25.4	39.4	36.3
Adjusted net profit (RMB mn)	(344)	(125)	179	716	1,415
EPS (Adjusted) (RMB)	na	na	0.28	1.13	2.23
P/S (x)	na	na	1.1	0.8	0.6

Source: Company data, Bloomberg, CMBIGM estimates

BUY

Target Price HK\$57.97
Up/Downside 17.1%
Current Price HK\$49.50

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Stock Data

Mkt Cap (HK\$ mn)	31,371.9
Avg 3 mths t/o (HK\$ mn)	51.3
52w High/Low (HK\$)	NA/NA
Total Issued Shares (mn)	633.8

Source: FactSet

Shareholding Structure

Buzhen Zhang	19.8%
Sounda	12.9%

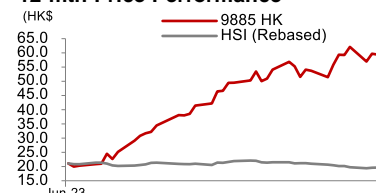
Source: HKEx

Share Performance

	Absolute	Relative
1-mth	17.3%	20.2%
3-mth	NM	NM
6-mth	NM	NM

Source: FactSet

12-mth Price Performance



Source: FactSet

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Investment Thesis

The largest digital pharmaceutical platform in China's outside-of-hospital market

Launched in 2015, YSB is the largest digital pharmaceutical platform serving businesses outside of hospitals in China in terms of GMV (gross merchandise volume) in 2022. According to Frost & Sullivan, YSB ranked No.1 in China's digital market of outside-of-hospital pharmaceutical circulation services in terms of GMV in 2022, with a market share of 21.0%. The Company has developed technology-backed solutions to connect and empower the upstream and downstream players along the pharmaceutical value chain. YSB's business model is centered on its Online Marketplace and Self-operation Business and is complemented by a series of other businesses, leveraging its technological capabilities to meet the growing demand for the digitalization of the outside-of-hospital pharmaceutical market.

Total GMV of YSB reached RMB37.8bn in 2022, with a CAGR of 38.6% from 2020, the highest among leading digital pharmaceutical platforms serving businesses outside hospitals in China. YSB serves around 354,000 downstream pharmacies and 173,000 primary healthcare institutions as of 31 Dec 2022, representing a penetration rate of 57% and 18%, respectively, based on our calculation.

According to Frost & Sullivan, the market size of China's outside-of-hospital pharmaceutical circulation industry is expected to grow at a CAGR of 9.6% (vs 0.4% for in-hospital market) from RMB639.7bn in 2022 to RMB1.0tn in 2027. The digitalization of outside-of-hospital pharmaceutical circulation is still at an early stage, with a penetration rate of only 28.2% in 2022 in terms of GMV, leaving abundant growth room for participants. However, there exist challenges in China's outside-of-hospital pharmaceutical circulation industry, including fragmented market with supply and demand mismatch, multi-layered market with high transaction costs and low efficiency, opaque pricing and product tracking difficulties, and the lack of digital management tools. Through its digitalized solutions, YSB can effectively address the aforementioned challenges confronted with upstream sellers and downstream buyers.

Leading competitive strengths in the industry

As a pioneer in China's digital outside-of-hospital circulation market, YSB possesses multiple competitive strengths.

- 1) The Company is China's largest and fast-growing digital pharmaceutical platform serving businesses outside of hospitals. According to Frost & Sullivan, YSB ranked No.1 in China's digital market of outside-of-hospital pharmaceutical circulation services in terms of GMV in 2022, with a market share of 21.0%.
- 2) The Company has built a synergetic integration and dynamic balance between its Online Marketplace and Self-operation Business. The two businesses complement each other, with the Self-operation Business providing fast and reliable fulfillment for certain, frequent, and stable demand, while the Online Marketplace fulfills long-tail, scattered, or unpredictable demand with a comprehensive selection of SKUs.
- 3) Technologies and digital solutions offered by YSB empower participants along the value chain. The Company has developed in-house solutions, including sales and inventory management tools, all-in-one printing, and digital certification exchange, backed by cloud computing, big data, and advanced algorithms.

4) YSB has developed a smart supply chain management enhancing user experience and operating efficiency. The Company strategically designed a warehousing mapping and had built 20 smart warehouses in 19 cities as of 31 Dec 2022, with an average delivery time outperforming the industry average by approximately 20% in 2022.

5) The Company is rooted in massive outside-of-hospital pharmaceutical circulation industry. It has brought mobile internet and digital solutions to the market, building a virtual alliance for the downstream to address the demand of every buyer, regardless of size or location.

6) YSB is led by a visionary management team with Internet technology and healthcare service experiences.

A vibrant ecosystem with dual growth engines

Business growth of YSB is fueled by its dual growth engines consisting of Online Marketplace and Self-operation Business. YSB started with a mobile internet based Online Marketplace in 2015 to address the supply and demand mismatch in China's pharmaceutical distribution network. A digitalized marketplace can provide buyers direct and easy access to a vast selection of SKUs. By attracting a large and growing base of pharmaceutical sellers and buyers to deal directly on the Online Marketplace, YSB has created strong network effects.

The Company then started its Self-operation Business in 2019, in response to the growing procurement and fulfilment needs from the downstream. Self-operation Business brings YSB additional benefits including gathering aggregate purchasing power to increase bargaining power against upstream suppliers, proactively selecting products based directly on downstream demand, and exercising full control on warehousing and fulfilment to improve quality and stability of delivery.

Targeted Product Launch Business is part of YSB's Self-operation Business. The Company conducts market analyses to help pharmaceutical companies better understand and capture downstream demand and collaborates with them to promote their products through digital marketing solutions. The business has collaborated with over 500 pharmaceutical companies to launch the promotion of around 1,100 SKUs, and the GMV reached RMB1,009mn in 2022, contributing 6.6% of the GMV of the Self-operation Business. The Targeted Product Launch Business focuses on new products and existing products with certain characteristics, such as pharmaceuticals with high demand but limited brand awareness, those that are well-promoted in hospitals but not in pharmacies, and those known in one geographic region but not in another.

Strong business sustainability on clear development strategies

As of 31 Dec 2022, YSB was loss-making primarily attributable to selling and marketing activities for business expansion and investment in its other businesses. Moving forward, the Company aims to achieve profitability through several key strategies: 1) expanding its buyer base and enhancing buyer engagement; 2) increasing revenue across its pharmaceutical circulation and other business segments; 3) optimizing its cost and expense structure and improving operating margins; 4) improving working capital management; and 5) leveraging its competitive strengths and advantages. By implementing these strategies, we expect the Company to increase revenue while managing costs and expenses, leading to profitability and positive operating cash flows.

Strong growth momentum to continue

We forecast revenue of YSB to grow 25.4%/ 39.4%/ 36.3% YoY in 2023E/ 24E/ 25E, indicating a 33.6% CAGR in 2022-25E. Strong topline growth will be mainly driven by the continuously enlarged buyer base and increased buyer engagement in its Self-operation Business, which also reflects the enhancing capabilities of YSB in connecting upstream suppliers with downstream buyers via its logistics network, as well as the increased seller and buyer base and number of order placed on its Online Marketplace, reflecting the high recognition of YSB as an effective and reliable channel for both upstream and downstream participants.

Meanwhile, considering the improving economies of scale, we expect the Company to generate positive non-IFRS adjusted net profits starting from 2023E, which are RMB179mn/ RMB716mn / RMB1,415mn in 2023E /24E /25E, respectively.

Initiate at BUY

We derive a TP of HK\$57.97 on a 10-year DCF valuation with WACC of 13.7% and terminal growth rate of 3.0%. We are positive on the enhancing capabilities of YSB in connecting upstream suppliers with downstream buyers via its B2B pharmaceutical network, as well as the high recognition of YSB as an effective and reliable channel for both upstream and downstream participants.

Investment risks

1) Uncertainties in future profitability, 2) fluctuation in customers' (mainly including small-to mid-sized pharmacies and primary healthcare institutions) demand and purchasing power; 3) changes in regulatory requirements.

The largest digital pharmaceutical platform in China's outside-of-hospital market

Platform and Self-operation Businesses to form a dual-growth engine

Launched in 2015, YSB is the largest digital pharmaceutical platform serving businesses outside of hospitals in China in terms of GMV (gross merchandise volume) in 2022. According to Frost & Sullivan, YSB ranked No.1 in China's digital market of outside-of-hospital pharmaceutical circulation services in terms of GMV in 2022, with a market share of 21.0%. The Company has developed technology-backed solutions to connect and empower the upstream and downstream players along the pharmaceutical value chain. The Company has digitized and standardized the process of pharmaceutical transaction and service, creating an ecosystem that enables various players to gather and interact and creates value for the whole society. Despite intense competition from other B2B pharmaceutical sales platforms and traditional distributors, the Company strives to establish a safe and efficient transaction and service platform for businesses along the pharmaceutical value chain.

Figure 1: YSB's development milestones

Time	Event
2015	• YSB launched YSB App and started operating Online Marketplace
2016	<ul style="list-style-type: none"> • The Company was granted a license from the State Food and Drug Administration for a third-party trading service platform for Internet drugs. • The Company was granted High and New-Technology Enterprise (HNTE) status in China for recognition as an innovative company by the PRC government
2018	• The Company was incorporated in the Cayman Islands and carried out the 2018 Internal Restructuring
2019	<ul style="list-style-type: none"> • The Company's annual total GMV achieved RMB10bn for the first time. • The Company started operating Self-operation Business
2020	<ul style="list-style-type: none"> • The Company started Targeted Product Launch Business • The Company's annual total GMV achieved approximately RMB20bn
2021	<ul style="list-style-type: none"> • The buyers registered on the Company's Online Marketplace reached 400,000. • The Company introduced ClouDiagnos and wePharmacy
2022	<ul style="list-style-type: none"> • The Company's average number of MAB reached 300,000 in March 2022 • The Company's annual total GMV exceeded RMB37bn

Source: Company data, CMBIGM

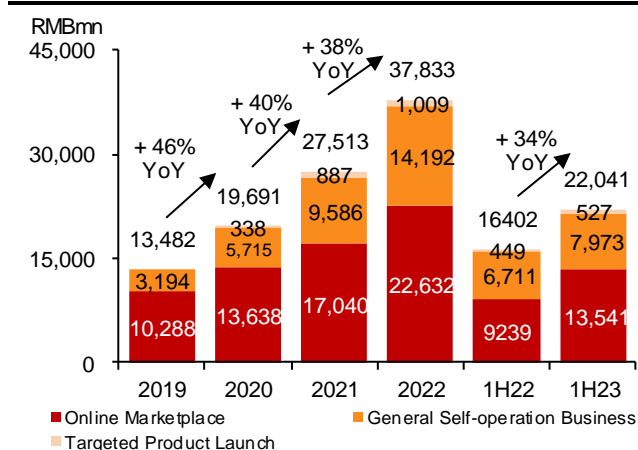
YSB's business model is centered on its Online Marketplace and Self-operation Business and is complemented by a series of other businesses, leveraging its technological capabilities to meet the growing demand for the digitalization of the outside-of-hospital pharmaceutical market. Online Marketplace provides a digital marketplace for registered pharmaceutical sellers and buyers to transact with each other. Self-operation Business provides better fulfillment and services to buyers, via which the Company generates revenue from sales of products. Targeted Product Launch Business is a part of Self-operation Business and procures pharmaceutical products from pharmaceutical companies and selected master vendors, selling them to buyers and generating revenue from the sales.

Figure 2: Overview of YSB's business model

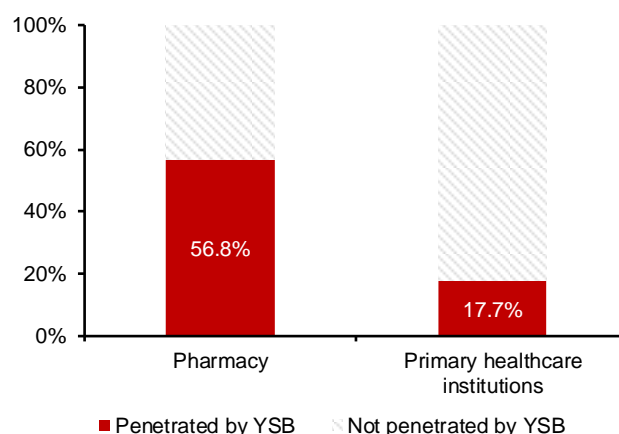
Source: Company data, CMBIGM

Note: 1, For the year ended 31 Dec 2022; 2, As of 31 Dec 2022

Total GMV of YSB reached RMB37.8bn in 2022, with a CAGR of 38.6% from 2020, the highest among leading digital pharmaceutical platforms serving businesses outside hospitals in China. According to 《药品监督管理统计年度数据 (2022 年)》 published by NMPA, there were a total of 623,299 retail pharmacies as of Dec 2022. According to 《中华人民共和国 2022 年国民经济和社会发展统计公报》 published by National Bureau of Statistics (NBS), there were a total of 980k primary healthcare institutions as of Dec 2022. YSB serves around 354,000 downstream pharmacies and 173,000 primary healthcare institutions as of 31 Dec 2022, representing a penetration rate of 57% and 18%, respectively, based on our calculation, and serving the largest digital pharmaceutical transaction and service network outside of hospitals in China. In addition, according to a report published by Intelligence Research Group, an independent industry research and consulting agency in China, among the chain pharmacies, YSB has cumulatively, since its inception and up until 31 Dec 2022, served 55 pharmacy brands that are listed among the Top 100 Chain Pharmacies in China in 2022.

Figure 3: YSB's GMV and GMV breakdown (2019-1H23)

Source: Company data, CMBIGM

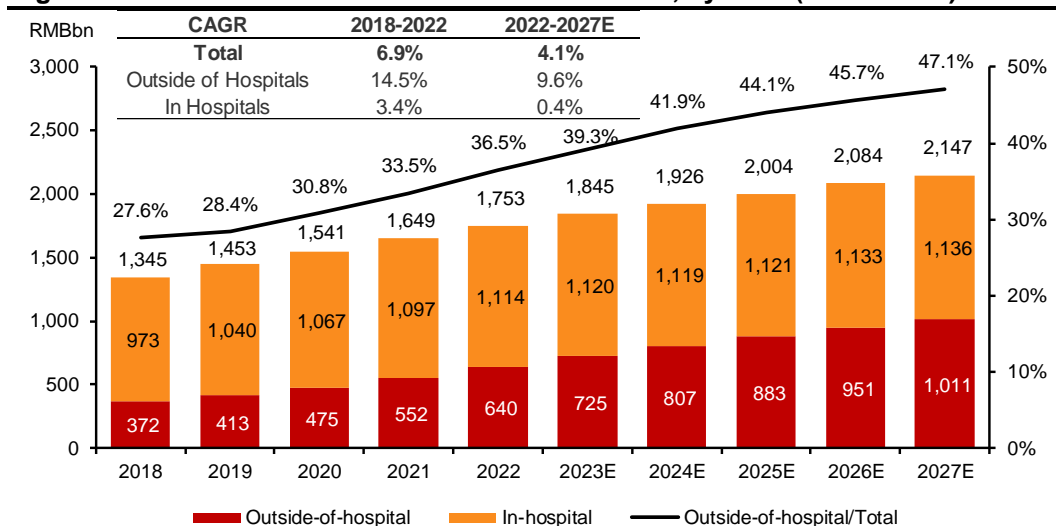
Figure 4: Pharmacies and Primary healthcare institutions served by YSB

Source: NMPA, NBS, Company data, CMBIGM

Addressing challenges in China's out-of-hospital market

Opportunity in China's pharmaceutical outside-of-hospital market

The pharmaceutical circulation industry in China is divided into in-hospital and outside-of-hospital markets. The outside-of-hospital market includes pharmaceutical distributors and vendors who procure pharmaceuticals from upstream pharmaceutical companies and sell to other distributors, downstream hospitals, pharmacies, and other retail terminals. According to Frost & Sullivan, the market size of China's outside-of-hospital pharmaceutical circulation industry is expected to grow at a CAGR of 9.6% from RMB639.7bn in 2022 to RMB1.0tn in 2027, accounting for about 36.5%/ 47.1% of the whole China pharmaceutical circulation industry in 2022/ 2027, respectively.

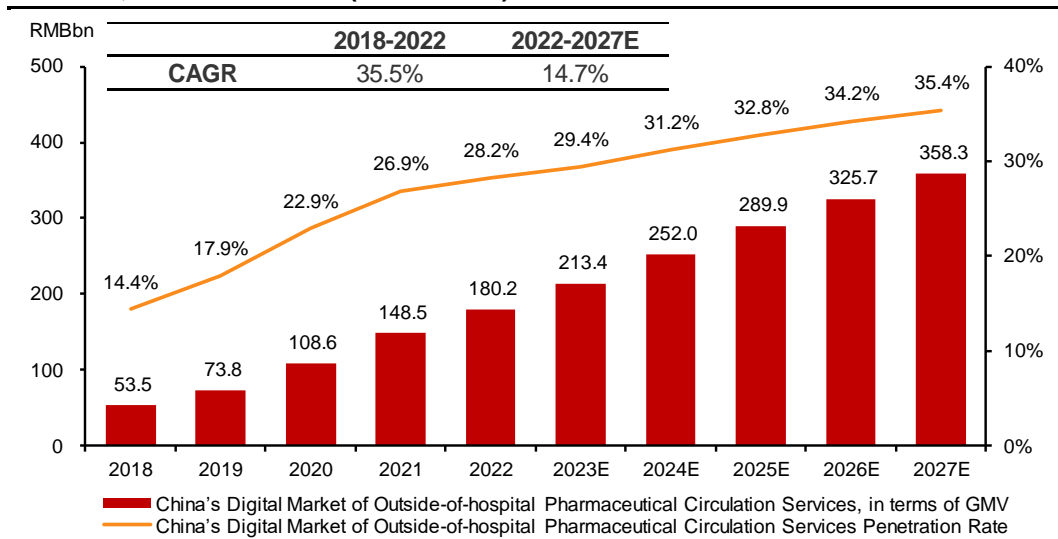
Figure 5: China's Pharmaceutical Circulation Market, by GMV (2018-2027E)

Source: Frost & Sullivan, CMBIGM

The digitalization of outside-of-hospital pharmaceutical circulation is still at an early stage, with a penetration rate of only 28.2% in 2022 in terms of GMV. However, the market size of China's digital market for outside-of-hospital pharmaceutical circulation services is

expected to reach RMB358.3bn in 2027, growing at a CAGR of 14.7%. Its penetration rate in the overall outside-of-hospital pharmaceutical circulation market is expected to reach 35.4% in 2027.

Figure 6: China's Digital Market of Outside-of-hospital Pharmaceutical Circulation Services, in terms of GMV (2018-2027E)



Source: Frost & Sullivan, CMBIGM

Despite the abundant market potential, there exist challenges in China's outside-of-hospital pharmaceutical circulation industry, especially at the primary healthcare level.

Figure 7: Challenges in China's outside-of-hospital pharmaceutical circulation industry

Challenges	Explanation
Fragmented market with supply and demand mismatch	China's outside-of-hospital pharmaceutical transaction and service market is fragmented and regionalized, with large pharmaceutical sellers lacking incentives to serve small and scattered buyers' long-tail SKUs. Small pharmaceutical sellers may be unable or unwilling to meet certain downstream demand due to lack of scale and resources. This results in underserved buyers in terms of SKU choice, product quantity and quality, slow fulfillment and delivery, and lack of pre- and after-sale services.
Multi-layered market with high transaction costs and low efficiency	Pharmaceutical circulation market is multi-layered in China, which is especially true at the primary healthcare level. The multi-layered structure leads to low efficiency, high transaction costs and unsatisfactory experience for buyers. Moreover, sellers lack the effective technological means to quickly identify and locate market demand and thus they could not always realise potential sales opportunities.
Opaque pricing and product tracking difficulties	A highly fragmented and multi-layered market leads to asymmetric information among the industry players, leading to problems such as opaque pricing, difficulties in tracking products, unfair competition, etc., and jeopardising the interests of the participants along the pharmaceutical value chain and the overall safety of pharmaceutical transactions.
Lack of digital management tools at the primary healthcare level	Lack of digital management tools leaves basic management and operational needs, such as supply chain management, in-store management and skill training, largely unsatisfied at the primary healthcare level.

Source: Company data, CMBIGM

Value proposition of YSB

YSB offers compelling value propositions for participants in its healthcare ecosystem by leveraging its deep knowledge of China's outside-of-hospital pharmaceutical market,

technologies, and smart supply chain capabilities. It has developed technology-backed solutions to connect and empower ecosystem participants, turning the process of pharmaceutical transactions and services into a digitalized, standardized, and scalable one. The Company strives to build an ecosystem that seamlessly connects the players along the pharmaceutical value chain and creates value for them and the whole society.

YSB places a strong emphasis on the experience of downstream buyers and is committed to improving the accessibility of safe, accommodating, and affordable products and services in China, especially for pharmacies and primary healthcare institutions in areas with limited healthcare resources. It aims to become the go-to platform for the downstream and offers value propositions that cater to their needs.

Figure 8: YSB's value proposition to the downstream

Proposition	Explanation
Abundant product offerings	YSB offers a wide selection of SKUs, including prescription and OTC pharmaceuticals, healthcare products, and medical devices, catering to the needs of its buyers. Its Online Marketplace fulfills the demand for long-tail pharmaceuticals and addresses the problem of inadequate supply at the primary healthcare level. The Self-operation Business provides a comprehensive selection of core SKUs that are frequently sourced by buyers.
Transparent and competitive pricing	YSB digitally unities its buyers, improving its bargaining power for better prices and providing them with transparent pricing. It simplifies the transaction process, reducing or eliminating multi-layered structures and minimizing unnecessary transaction costs. Through its Self-operation Business, the Company procures large amounts of products, benefiting from economies of scale and getting favourable pricing terms and passing on the savings to its buyers.
In-time and reliable fulfilment	YSB's warehousing and delivery system is strategically designed to provide safe, fast, and reliable delivery. It has developed an automated system for generating an optimal delivery plan for each order, enabling it to deliver high volumes of small ticket size orders to the primary healthcare level and remote areas economically. The Company's average delivery time outperformed the industry average level by approximately 20% in 2022.
Stable supply with high quality	YSB set strict standards for conducting transactions on its platform. Its warehousing and delivery management system ensures stable product supply.
Technology-backed solutions and services	YSB empowers its downstream players with its technology-backed initiatives. Its ClouDiagnos provides strong support to medical professionals at primary healthcare institutions, enabling them to provide reliable and affordable diagnostic services and make more informed medical recommendations to patients. The Company's wePharmacy facilitates pharmacies to provide 24-hour unmanned services to end customers, while its SaaS solutions help pharmacies streamline inventory management.

Source: Company data, CMBIGM

YSB's upstream participants are critical in providing a stable stream of high-quality products to its platform. Its hundreds of thousands of buyers, simplified distribution channels, and improved transparency and allocation of healthcare resources across the country attract numerous upstream participants, enabling them to better serve the market and benefit from the Company's ecosystem.

Figure 9: YSB's value proposition to the upstream

Proposition	Explanation
Access to the largest network of buyers	YSB offers upstream participants a cost-effective and time-efficient way to access a diverse pool of buyers, including around 354,000 pharmacies and 173,000 primary healthcare institutions. Its well-connected platform provides effective access to geographically scattered buyers, enabling upstream participants to distribute their products and increase sales.
Effective sales and marketing solutions	YSB's direct reach to all touchpoints of the healthcare and pharmaceutical value chain enables it to capture and analyze vast amounts of information. Upstream participants can benefit from the Company's feedback, learn market trends, and make strategic decisions to address downstream demand.

Digital management solutions	YSB is one of the first platforms in the outside-of-hospital pharmaceutical market to offer SaaS solutions to its sellers. These digital solutions help its sellers manage operations and sales.
New business opportunities	The solutions YSB provides to empower its downstream also revitalize its whole ecosystem. By attracting and retaining more active buyers to its ecosystem, it brings new business opportunities to its upstream.

Source: Company data, CMBIGM

Leading competitive strengths in the industry

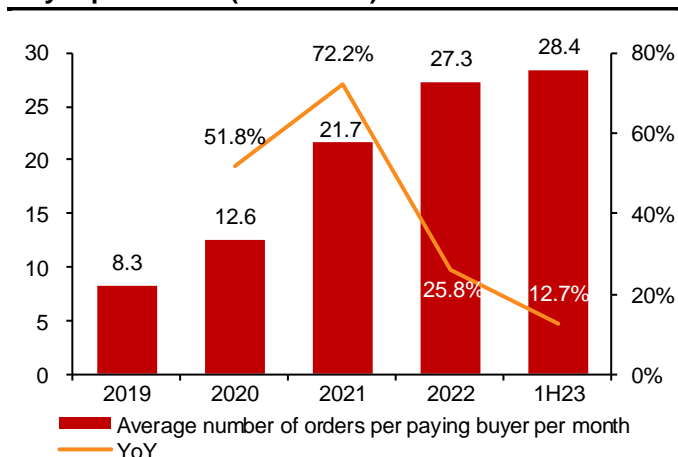
China's largest and fast-growing digital pharmaceutical platform serving businesses outside of hospitals

According to Frost & Sullivan, YSB is the first to adopt mobile internet to integrate the pharmaceutical value chain in China's outside-of-hospital pharmaceutical circulation industry. Its total GMV reached RMB37.8bn in 2022, with a CAGR of 38.6% from 2020, both the highest among leading digital pharmaceutical platforms serving businesses outside hospitals in China. According to Frost & Sullivan, YSB ranked No.1 in China's digital market of outside-of-hospital pharmaceutical circulation services in terms of GMV in 2022, with a market share of 21.0%.

Buyer engagement is core to YSB's sustainable business development and the Company is able to maintain high buyer engagement and keep monetizing its large and active buyer base. According to Frost & Sullivan, the Company had the highest average number of monthly active buyers (MAB) among digital pharmaceutical platforms serving businesses outside of hospitals in China in 2022. The average number of orders per paying buyer per month increased from 12.6 in 2020 to 27.3 in 2022, representing a CAGR of 46.8%. As of 30 June 2023, the Company had 202,000, 256,000, 308,000, and 353,000 average number of MAB on its platform, among which the average number of monthly paying buyers (MPB) represents a percentage of 80%, 87%, 92%, and 94% respectively.

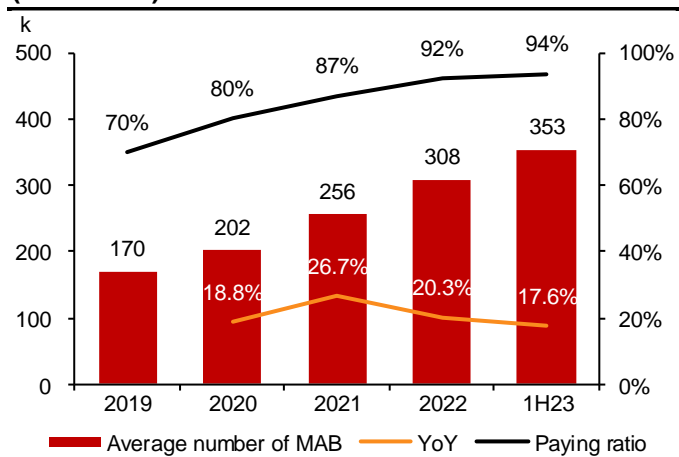
The ecosystem that emerged through the connectivity of the Company's platform provides it with a powerful set of network effects. Network effects allow the Company to grow its user base and monetization opportunities in a cost-effective manner, driving its sustainable business growth.

Figure 10: Average number of orders per paying buyer per month (2019-1H23)



Source: Company data, CMBIGM

Figure 11: Average number of MAB and Paying Ratio (2019-1H23)



Source: Company data, CMBIGM

Synergetic integration and dynamic balance between Online Marketplace and Self-operation Business

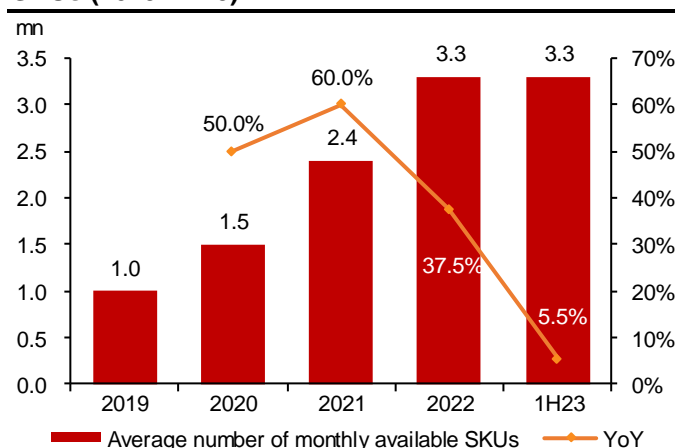
YSB's business model combines the Online Marketplace and Self-operation Business to address the supply and demand mismatch problem in the healthcare ecosystem. The two businesses complement each other, with the Self-operation Business providing fast and reliable fulfillment for certain, frequent, and stable demand, while the Online Marketplace fulfills long-tail, scattered, or unpredictable demand with a comprehensive selection of

SKUs. The Company has created a high barrier to prevent competitors from copying its business model, with the Online Marketplace complementing the scalability and network effects of the Self-operation Business.

YSB's Online Marketplace and Self-operation Business have a synergistic effect, with the former providing scalability and an abundant selection of products, while the latter offers high-quality products and fast and reliable fulfillment. The Company has achieved a good balance between the two businesses, attracting more buyers to the platform and increasing the GMV of both businesses. The average number of monthly available SKUs transacted on the platform was around 3.3mn in 2022, the highest among digital pharmaceutical platforms serving businesses outside of hospitals in China, according to Frost & Sullivan.

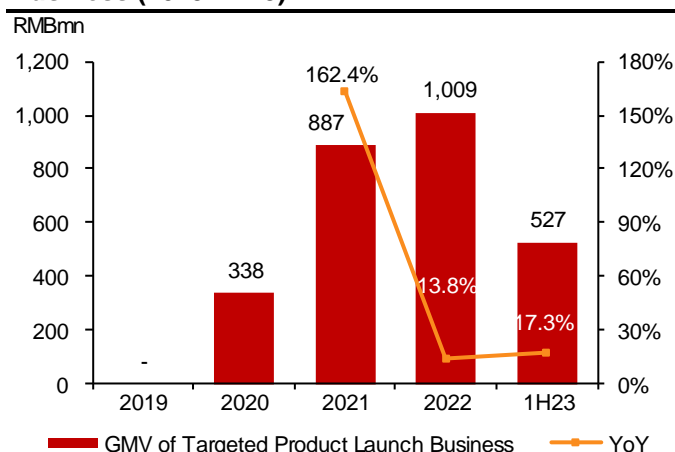
YSB has successfully launched the Targeted Product Launch Business in April 2020, collaborating with pharmaceutical companies to provide effective marketing solutions. The business has experienced rapid growth, with a GMV of RMB1,009mn in 2022, representing a CAGR of 72.8% from 2020. Additionally, the Company has expanded into other businesses such as ClouDiagnos and wePharmacy in 2021, providing comprehensive one-stop services to customers and their end customers.

Figure 12: Average number of monthly available SKUs (2019-1H23)



Source: Company data, CMBIGM

Figure 13: The GMV of Targeted Product Launch Business (2019-1H23)



Source: Company data, CMBIGM

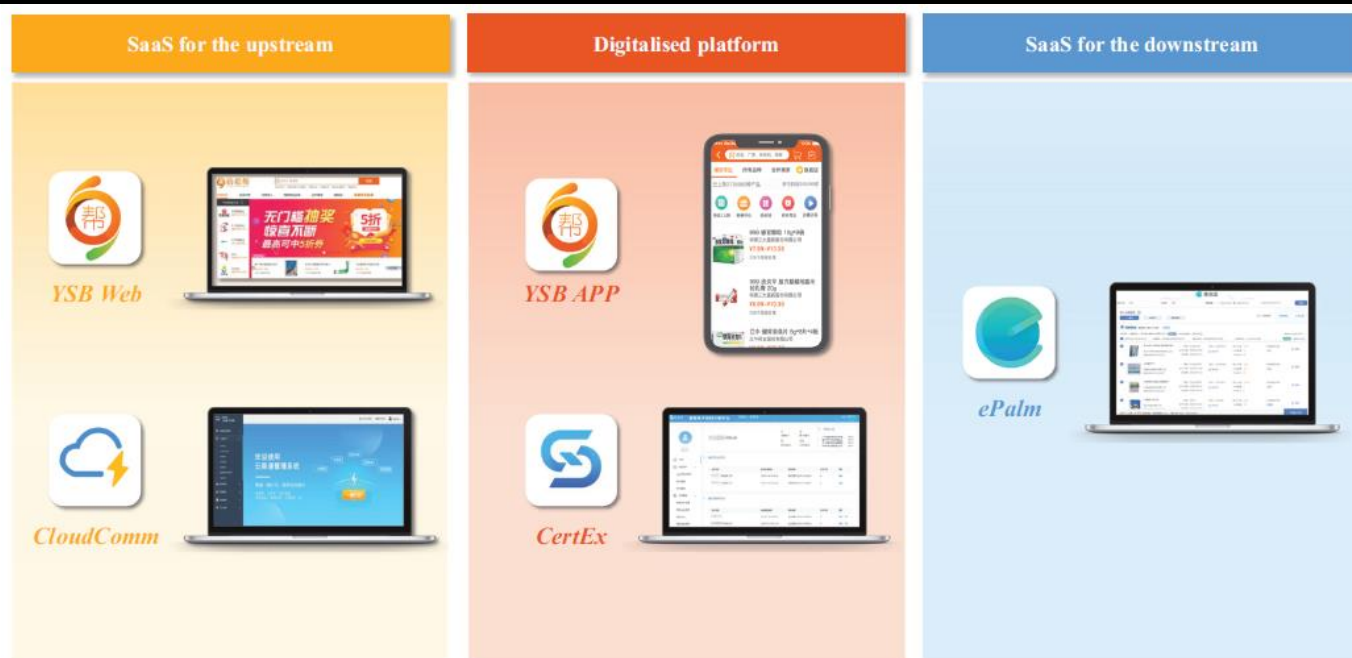
The Company's experience and capabilities have enabled it to maintain strong synergistic effects between the Online Marketplace and Self-operation Business. The Online Marketplace provides valuable insights for the Self-operation Business regarding the selection and procurement of SKUs, while the Self-operation Business feeds the Online Marketplace with insights in product and service development, and supply chain management from directly transacting with buyers.

Technologies and digital solutions empowering participants along the value chain

YSB is technology-driven and continuously improves its technology to better serve its ecosystem participants. The Company has developed in-house solutions, including sales and inventory management tools, all-in-one printing, and digital certification exchange, backed by cloud computing, big data, and advanced algorithms. The Company offers SaaS solutions to over 5,200 sellers and over 40,000 pharmacies, providing ePalm with a full-

package of digital management tools such as smart storage, membership management, and inventory management. The Company's digitalization efforts create value for the whole society by offering comprehensive, high-quality, and affordable healthcare services. The Company also uses data analysis to help buyers make informed procurement decisions and design custom marketing plans for the upstream to better understand downstream demand.

Figure 14: Access to YSB's digitalized platforms



Source: Company data, CMBIGM

Smart supply chain management enhancing user experience and operating efficiency

YSB has developed a smart supply chain management system in-house, integrating the front and back ends of the supply chain, covering procurement, warehousing, and delivery. The Company uses advanced technologies and management expertise to streamline the process and improve overall efficiency. The Company strategically designed a warehousing mapping and had built 20 smart warehouses in 19 cities as of 31 Dec 2022. Its delivery system is digitally managed and provides fast and safe services to buyers. In 2022, the average inter-province delivery time outside of province was 41 hours for cities and 51 hours for towns, outperforming the industry average by approximately 20%.

Figure 15: Components of supply chain system

Systems	Explanation
Procurement system	YSB's system tracks the life-cycle of available SKUs, analyzes their historical price fluctuation, and generates smart procurement suggestions for its procurement team to review, which helps maintain high inventory turnover.
Warehousing system	YSB has strategically designed a warehousing mapping and built 20 smart warehouses in 19 cities as of 31 Dec 2022. These warehouses are centrally managed and powered by algorithms and insights from transacting on its Online Marketplace and Self-operation Business. The Company maintains inventory turnover days at 26.5 days in 2022, better than the industry average level in the pharmaceutical circulation industry.

Delivery system

YSB's system is digitally managed, providing fast and safe services to buyers. Fast delivery allows pharmacies to place frequent orders with smaller ticket size, improving their inventory turnover. The Company maintained low logistics expenses at 1.31% of the GMV of its Self-operation Business in 1H23, much lower than the industry average rate.

Source: Company data, CMBIGM

Figure 16: Workflow of YSB's smart supply chain management



Source: Company data, CMBIGM

Rooted in massive outside-of-hospital pharmaceutical circulation industry

YSB strategically entered the outside-of-hospital pharmaceutical circulation industry, focusing on the primary healthcare level to address industry challenges such as supply and demand mismatch, high transaction costs, and low operating efficiency. It has brought mobile internet and digital solutions to the market, building a virtual alliance for the downstream to address the demand of every buyer, regardless of size or location.

YSB tailors its business development strategies to its unique market positioning, leveraging its experience and capacity in serving and transacting at the primary healthcare level. The Company monitors market potential and regulatory developments to adjust business strategies. The Company's BD team consisted of over 2,800 members as of 30 June 2023, with each member managing an average of 130 pharmacies.

Visionary management team

The management team of YSB is led by founder and CEO, Mr. Buzhen Zhang, a seasoned entrepreneur with extensive experience in managing internet technology companies. Mr. Zhang has a long-standing passion for the healthcare industry and has established the Company's vision, mission, and culture with a clear roadmap for long-term development. The management team comprises experienced professionals in healthcare services and information technology, dedicated to delivering better healthcare services to pharmacies and primary healthcare institutions and leading the transformation of China's outside-of-

market pharmaceutical circulation industry. The Company values employee training, career development, and incentive programs, contributing to talent acquisition and incubation.

Figure 17: Management profile of YSB

Name	Position	Responsibility and experience
Mr. Buzhen Zhang	Chairman and Chief Executive Officer	<ul style="list-style-type: none"> Responsible for technology development and business management 15 years of experience at Fang Holdings Limited 20+ years of extensive experience managing internet technology companies and developing technical solutions for Chinese enterprises
Mr. Fei Chen	Executive Director and Chief Financial Officer	<ul style="list-style-type: none"> 10+ years of experience in the investment banking and financial services industry Prior to joining the Company, Mr. Chen served as the CFO and Board Secretary of Tubatu Group
Mr. Haodong Xiao	Vice President	<ul style="list-style-type: none"> 15+ years of experience in the pharmaceutical industry Prior to joining the Company, Mr. Xiao served as the Southern Commercial Regional Sales Director at Xi'an Janssen Pharmaceutical, General Manager at Guangzhou Pharmaceuticals Corporation's Popular Drug Sales Branch, and Channel Management Director at Johnson & Johnson Medical Devices (Shanghai) Ltd.
Mr. Zhuoqi Chen	Chief Technology Officer	<ul style="list-style-type: none"> Prior to joining the Company, Mr. Chen served as a system architect at Vtron Group Co., Ltd. and worked at New Post Telecommunication Equipment Co., Ltd.

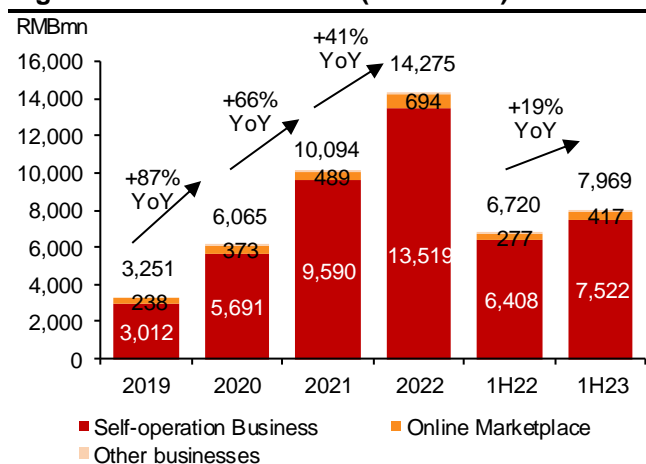
Source: Company data, CMBIGM

A vibrant ecosystem with dual growth engines

Business growth of YSB is fueled by its dual growth engines consisting Online Marketplace and Self-operation Business. YSB started with a mobile internet based Online Marketplace in 2015 to address the supply and demand mismatch in China's pharmaceutical distribution network. A digitalized marketplace can provide buyers direct and easy access to a vast selection of SKUs. By attracting a large and growing base of pharmaceutical sellers and buyers to deal directly on the Online Marketplace, YSB has created strong network effects.

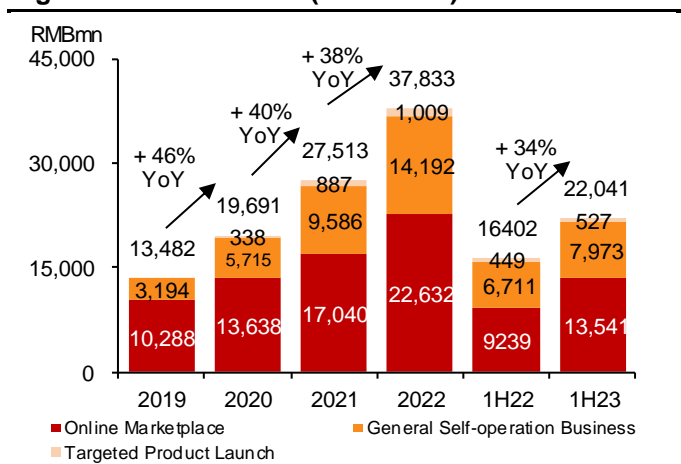
The Company then started its Self-operation Business in 2019, in response to the growing procurement and fulfilment needs from the downstream. Self-operation Business brings YSB additional benefits including gathering aggregate purchasing power to increase bargaining power against upstream suppliers, proactively selecting products based directly on downstream demand, and exercising full control on warehousing and fulfilment to improve quality and stability of deliver. In 2022, Self-operation Business generated 95% of YSB's total revenue, with a CAGR of 65% over 2019-22, and accounted for 40% of YSB's total GMV, with a CAGR of 68% over 2019-22.

Figure 18: Revenue of YSB (2019-1H23)



Source: Company data, CMBIGM

Figure 19: GMV of YSB (2019-1H23)



Source: Company data, CMBIGM

Leveraging the Company's technological advantages and unique business model, the Company connects the players in the pharmaceutical value chain and has formed an ecosystem centered on the YSB platform and implemented through pharmaceutical services and solutions.

Figure 20: The ecosystem centered on the YSB platform

Components	Explanation
Pharmaceutical companies	YSB was in collaboration with more than 500 pharmaceutical companies under the Company's Targeted Product Launch Business as of 30 June 2023 and equipped them with unique and valuable insights about the market demand.
Distributors and vendors	YSB had dealt with around 8,600 distributors and vendors in the Self-operation Business as of 31 Dec 2022. The Company had offered around 6,000 distributors and vendors a well-connected platform to distribute its products and receive market feedback on the Online Marketplace as of 31 Dec 2022.
Pharmacies	YSB enables over 354,000 pharmacies as of 31 Dec 2022, covering over 50% of the total number of pharmacies as of 31 Dec 2022, to achieve operational excellence and better serve customers. As of 31 Dec 2022, the Company attracted around 354,000 pharmacies to transact on its platform. According to a report by Intelligence Research Group, the Company has served 55 pharmacy brands listed among the Top 100 Chain Pharmacies in China in 2022.

Primary healthcare institutions	YSB assists around 211,000 primary healthcare institutions as of 30 June 2023, including private clinics, township health centers, village clinics, and community medical institutions. The Company helps them with daily operations, provides testing equipment, and diversifies service offerings to better serve customers. The Company covers more than 17% of the total number of primary healthcare institutions in the industry. As of 30 June 2023, the Company attracted around 211,000 primary healthcare institutions to transact on its platform.
Pharmacists	Since the Company's inception in 2015 and up until 30 June 2023, YSB helped, cumulatively, around 240,000 pharmacists and prospective pharmacists to prepare for qualification examinations and provide them with resources to enhance their knowledge base.
Medical professionals	YSB had empowered around 10,000 medical professionals at primary healthcare institutions to expand their service range and improve their service quality.

Source: Company data, CMBIGM

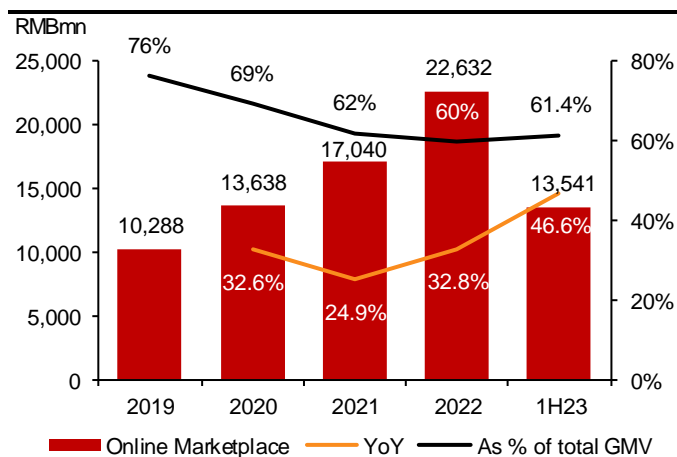
Online Marketplace to closely connect upstream and downstream

YSB's mobile internet-based Online Marketplace was created in 2015 to address supply and demand mismatch in China's outside-of-hospital pharmaceutical market. The marketplace connects pharmaceutical companies and distributors who look for an efficient approach to sell their products to a wide range of buyers, and pharmacies and primary healthcare institutions whose traditional seller reach is within a limited radius. As of 30 June 2023, the Company attracted around 7,100 pharmaceutical sellers and around 589,000 buyers to transact on the Online Marketplace. The Company's digital platform has simplified the transaction process and reduced costs for both buyers and sellers, making it a reliable and efficient platform for pharmaceutical transactions.

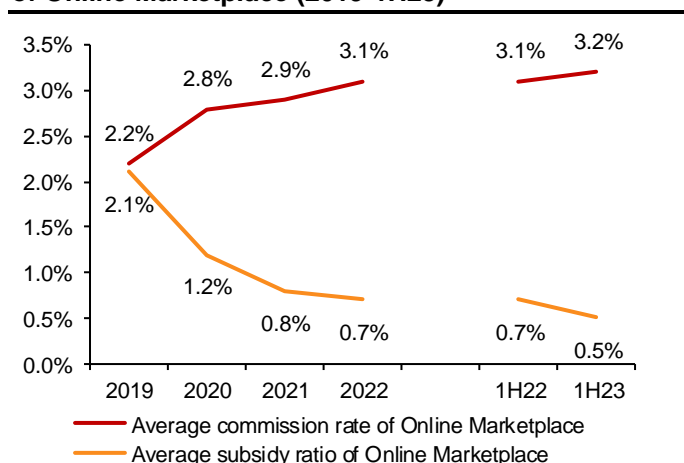
The Online Marketplace offers a vast selection of SKUs and quality products, making it a reliable platform for pharmaceutical transactions. The average number of monthly available SKUs on YSB's Online Marketplace increased from 1.0mn in 2019 to 3.3mn in 2022, including prescription drugs, OTC drugs and healthcare products, with prescription drugs taking around 50% of all the SKUs on the Online Marketplace. The digital platform simplifies the transaction process and reduces transaction costs by enabling buyers to easily find and order products and generating feedback for sellers to identify popular products. The transaction records are easily accessible, enabling buyers and sellers to track and link their financial records.

The Online Marketplace addresses the multi-layer problem in the outside-of-hospital pharmaceutical market by providing a well-connected platform for buyers to directly select and order products from sellers. As such, the Online Marketplace has experienced a rapid growth since inception and the GMV of the Online Marketplace of third-party merchants was RMB13.5bn in 1H23, representing approximately 61.4% of the total GMV. The Online Marketplace contributes to reducing transaction costs and improving the overall efficiency of transactions.

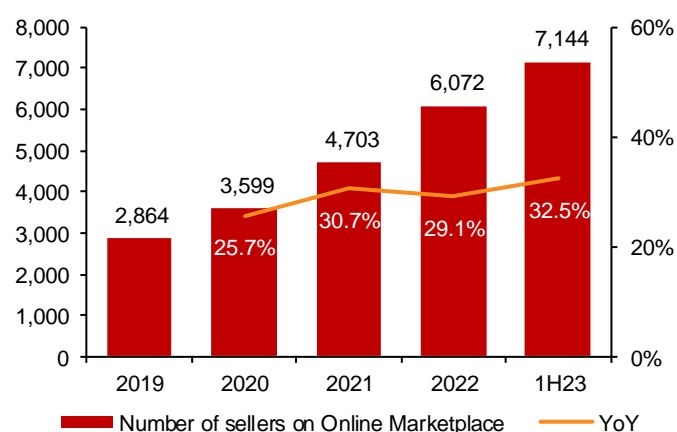
YSB charges sellers a commission based on a percentage of sales on the Online Marketplace, with an average commission rate of 2.2%, 2.8%, 2.9%, 3.1%, and 3.2% in 2019, 2020, 2021, 2022, and 1H23 respectively. The Online Marketplace commission rate has increased over the years, indicating its enhanced popularity among sellers as well as pricing power.

Figure 21: GMV of Online Marketplace (2019-1H23)

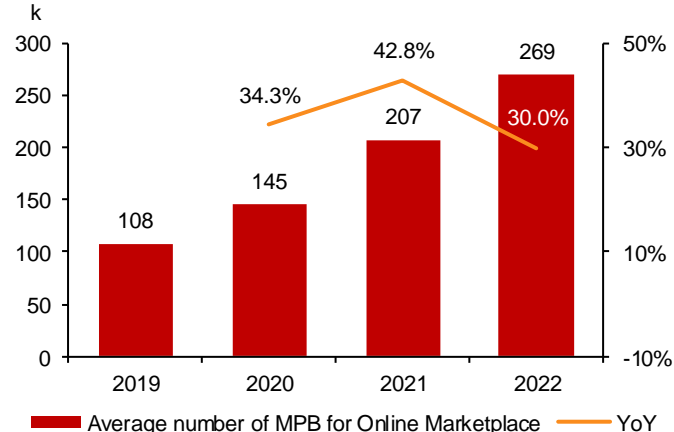
Source: Company data, CMBIGM

Figure 22: Average commission rate and subsidy ratio of Online Marketplace (2019-1H23)

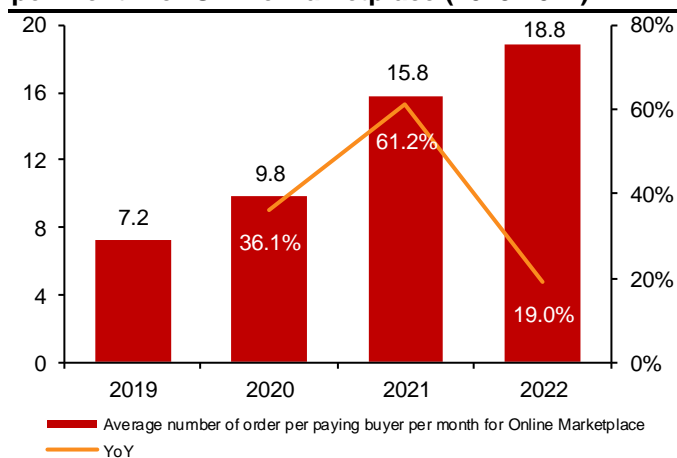
Source: Company data, CMBIGM

Figure 23: Number of sellers on Online Marketplace (2019-1H23)

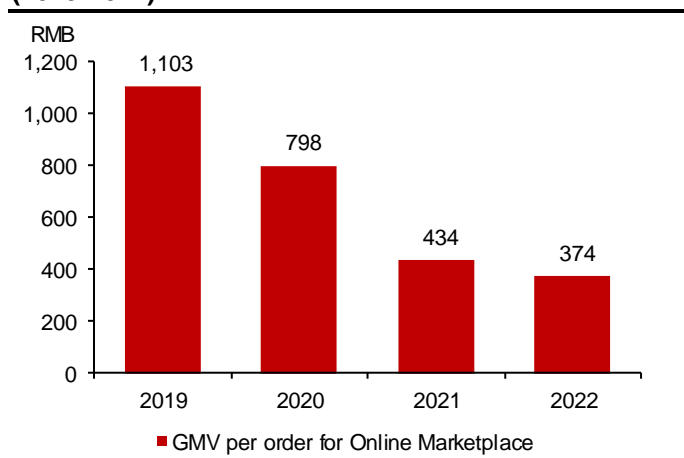
Source: Company data, CMBIGM

Figure 24: Average number of MPB for Online Marketplace (2019-2022)

Source: Company data, CMBIGM

Figure 25: Average number of order per paying buyer per month for Online Marketplace (2019-2022)

Source: Company data, CMBIGM

Figure 26: GMV per order for Online Marketplace (2019-2022)

Source: Company data, CMBIGM

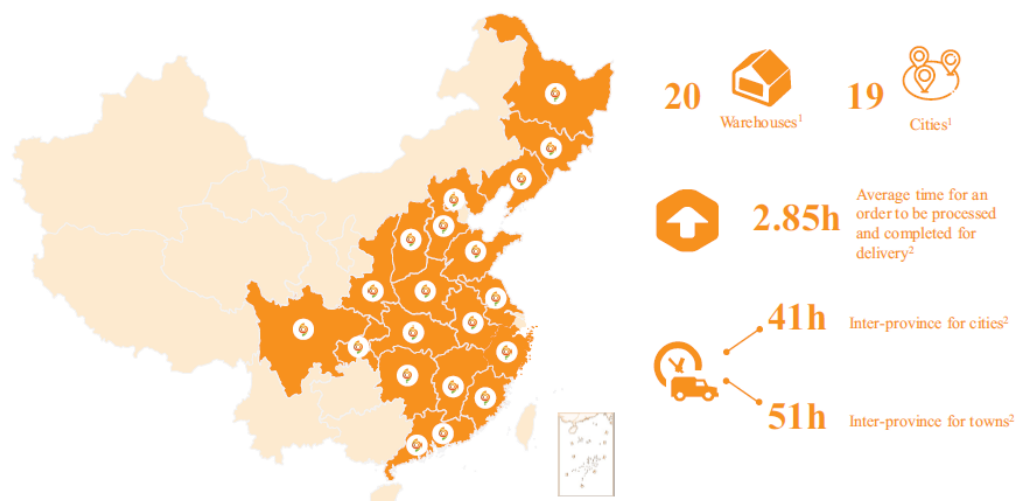
Self-operation Business to provide high-quality products

YSB's Self-operation Business was established in 2019 to provide better fulfilment and services to buyers, which is an essential component to bring high-quality products and faster services to buyers as well as economies of scale and reduce procurement costs to the Company. Under the Self-operation Business, YSB procures from pharmaceutical companies, distributors and vendors, and sells to pharmacies and primary healthcare institutions on the platform. The Company selects SKUs based on transaction preferences and history, and procured and sold 347,000 SKUs per month in 1H23. YSB generates revenue from sales of products for its Self-operation Business. The Company is able to negotiate directly with pharmaceutical companies and other sellers to maintain competitive pricing.

The Company developed a proprietary fulfilment system, integrating procurement, warehousing, delivery, and working capital management into a centrally managed digitalized process. It has 20 smart warehouses in 19 cities as of Dec 31, 2022, and processes and completes orders for delivery in an average of 2.85 hours in 2022. The Company reduced delivery time, especially for inter-province delivery, to 41 and 51 hours for cities and towns, respectively, outperforming the industry average by approximately 20%. The Company's fulfilment system is a central part of the Self-operation Business, enabling efficient procurement, warehousing, delivery, and working capital management.

YSB's Self-operation Business had a GMV of RMB8.5bn in 1H23, representing approximately 38.6% of the total GMV. The Company effectively controlled inventory turnover days at 26.5 days and 28.5 days in 2022 and 1H23, respectively, better than the industry average.

Figure 27: Fulfilment capability of YSB



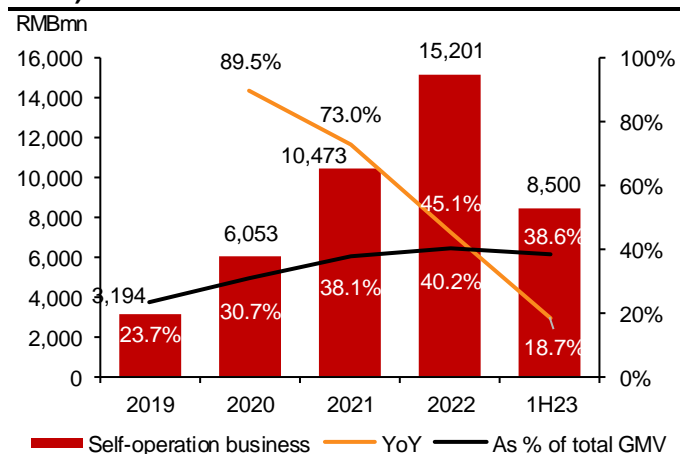
Source: Company data, CMBIGM

Note: 1. As of 31 Dec 2022; 2. For the year ended 31 Dec 2022.

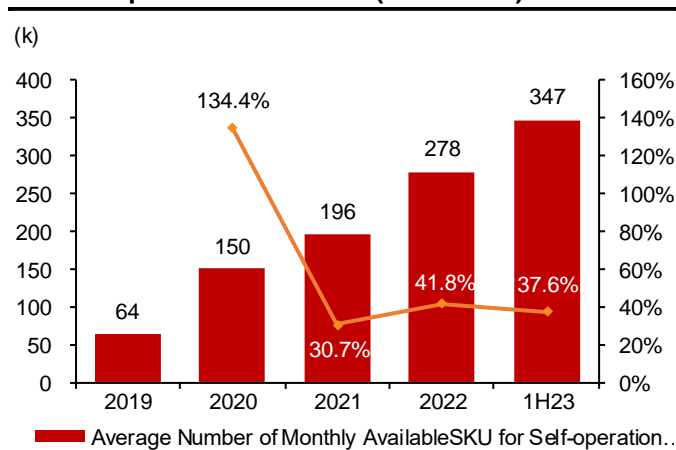
Figure 28: Material leased properties of YSB

Location	Size in square meters	Primary use
Guangzhou	43,358	National headquarter, warehouses, R&D center, business operations
Wuhan	22,924	Local office, warehouse
Jinan	16,065	Local office, warehouse
Chengdu	15,834	Local office, warehouse
Zhengzhou	13,291	Local office, warehouse
Changsha	12,741	Local office, warehouse
Changchun	12,719	Local office, warehouse
Shijiazhuang	12,142	Local office, warehouse
Jinhua	11,840	Local office, warehouse, dormitory
Xiamen	11,544	Local office, warehouse
Taiyuan	11,122	Local office, warehouse
Hefei	11,081	Local office, warehouse
Suzhou	10,768	Local office, warehouse
Beijing	10,666	Local office, warehouse
Xi'an	10,638	Local office, warehouse
Shenyang	9,573	Local office, warehouse
Nanchang	8,714	Local office, warehouse
Chongqing	8,608	Local office, warehouse
Harbin	7,804	Local office, warehouse
Hangzhou	3,276	Local office, warehouse
Nanjing	197	Local office
Fuzhou	116	Business operations

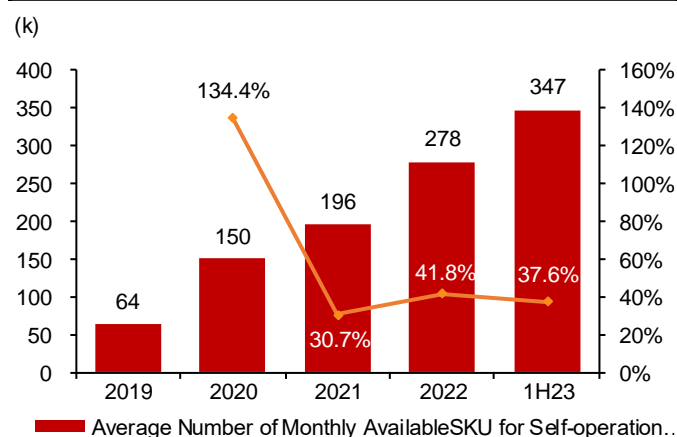
Source: Company data, CMBIGM

Figure 29: GMV of Self-operation Business (2019-1H23)

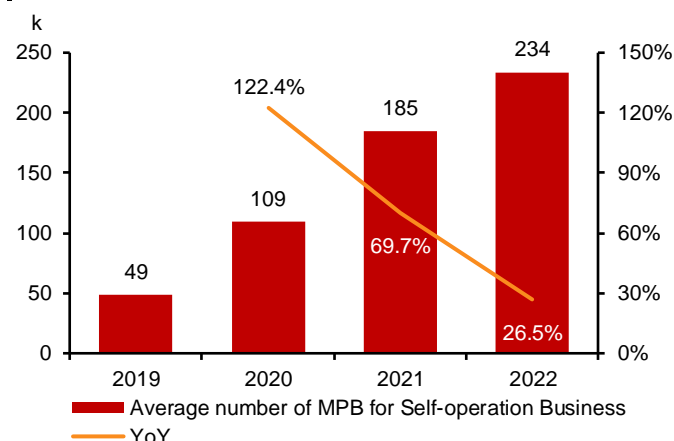
Source: Company data, CMBIGM

Figure 30: Average number of monthly available SKU for Self-operation Business (2019-1H23)

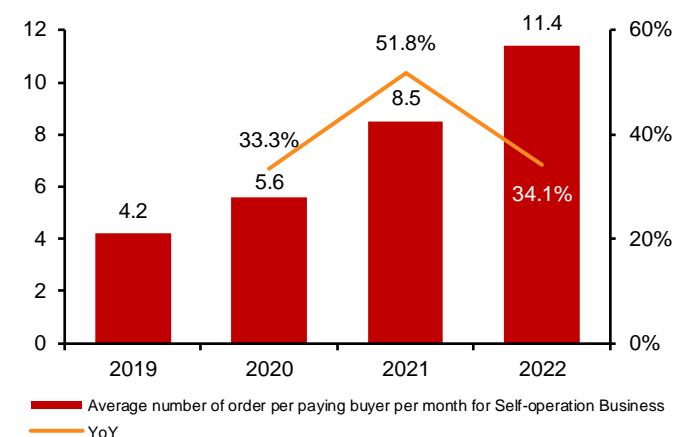
Source: Company data, CMBIGM

Figure 31: Number of suppliers of Self-operation Business (2019-1H23)

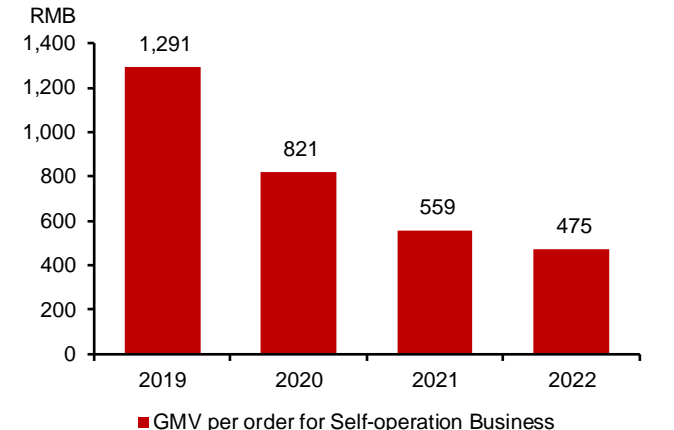
Source: Company data, CMBIGM

Figure 32: Average number of MPB for Self-operation Business (2019-2022)

Source: Company data, CMBIGM

Figure 33: Average number of order per paying buyer per month for Self-operation Business (2019-2022)

Source: Company data, CMBIGM

Figure 34: GMV per order for Self-operation Business (2019-2022)

Source: Company data, CMBIGM

Targeted product launch business

YSB's Targeted Product Launch Business is part of its Self-operation Business, which procures pharmaceutical products from companies and their master vendors and sells them to buyers. The Company conducts market analyses to help pharmaceutical companies better understand and capture downstream demand and collaborates with them to promote their products through digital marketing solutions. For the Targeted product launch business, YSB generates revenue from sales of products.

The Targeted Product Launch Business helps bring incremental demand to pharmaceutical companies and addresses the needs of buyers, while maintaining a healthy relationship with suppliers. The business has collaborated with over 500 pharmaceutical companies to launch the promotion of around 1,000 SKUs, and the GMV reached RMB527mn in 1H23, contributing 6.2% of the GMV of the Self-operation Business.

The Targeted Product Launch Business focuses on new products and existing products with certain characteristics, such as pharmaceuticals with high demand but limited brand awareness, those that are sold well in hospitals but not adequately promoted in

pharmacies, and those known in one geographic region but not in another. The Company has a specific department for selecting and managing products and provides digital marketing solutions to help suppliers promote their products.

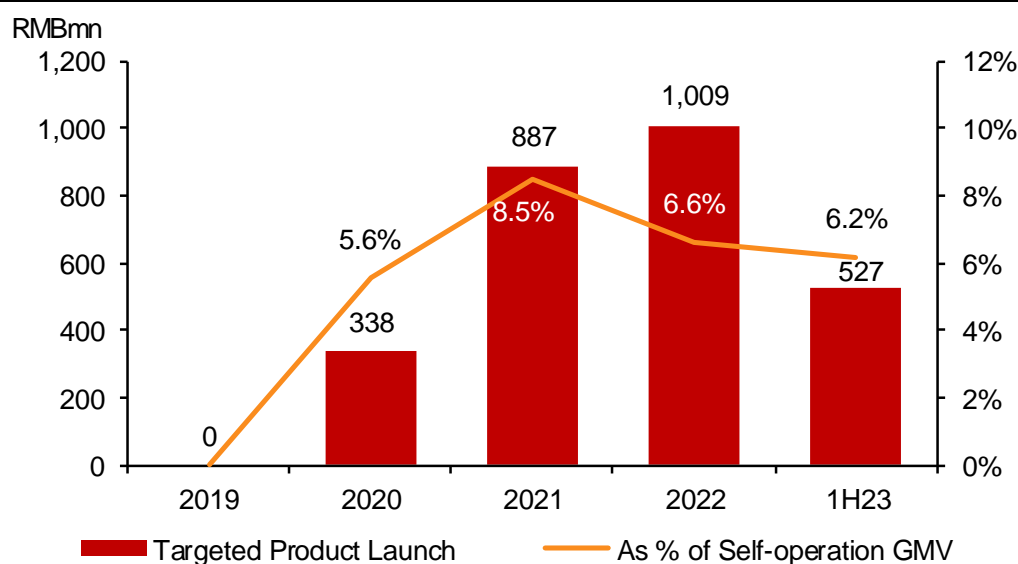
The Targeted Product Launch Business has higher gross profit margins due to reduced procurement prices offered by suppliers in return for the digital marketing solutions provided by the Company. The business is different from the General Self-operation Business in terms of product selection and suppliers. The products sold under the Targeted Product Launch Business are labeled on the YSB App to inform buyers.

Figure 35: Business model of targeted product launch business



Source: Company data, CMBIGM

Figure 36: GMV of targeted product launch business (2019-1H23)



Source: Company data, CMBIGM

Other business to enrich YSB's service portfolio

YSB developed a series of businesses to improve operating efficiency and empower pharmacies and primary healthcare institutions with market insights and professional knowledge. This helps enhance its service capability and quality, and maintain a healthy, active, and self-reinforcing ecosystem.

Figure 37: Categories in Other business

Category	Explanation
ClouDiagnos	YSB partners with primary healthcare institutions, places testing equipment, performs testing, and generates testing results. Its ClouDiagnos services support medical professionals to make informed recommendations and improve the diagnostic quality at the primary healthcare level. The Company collects diagnostic testing service fees from its services.
wePharmacy	YSB offers wePharmacy, a 24-hour access smart unmanned pharmaceutical booth that connects buyers and end customers with pharmacist services. It offers both prescription and over-the-counter ("OTC") pharmaceuticals and can hold over 2,000 SKUs. wePharmacy extends the operating hours during the night and improves sales per square meter or per employee. The Company collects revenue from sales of the wePharmacy booths and service fees, as well as annual fees for system upgrades, repairs, and maintenance.
SaaS solutions	As of 30 June, 2023, YSB 's SaaS solution ePalm provided inventory and sales management services to over 44,000 pharmacies, and its SaaS solution CloudComm provided sales management, analysis, and forecast services to over 6,000 pharmaceutical sellers. The Company offers digital solutions to manage operations and sales for its sellers and buyers, and charges a one-time installation fee and annual subscription fee for its SaaS solutions.
YSB eLearn	YSB offers online courses to prepare for pharmacist qualification exams and has provided training to around 240,000 pharmacists and prospective pharmacists since 2015 and up until 30 June 2023. Most of the courses in YSB eLearn are free of charge.

Source: Company data, CMBIGM

Strong business sustainability on clear development strategies

As of 30 June 2023, YSB was loss-making, primarily attributable to selling and marketing activities for business expansion and investment in its other businesses. Moving forward, the Company aims to achieve profitability through several key strategies: 1) expanding its buyer base and enhancing buyer engagement; 2) increasing revenue across its pharmaceutical circulation and other business segments; 3) optimizing its cost and expense structure and improving operating margins; 4) improving working capital management; and 5) leveraging its competitive strengths and advantages. By implementing these strategies, the Company expects to increase revenue while managing costs and expenses, ultimately leading to profitability and positive operating cash flows.

Expanding buyer base and improving buyer engagement

As a result of YSB's growing buyer base and improving buyer engagement, the Company's GMV has quickly ramped up. The Company expects to further expand its buyer base and improve buyer engagement through the following initiatives:

Figure 38: Further expand its buyer base and improve buyer engagement

Initiatives	Explanation
Expand coverage and penetration in pharmacies and primary healthcare institutions	YSB plans to recruit more BD personnel and improve service quality and efficiency using digital tools. The Company aims to strategically enhance BD efforts with large chain pharmacies and leverage its broad and diversified SKUs to meet scattered demand and improve profitability. The company is willing to offer small ticket size products to provide flexibility in SKU selection and inventory level.
Enlarge and diversify SKU pool	YSB has doubled its number of SKUs offered on the platform from 2020 to 2022, with plans to attract and retain more high-quality pharmaceutical sellers and cooperate with well-known pharmaceutical companies to procure more products for its Self-operation Business. The Company has established relationships with Top 100 pharmaceutical companies and plans to deepen its cooperation with existing partners and build long-term relationships with more companies. The company expects to cooperate with 100 more pharmaceutical companies in 2023 to promote a more diversified pool of SKUs.
Improve the supply and fulfilment of self-operated orders	YSB plans to expand its self-operated warehouses and upgrade its supply chain management systems to optimise delivery and improve buyer experience, leading to increased engagement on the platform and stronger bargaining power with suppliers. The Company expects to attract more pharmaceutical companies to collaborate with them, promoting targeted products with better profit margins and improving profitability.
Enhance buyer engagement and foster brand loyalty	YSB plans to promote its SaaS solutions and YSB eLearn businesses to enhance brand awareness and reinforce relationships with pharmacists, making it difficult for them to switch platforms. The Company also plans to launch more marketing initiatives, such as livestreaming and group buy, to incentivise buyers to transact on its platform.

Source: Company data, CMBIGM

Growing the revenue of both pharmaceutical circulation business and other businesses

With the growing GMV of the platform as a foundation, YSB expects to further grow its revenue of pharmaceutical circulation business and further develop its other businesses through the following initiatives.

Figure 39: Further grow the revenue of pharmaceutical circulation business and others

Initiatives	Explanation
Stronger bargaining power and more favorable commission rate	YSB plans to diversify and optimize its product portfolio on the marketplace to improve commission levels and revenue generation. The Company also expects to attain stronger bargaining power as the business scales up.
Grow the Targeted Product Launch Business	YSB plans to grow its Targeted Product Launch Business by deepening cooperation with well-known pharmaceutical companies, diversifying the SKU pool and upgrading digital marketing services.
Grow other businesses	YSB plans to enhance monetization abilities by growing other businesses that benefit ecosystem participants and have strong synergy with the pharmaceutical circulation business.
Make ClouDiagnos a one-stop solution	YSB plans to make ClouDiagnos a one-stop solution, combining pharmaceutical circulation business and diagnostic testing services to fully serve the needs of pharmacies, primary healthcare institutions and their end customers.
Further promote wePharmacy	YSB plans to expand the availability of and the channel to access pharmaceuticals through wePharmacy, providing 24-hour access to smart pharmaceutical services to end customers.
Continue to provide SaaS solutions	YSB plans to continue to provide useful functions such as SaaS solutions to sellers and buyers to optimize sales and operational management, while also monetizing its expanding user base with advanced functions.

Source: Company data, CMBIGM

Optimising overall cost and expense structure and improving operating margin

Gross profit of YSB experienced significant growth since 2019, but the gross profit margin gradually decreased, primarily due to the expansion of its Self-operation Business, which generally has a much lower gross profit than other businesses. However, YSB expects its overall gross profit margin to steadily increase going forward.

Figure 40: Improvement in overall gross margin

Initiatives	Explanation
Increase businesses with higher profitability	YSB plans to increase the contribution from businesses with higher profitability and further increase the revenue contribution from other businesses thus to improve its overall gross profit margin.
Optimised product portfolio structure	YSB will drive further economies of scale in its sales and offering of products with optimised product portfolio structure. The Company plans to bargain with payment service providers to negotiate a lower transaction processing fee rate going forward.
Achieve lower procurement costs	YSB plans to negotiate with existing suppliers and seek new suppliers with favourable prices and terms. In addition, the Company plans to broaden its overall supply channels to achieve lower procurement costs.

Source: Company data, CMBIGM

Since 2019, YSB was able to achieve meaningful operating leverage. While its operating expenses, including research and development expenses, sales and marketing expenses, and general and administrative expenses, increased in 2019-2022, operating expenses as a percentage of total revenues continuously decreased from 22.4% in 2019 to 11.9% in

2022, mainly benefiting from the economies of scale of its business. The Company plans to continue to make improvement in its operating leverage.

Figure 41: Improvement in operating leverage

Initiatives	Explanation
Selling and marketing expenses	YSB plans to increase the efficiency of its BD personnel through digitalization support and professional training. The Company will rely more on word-of-mouth advertising as its user base grows, gradually decreasing the offering of discount coupons to buyers. The Company plans to control fulfilment expenses through technology and warehouse optimization, including upgrades to delivery management and the use of advanced machines.
General and administrative expenses	YSB will further enhance its level of centralised management, streamline its internal workflows, and leveraging technology to drive cost-efficient management. The Company expects its general and administrative expenses to decrease as a percentage of revenue in the future.
Research and development expenses	YSB plans to continuously hire more IT staff and experts and to invest into its IT infrastructure to support the strong growth of both its pharmaceutical circulation business and other businesses. As such, the Company expects that R&D expenses will stay at current level as a percentage of revenue in the future.

Source: Company data, CMBIGM

Improving working capital management

To improve the working capital management, YSB has been working on and will continue to work on the following aspects:

Figure 42: Improvement in operating leverage

Aspects	Explanation
Inventory turnover management	YSB plans to monitor and control inventory turnover using technology-driven warehousing and logistics systems, and make procurement decisions based on sales. The Company expects inventory turnover days to remain stable in the foreseeable future.
Payment collection management	YSB will enhance fulfilment and delivery efficiency to collect payment from buyers and fees from sellers on time, and shorten its receivable collection cycle due to increased proportion of sales from self-operation orders settled online.
Payment and supplier management	YSB will optimize its payment cycle, negotiate better payment settlement terms with suppliers and aim to shorten payable collection cycle in the foreseeable future, despite potential challenges in working capital management. The Company believes maintaining good supplier relationships is important for long-term business success.

Source: Company data, CMBIGM

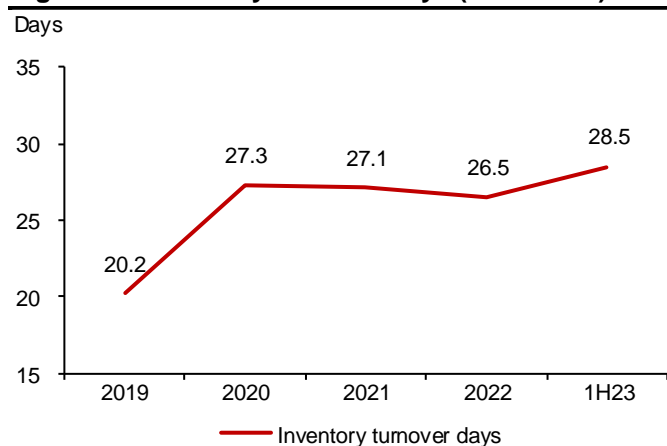
Leveraging competitive strengths and advantages

YSB believes its current competitive strengths and advantages are key to achieving profit and cash breakeven. Its leading position and large scale have become a moat, enabling the Company to grow and capture market share effectively and economically.

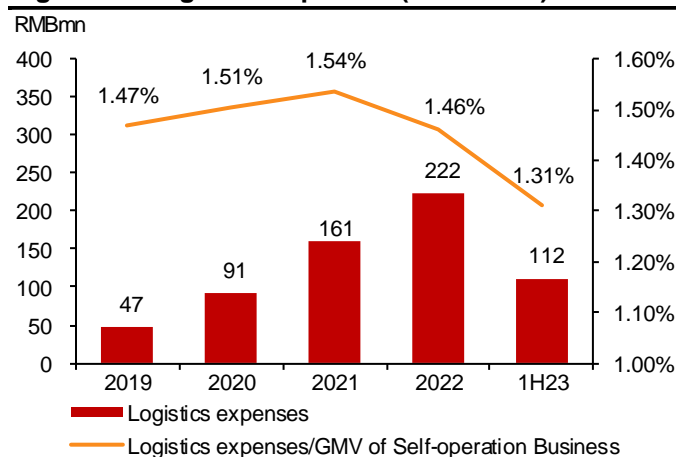
Figure 43: Competitive strengths and advantages

Strengths	Explanation
GMV growth and network expansion	YSB has achieved high growth in total GMV and has the largest digital pharmaceutical transaction and service network in China. The Company plans to expand its coverage and penetration in pharmacies and primary healthcare institutions, expand its buyer base, and improve buyer engagement.
SKU pool diversification	The platform offers a comprehensive SKU pool and has high availability of monthly SKUs. The Company plans to continue enlarging and diversifying its SKU pool.
Efficient supply chain management	In 1H23, YSB maintained efficient supply chain management with inventory turnover days at 28.5 days, order processing and delivery time at 3 hours, and inter-province delivery time at 40 hours for cities and 50 hours for towns. These metrics outperformed the industry average by approximately 20%. Low logistics expenses were also maintained at 1.31% of the GMV of its Self-operation Business in 1H23, much lower than the industry average rate. These factors contribute to providing a time-efficient purchase experience with high-quality products, leading to continuous transactions on the platform.
Integrated ecosystem services	The platform is well connected to SaaS solutions and CertEx certificate exchange platform, providing integrated transaction, operational, and compliance management services. The Company plans to develop advanced functions to assist ecosystem participants further.
Effective BD strategies	YSB's BD strategies are carried out by a dedicated team with digitalized management tools. The Company plans to continue training its BD team and providing them with better digital management tools.

Source: Company data, CMBIGM

Figure 44: Inventory turnover days (2019-1H23)

Source: Company data, CMBIGM

Figure 45: Logistics expenses (2019-1H23)

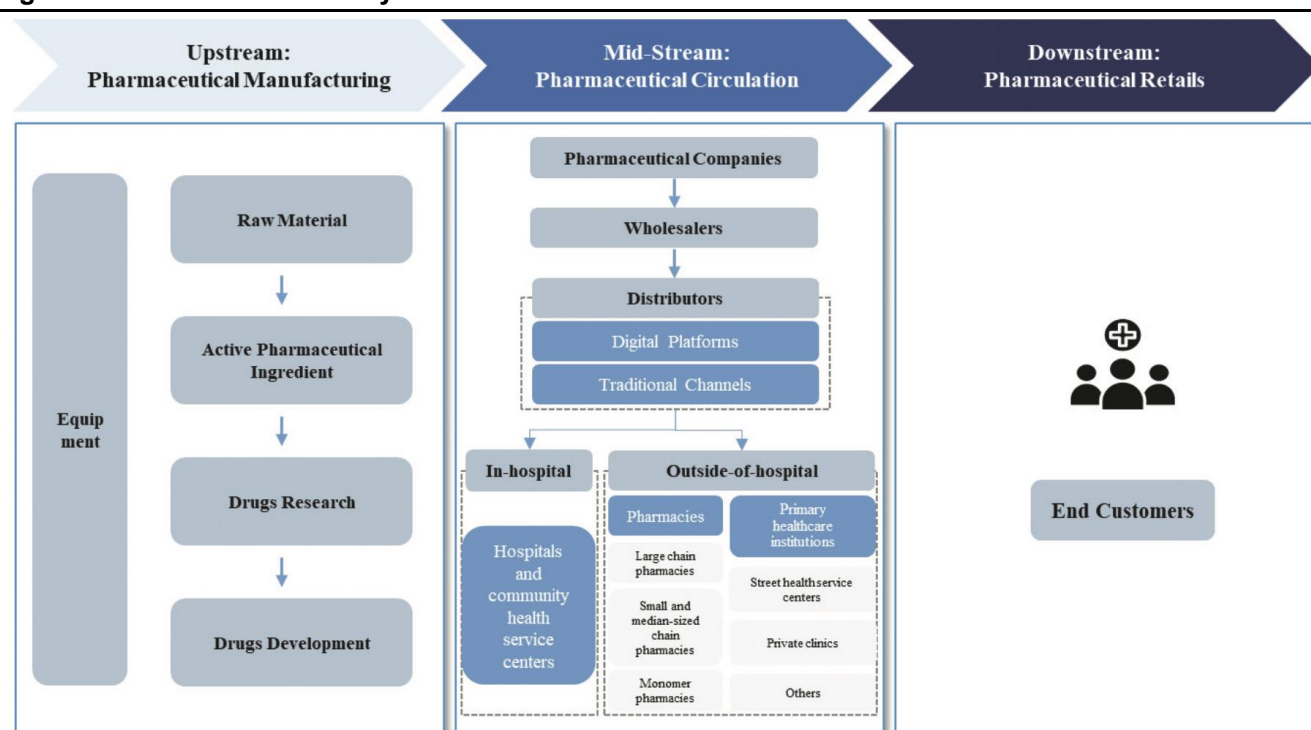
Source: Company data, CMBIGM

Industry overview

The growing pharmaceutical market in China

China's pharmaceutical industry value chain comprises pharmaceutical manufacturing, pharmaceutical circulation, and pharmaceutical retail. The pharmaceutical market is divided into the in-hospital market and the outside-of-hospital market, with hospitals being the main in-hospital terminals and pharmacies and primary healthcare institutions being the main outside-of-hospital terminals. Pharmacies are further categorized into large chain, small and medium-sized chain, and monomer pharmacies, while primary healthcare institutions are categorized into health service centers/stations, village clinics, and private clinics. Outside-of-hospital primary terminals, consisting of small and medium-sized chain pharmacies, monomer pharmacies, and primary healthcare institutions, are mainly located in lower-tier cities, remote areas, and uptown areas, and serve the pharmaceutical demand from the primary level.

Figure 46: Overview of Industry Value Chain of China's Pharmaceutical Market



Source: Frost & Sullivan, CMBIGM

Fragmented Outside-of-hospital Market

Compared with in-hospital terminals, outside-of-hospital terminals, especially the terminals at the primary healthcare level, are greater in number, smaller in size, and dispersed and fragmented. In addition, outside-of-hospital terminals can only serve the area within a limited radius, covering end customers within certain geographical areas. Therefore, pharmaceutical procurement by outside-of-hospital terminals features high frequency, small ticket size and scattered SKU demand. In the meantime, limited liquidity, low inventory level and fast turnover of outside-of-hospital terminals require prompt and in-time delivery. In addition, the capital turnover of outside-of-hospital terminals is usually higher than that of in-hospital terminals. Such capital turnover of outside-of-hospital terminals is typically within one month. The figure below demonstrates the main difference between the in-hospital and the outside-of-hospital market.

Figure 47: Comparison of In-hospital Market and Outside-of-hospital Market

	Downstream Terminals	Upstream Suppliers	SKU	Procurement Frequency	Requirement on Delivery	Capital Turnover
In-hospital Market	<ul style="list-style-type: none"> • Class I hospitals • Class II hospitals • Class III hospitals 	<ul style="list-style-type: none"> • Large nationwide pharmaceutical distributors 	<ul style="list-style-type: none"> • Prescription drugs • OTC drugs 	<ul style="list-style-type: none"> • Low frequency with large demand on amounts for each order 	<ul style="list-style-type: none"> • Low requirement with low difficulties 	<ul style="list-style-type: none"> • 3-6 months
Outside-of-hospital Market	<ul style="list-style-type: none"> • Pharmacies • Primary healthcare institutions 	<ul style="list-style-type: none"> • Large nationwide pharmaceutical distributors • Regional median- and small-sized distributors 	<ul style="list-style-type: none"> • OTC drugs (Primary) • Prescription drugs • Non-pharmaceutical health products 	<ul style="list-style-type: none"> • High frequency with low demand on amounts for each order 	<ul style="list-style-type: none"> • High requirement with high difficulties 	<ul style="list-style-type: none"> • 0-3 months

Source: Frost & Sullivan, CMBIGM

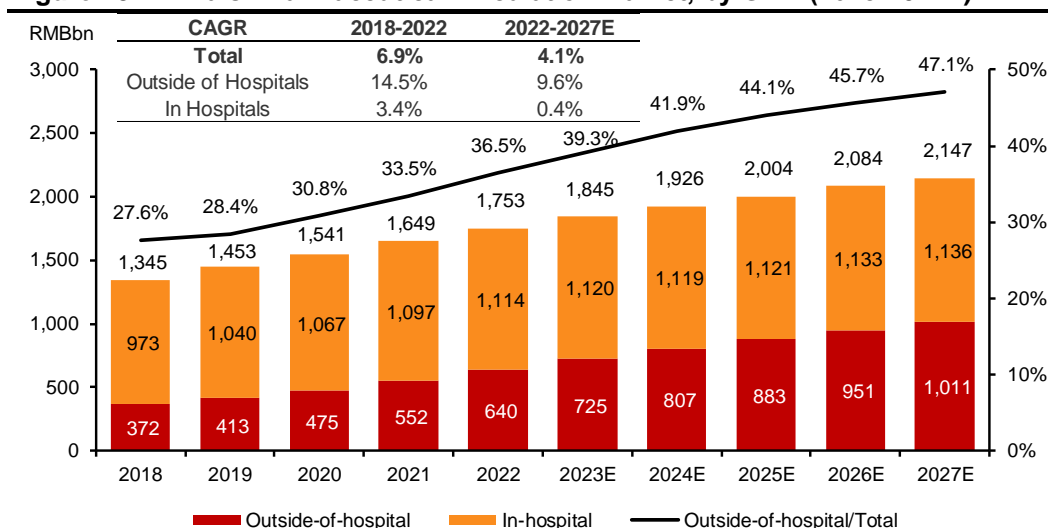
On the supply side of the outside-of-hospital market, as of the end of 2022, China had approximately 14,000 pharmaceutical distributors, with the top three in aggregate representing around 27% market share, far lower than that in the US which is more than 65% market share. According to Frost & Sullivan, although the number of pharmaceutical distributors in China is not expected to experience notable growth in the next five years, the market will continue to stay highly fragmented for a certain period of time.

On the retail side of the outside-of-hospital market, the main terminals are pharmacies and primary healthcare institutions. On the pharmacy front, as of the end of 2021, China had a total of 600,000 pharmacies, 21.0% of which were large chain pharmacies and 79.0% of which were small and medium-sized chain pharmacies and monomer pharmacies. The top 20 pharmacies only accounted for approximately 27% market share in 2020, lower than that of 50% in the US. For primary healthcare institutions, as of the end of 2021, China had around 977,790 primary healthcare institutions, largely located in lower tier cities and remote areas.

Growing pharmaceutical circulation market driven by the outside-of-hospital segment

Following similar trajectory of the retail market, China's pharmaceutical circulation market experienced meaningful growth in the past five years from RMB1.3tn in 2018 to RMB1.8tn in 2022, representing a CAGR of 6.9%. In the next five years, the pharmaceutical circulation market is estimated to maintain a stable growth at a CAGR of 4.1% and rise from RMB1.8tn in 2022 to RMB2.1tn in 2027.

The outside-of-hospital pharmaceutical circulation market is expected to be an important driver of the growth in the overall pharmaceutical circulation market. The outside-of-hospital pharmaceutical circulation market grew from RMB371.6bn in 2018 to RMB639.7bn in 2022 at a CAGR of 14.5%, and the corresponding percentage of the overall pharmaceutical circulation market grew from 27.6% in 2018 to 36.5% in 2022. Over the next five years, the outside-of-hospital pharmaceutical circulation market will grow further from RMB639.7bn in 2022 to RMB1.0tn in 2027 at a CAGR of 9.6%, increasing the penetration rate of the overall circulation market from 36.5% in 2022 to 47.1% in 2027.

Figure 48: China's Pharmaceutical Circulation Market, by GMV (2018-2027E)

Source: Frost & Sullivan, CMBIGM

Figure 49: Key drivers of outside-of-hospital pharmaceutical circulation market

Key Drivers	Explanation
Favourable policies on the prescription outflow	The Key Tasks for Deepening the Reform of the Medical and Health System in 2017, issued in 2017, proposed to explore the interlinkage and real-time sharing of information about prescriptions, medical insurance settlements and the retail sales of pharmaceuticals among healthcare institutions. These measures have been driving the outflow of prescription drugs from the in-hospital market to the outside-of-hospital market, leading to increasing sales of prescription pharmaceuticals in the outside-of-hospital market.
Ever-rising threshold for introduction of new drugs to the in-hospital market	According to Chinese Pharmaceutical Association, of the innovative drugs for tumour treatment that were added to the National Drug Reimbursement List in 2018-2019, only 15% to 25% had made their way into the in-hospital market as of the third quarter of 2020. As a result, new drugs are expected to flow to the outside-of-hospital market, providing customers with a greater selection of SKUs available through pharmacies.
Limited incentives to supply pharmaceuticals to the in-hospital market	The first batch of drugs under the centralised procurement (集中采购) scheme had their prices reduced by 52% on average, with the sharpest price drop being over 90%. As of February 2022, the national government had included seven batches of drugs into the "centralised procurement" scheme, including as many as 290 SKUs. The consensus belief is that the centralised procurement will become a norm, being implemented at a quickened pace and on a wider scale.
Medical resources increasingly allocated to the primary level	The Guiding Principles on the Implementation of the Building of a Graded Diagnosis and Treatment System, issued by the General Office of the State Council in 2015, requires to improve the graded diagnosis and treatment system with a focus at the primary healthcare level. Despite favourable policies, only 50% of the patients in China had their diagnostic and treatment demands fulfilled at primary healthcare institutions in 2022, indicating significant room for growth at the primary healthcare level.
Technologies and new business models	Digital pharmaceutical transactions have lifted geographical barriers, and the management and application of transaction data have enhanced the efficiency of the pharmaceutical supply chain. Compared with the in-hospital market, which is more centralised and highly regulated, outside-of-hospital terminals are more flexible in terms of the application of technologies and business models.

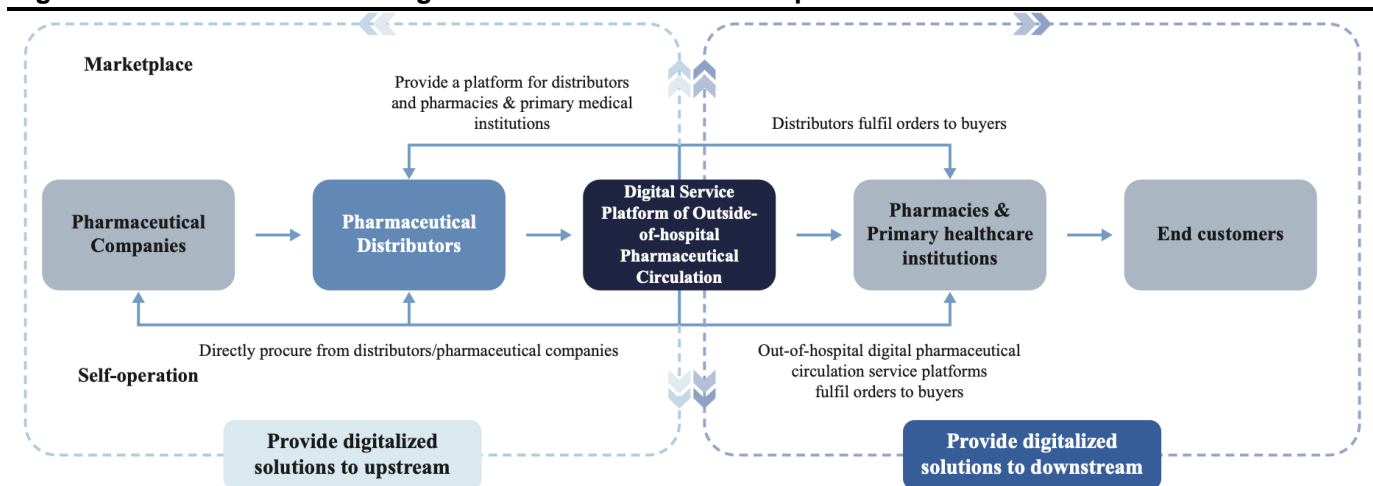
Source: Frost & Sullivan, CMBIGM

Digitalization for out-of-hospital pharmaceutical industry market

Overview of China's digital market of outside-of-hospital pharmaceutical circulation services

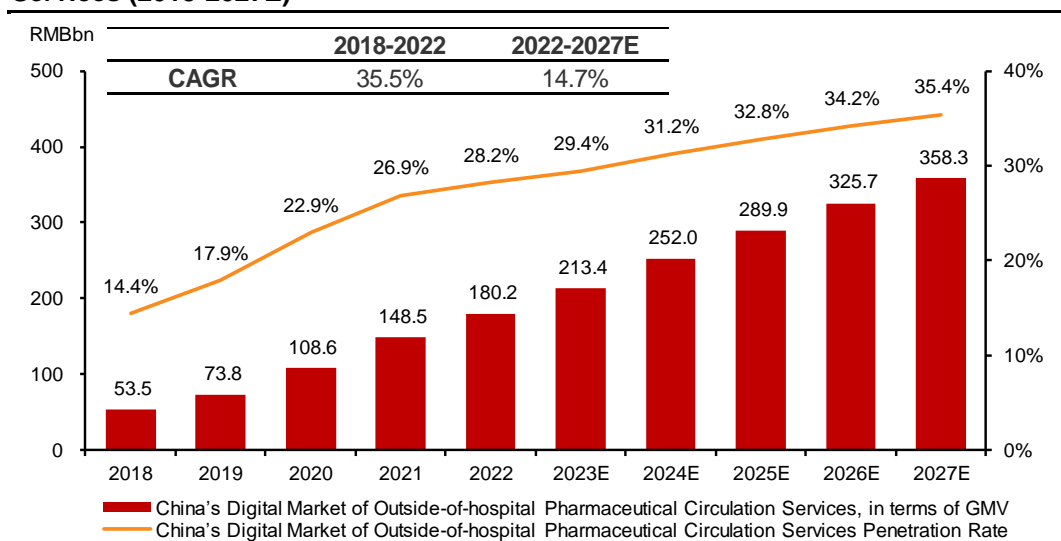
Development in the internet and big data has been digitalizing services for businesses outside-of-hospital. Technologies are applied not only to facilitate online pharmaceutical circulation, but also to empower the outside-of-hospital market players with digital solutions. Digitalised pharmaceutical circulation can be divided into two businesses, namely the marketplace and the self-operation. Under the marketplace, the platform acts as a marketplace to bridge upstream pharmaceutical sellers and downstream pharmaceutical buyers, and facilitate pharmaceutical transactions online. Under the self-operation, a player develops and operates a self-owned supply chain, directly supplying pharmaceuticals to outside-of-hospital terminals in the form of digital commerce transaction on the platform.

Figure 50: Business Model of Digital Market of Outside-of-hospital Pharmaceutical Circulation Services



Source: Frost & Sullivan, CMBIGM

China's digital market of outside-of-hospital pharmaceutical circulation services has experienced rapid growth in recent years. According to Frost & Sullivan, the market size of China's digital market of outside-of-hospital pharmaceutical circulation services in terms of GMV grew from RMB53.5bn in 2018 to RMB180.2bn in 2022 at a CAGR of 35.5%. However, the digitalization of outside-of-hospital pharmaceutical circulation is still at an early stage. As of 2022, the penetration rate of China's digital market of outside-of-hospital pharmaceutical circulation services to the overall outside-of-hospital pharmaceutical circulation market, in terms of GMV, was merely 28.2%, while the percentage for the US during the same period was over 35%, representing a considerable headroom for further growth. According to Frost & Sullivan, the market size of China's digital market of outside-of-hospital pharmaceutical circulation services in terms of GMV is expected to reach RMB358.3bn in 2027 at a CAGR of 14.7%, when the penetration rate of China's digital market of outside-of-hospital pharmaceutical circulation services to the overall outside-of-hospital pharmaceutical circulation market, in terms of GMV, is expected to achieve 35.4%.

Figure 51: China's Digital Market of Outside-of-hospital Pharmaceutical Circulation Services (2018-2027E)


Source: Frost & Sullivan, CMBIGM

Challenges faced by traditional outside-of-hospital pharmaceutical circulation market

There exist challenges in China's outside-of-hospital pharmaceutical circulation industry, especially at the primary healthcare level.

Figure 52: Challenges faced by traditional outside-of-hospital pharmaceutical circulation market

Challenges	Explanation
Fragmented market with supply and demand mismatch	China's outside-of-hospital pharmaceutical transaction and service market is fragmented and regionalized. Large pharmaceutical sellers lack the incentives to serve the demand, especially the long-tailed SKUs, of the small and scattered buyers. Small pharmaceutical sellers may be unable or unwilling to meet certain downstream demand due to lack of scale and resources. As a result, buyers are underserved in many aspects, such as the choice of SKUs, the quantity and quality of products, etc.
Multi-layered market with high transaction costs and low efficiency	Multi-layered market with high transaction costs and low efficiency. Pharmaceutical circulation market is multi-layered in China, which is especially true at the primary healthcare level. The multi-layered structure leads to low efficiency, high transaction costs and unsatisfactory experience for buyers.
Opaque pricing and product tracking difficulties	A highly fragmented and multi-layered market leads to asymmetric information among the industry players, leading to problems such as opaque pricing, difficulties in tracking products, unfair competition, etc., and jeopardising the interests of the participants along the pharmaceutical value chain and the overall safety of pharmaceutical transactions.
Lack of digital management tools at the primary healthcare level	Lack of digital management tools leaves basic management and operational needs, such as supply chain management, in-store management and skill training, largely unsatisfied at the primary healthcare level.

Source: Frost & Sullivan, CMBIGM

Figure 53: Emerging trends of digital service in the outside-of-hospital pharmaceutical circulation market

Trends	Explanation
Online platforms	Online platforms to overcome geographical barriers and connect businesses upstream and downstream seamlessly. Online platforms enable sellers to, at a low cost, reach buyers not sufficiently covered by traditional models, thus bringing in the incremental sales opportunities. Meanwhile, the platforms enable downstream small and medium-sized buyers to procure a more diverse selection of SKUs to satisfy their long-tail demand.
Digital solutions	Digital solutions to improve the operating efficiency. The application of digitalised tools is penetrating every aspect of the operation and management of outside-of-hospital market players. For pharmacies, SaaS solutions can help them achieve better management; for pharmaceutical distributors, the empowerment brought by technologies can significantly enhance their supply chain capabilities.
Data insights	Data insights to identify and monetise more business opportunities. With sophisticated big data analytic tools, service providers can offer valuable data insights to upstream players, allowing them to accurately capture downstream demand so that they can promote their products tailored for such demand.

Source: Frost & Sullivan, CMBIGM

Competitive landscape of China's digital market of out-of-hospital pharmaceutical circulation services

Competitive landscape

The players in China's digital market of outside-of-hospital pharmaceutical circulation services, can be divided into two types. Type one concerns pure online platforms and type two concerns traditional offline pharmaceutical distributors who establish and operate online platforms. The market is dominated by type one players, whose business models mainly include Online Marketplace that matches upstream supply and downstream demand and charges a commission, and Self-operation Business that builds and operates self-owned supply chain and directly sells to the downstream in the form of digital commerce transactions. According to Frost & Sullivan, currently the competition in China's digital market of outside-of-hospital pharmaceutical circulation services is concentrated, with the five leading major players accounting for over 63.5% of the market share. From the following chart, YSB Inc. has the largest market share and ranks first in GMV.

Figure 54: Major players in China's digital market of outside-of-hospital pharmaceutical circulation services

Company	GMV (RMBmn for the twelve months in 2022)	Market Share (Calculated based on GMV)	Market Ranking (Calculated based on GMV)	MAB (Monthly average for the twelve months in 2022)	Market Ranking (Calculated based on MAB)	Percentage of GMV in 2022 from marketplace model	Percentage of GMV in 2022 from self-operation model
YSB	37,833	21.0%	1	308,000	1	59.8%	40.2%
Competitor A	23,000	12.8%	2	120,000	4	99.0%	1.0%
Competitor B	20,000	11.1%	3	230,000	2	100.0%	0.0%
Competitor C	17,969	10.0%	4	175,000	3	25.4%	74.6%
Competitor D	17,101	9.5%	5	110,000	5	<5%	>95%

Source: Frost & Sullivan, CMBIGM

Entry barriers

There are three entry barriers in China's digital market of outside-of-hospital pharmaceutical circulation services: user base and engagement, product quality and brand awareness, and data analytical and technological capabilities.

Figure 55: Entry barriers

Entry Barriers	Explanation
User base and engagement	The flywheel effect is created as a larger buyer base attracts more sellers, which in turn provides a wider variety of products and attracts more buyers. Comprehensive value-added services further improve user engagement and consumption habits. Leading platforms have a first mover advantage, creating high entry barriers for new entrants by developing a diverse and loyal user base.
Product quality and brand awareness	Pharmaceutical distribution is heavily regulated, and downstream terminals have strict requirements on product quality and fulfilment capability when choosing a platform. Established platforms have accumulated know-how, resources, and experience, fostering strong brand awareness and trust with users. New entrants would take a long time to initiate relationships, accumulate experience, and create a standardized management system.
Data analytical and technological capabilities	Data analytical capability and advanced technology are crucial for platform competitiveness. Leading platforms have accumulated massive transaction data and invested in acquiring and training IT talents to improve their technologies. Their deep data insights, industry know-how, and technological barriers make it difficult for new entrants to copy and surpass them in the short term.

Source: Frost & Sullivan, CMBIGM

Financial analysis

Expect revenue to grow at CAGR of 34% in 2022-25E

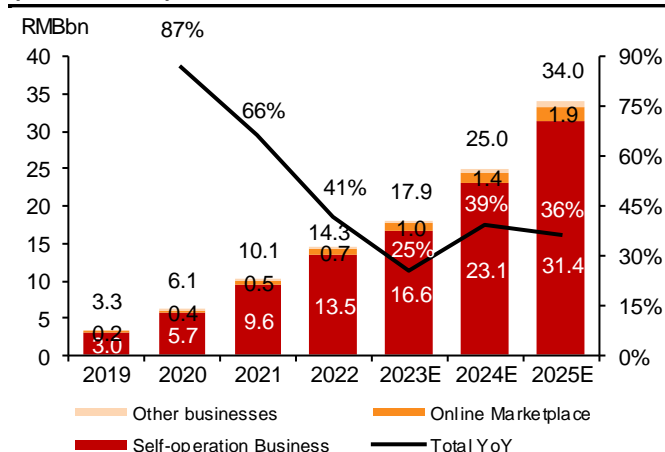
YSB recorded rapid revenue growth over 2019-2022 with revenue increasing by 87%/ 66%/ 41% YoY in 2020/ 21/ 22, respectively, mainly thanks to its growing Self-operation Business in the outside-of-hospital market in China, with a focus on retail pharmacies and primary healthcare institutions. We expect such strong growth momentum to continue, with its revenue reaching RMB17,902mn/ RMB24,960mn/ RMB34,030mn in 2023E/ 24E/ 25E, representing 25.4%/ 39.4%/ 36.3% YoY growth for respective years.

Self-operation Business is the largest segment of YSB, contributing 95% of the total revenue in 2022. We expect the segment revenue to grow by 23.1%/ 38.9%/ 35.8% YoY to RMB16,635mn/ RMB23,104mn/ RMB31,367mn in 2023E/ 24E/ 25E, respectively, driven by the continuously enlarged buyer base and increased buyer engagement, which also reflects the enhancing capabilities of YSB in connecting upstream suppliers (the increasing SKU pool) with downstream buyers via its logistics network.

For Online Marketplace, we forecast revenue of RMB1,003mn/ RMB1,386mn/ RMB1,885mn in 2023E/ 24E/ 25E, representing YoY growth of 44.5%/ 38.2%/ 36.0%, respectively. Revenue growth of this segment will be mainly driven by increased seller and buyer base and number of order placed, reflecting the high recognition of YSB as an effective and reliable channel for both upstream and downstream participants.

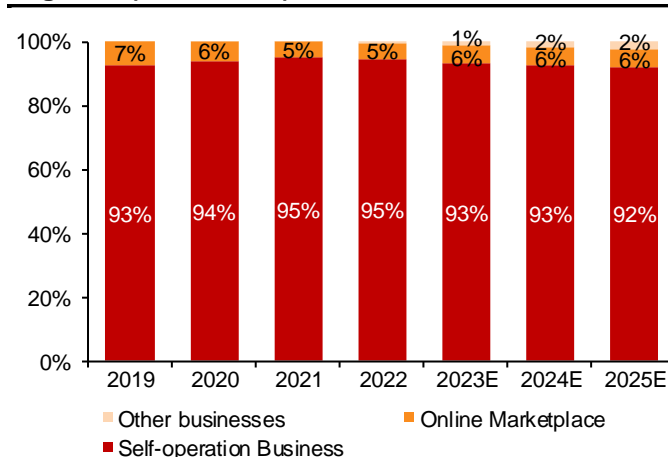
For other businesses, we forecast revenue of RMB264mn/ RMB469mn/ RMB778mn in 2023E/ 24E/ 25E, representing YoY growth of 328.0%/ 78.0%/ 65.7%, respectively. Revenue growth of segment will be mainly driven by 1) an increase in revenue from its SaaS solutions; 2) the increasing adoption of wePharmacy services; and 3) revenue contribution from medical testing service, ClouDiagnos.

Figure 56: Revenue and revenue growth forecasts (2019-2025E)



Source: Company data, CMBIGM estimates

Figure 57: Revenue breakdown (%) by business segment (2019-2025E)



Source: Company data, CMBIGM estimates

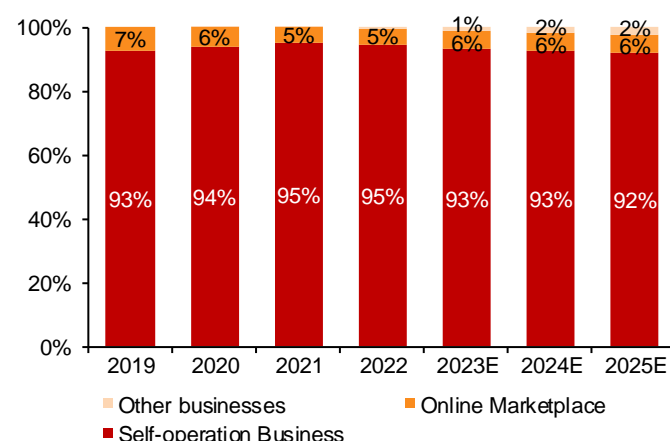
We forecast the Company's blended gross profit margin (GPM) of 10.6%/ 11.5%/ 12.3% in 2023E/ 24E/ 25E, respectively.

GPM of Self-operation Business increased from 1.3% in 2019 to 6.2% in 2022, which was primarily driven by 1) the optimization of procurement channels; 2) the increasing portion of direct procurement from pharmaceutical companies; and 3) the increasing bargaining power in procurement from suppliers as the operations of this segment became more

mature. As the segment continues to expand its scale, we assume GPM of Self-operation Business to further improve in future years, reaching 6.2%/ 7.2%/ 7.9% in 2023E/ 24E/ 25E, respectively.

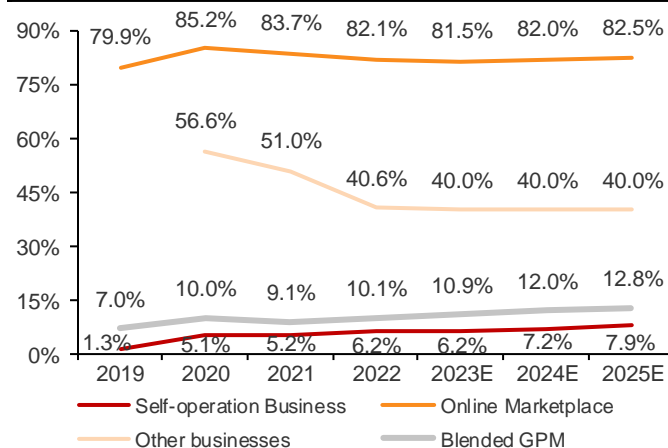
GPM of Online Marketplace improved from 79.9% in 2019 to 85.2% in 2020, primarily due to the lower fee charged for transaction processing fee paid to third-party payment service provider. The GPM of the segment moderately decreased from 85.2% in 2020 to 82.1% in 2022, which was mainly due to a higher overall transaction processing fee as well as the inter-segment elimination of commission generated from Self-operation Business. Considering the growing GMV transacted via Online Marketplace, we forecast the Online Marketplace to improve its GPM to 81.5%/ 82.0%/ 82.5% in 2023E/ 24E/ 25E, respectively.

Figure 58: Gross profit and GMP (2019-2025E)



Source: Company data, CMBIGM estimates

Figure 59: GPM by business segment (2019-2025E)

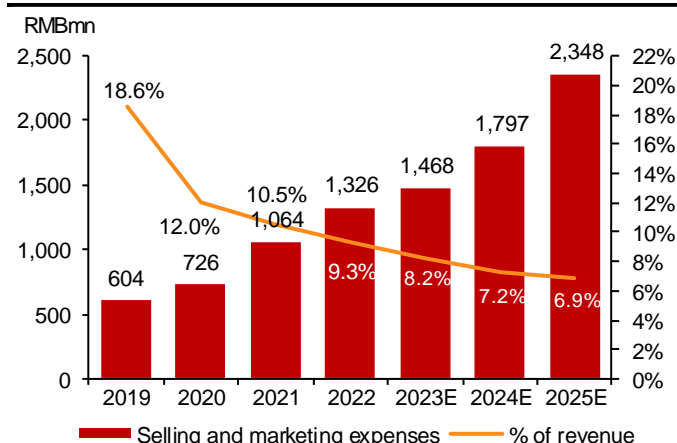


Source: Company data, CMBIGM estimates

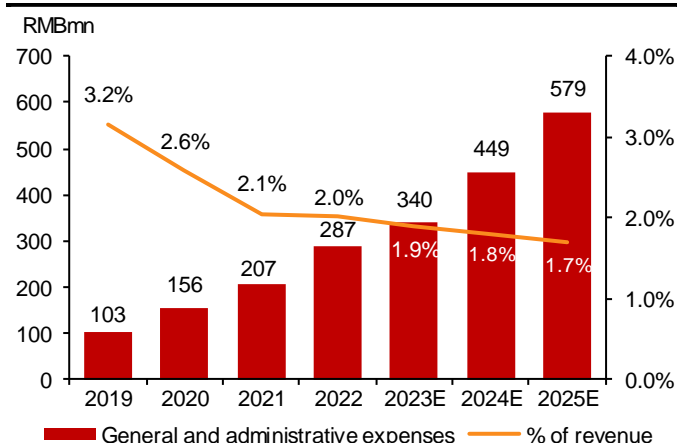
Non-IFRS adjusted net profit to turn positive in 2023E thanks to the economies of scale

During 2019-22, operating expenses (selling and marketing expense, R&D expense, and G&A expense) to sales ratios consistently improved thanks to higher operation efficiency and scale effect. Operating expenses to sales ratios dropped from 22.4% in 2019 to 11.9% in 2022. We project such trend to continue, with selling and marketing expense to sales ratio of 8.2%/ 7.2%/ 6.9%, R&D expense to sales ratio of 0.6%/ 0.6%/ 0.7%, and general and administrative expense to sales ratio of 1.9%/ 1.8%/ 1.7% in 2023E/ 24E/ 25E, respectively.

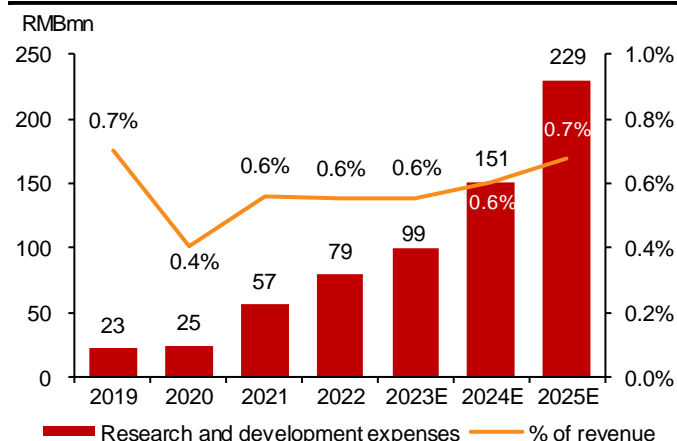
We project non-IFRS adjusted net profit, excluding impacts from fair value losses of financial liabilities at FVTPL, share-based payments and listing expenses, to turn positive from 2023E, as GP margin and operating margin keep improving with scale effect. We forecast YSB's non-IFRS adjusted net profits to reach RMB179mn/ RM716mn / RMB1,415mn in 2023E /24E /25E, respectively.

Figure 60: Selling and marketing expenses and selling and marketing expense ratio (2019-2025E)

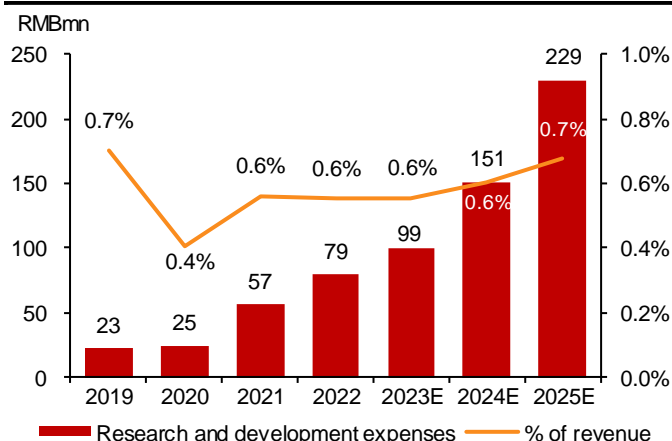
Source: Company data, CMBIGM estimates

Figure 61: Administrative expenses and administrative expense to sales ratio (2019-2025E)

Source: Company data, CMBIGM estimates

Figure 62: R&D expenses and R&D expense ratio (2019-2025E)

Source: Company data, CMBIGM estimates

Figure 63: Adjusted net profit and adjusted net profit margin (NPM) forecasts (2019-2025E)

Source: Company data, CMBIGM estimates

Figure 64: P&L forecasts (2019-2025E)

(YE 31 Dec)	2019	2020	2021	2022	2023E	2024E	2025E
RMB mn							
Revenue	3,251	6,065	10,094	14,275	17,902	24,960	34,030
YoY		86.6%	66.4%	41.4%	25.4%	39.4%	36.3%
Cost of services	(3,022)	(5,456)	(9,180)	(12,840)	(15,948)	(21,972)	(29,686)
% of revenue	-93.0%	-90.0%	-90.9%	-89.9%	-89.1%	-88.0%	-87.2%
Gross profit	229	609	914	1,435	1,954	2,988	4,344
GPM	7.0%	10.0%	9.1%	10.1%	10.9%	12.0%	12.8%
Selling and marketing expenses	(604)	(726)	(1,064)	(1,326)	(1,468)	(1,797)	(2,348)
% of revenue	-18.6%	-12.0%	-10.5%	-9.3%	-8.2%	-7.2%	-6.9%
General and administrative expenses	(103)	(156)	(207)	(287)	(340)	(449)	(579)
% of revenue	-3.2%	-2.6%	-2.1%	-2.0%	-1.9%	-1.8%	-1.7%
Research and development expenses	(23)	(25)	(57)	(79)	(99)	(151)	(229)
% of revenue	-0.7%	-0.4%	-0.6%	-0.6%	-0.6%	-0.6%	-0.7%
Other income	44	44	62	89	63	81	170
% of revenue	1.4%	0.7%	0.6%	0.6%	0.4%	0.3%	0.5%
Other gains and losses	(1)	(14)	(9)	20	0	0	0
% of revenue	0.0%	-0.2%	-0.1%	0.1%	0.0%	0.0%	0.0%
Changes in fair value of financial liabilities at fair value through profit and loss ("FVTPL")	(580)	(294)	(129)	(1,300)	(3,172)	0	0
% of revenue	-17.9%	-4.9%	-1.3%	-9.1%	-17.7%	0.0%	0.0%

Impairment losses recognised under expected credit loss model, net	(1)	(3)	(2)	(2)	0	0	0
% of revenue	0.0%	-0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Listing expenses	0	0	(4)	(37)	(14)	0	0
% of revenue	0.0%	0.0%	0.0%	-0.3%	-0.1%	0.0%	0.0%
Finance costs	(8)	(10)	(8)	(10)	(11)	(11)	(11)
% of revenue	-0.3%	-0.2%	-0.1%	-0.1%	-0.1%	0.0%	0.0%
Profit (loss) before tax	(1,047)	(576)	(503)	(1,497)	(3,086)	660	1,348
PBT margin	-32.2%	-9.5%	-5.0%	-10.5%	-17.2%	2.6%	4.0%
Income tax credit (expense)	1	5	1	(3)	0	0	0
% tax rate	0.1%	0.8%	0.3%	-0.2%	0.0%	0.0%	0.0%
Total net profit (loss)	(1,046)	(572)	(502)	(1,500)	(3,086)	660	1,348
Non-controlling interests	0	0	(8)	(11)	(23)	5	10
Attributable net profit (loss)	(1,046)	(572)	(494)	(1,489)	(3,063)	655	1,337
NPM	-32.2%	-9.4%	-4.9%	-10.4%	-17.1%	2.6%	3.9%
Non-IFRS adjusted net profit (loss)	(465)	(277)	(344)	(125)	179	716	1,415
Non-IFRS NPM	-14.3%	-4.6%	-3.4%	-0.9%	1.0%	2.9%	4.2%

Source: Company data, CMBIGM estimates

Valuation

We derive a TP of HK\$57.97 on a 10-year DCF valuation with WACC of 13.7% and terminal growth rate of 3.0%. We are positive on the enhancing capabilities of YSB in connecting upstream suppliers with downstream buyers via its B2B pharmaceutical network, as well as the high recognition of YSB as an effective and reliable channel for both upstream and downstream participants.

Figure 65: DCF valuation of YSB

DCF Valuation (in RMB mn)	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
EBIT	(3,075)	671	1,358	2,061	2,730	3,590	4,686	6,068	7,797	9,941
Tax rate	0.0%	0.0%	0.0%	2.0%	15.0%	15.0%	15.0%	15.0%	15.0%	15.0%
EBIT*(1-tax rate)	(3,075)	671	1,358	2,019	2,321	3,052	3,983	5,158	6,628	8,450
+ D&A	112	104	102	102	102	102	102	102	102	102
- Change in working capital	237	255	329	(156)	(203)	(262)	(336)	(426)	(537)	(672)
- Capex	(51)	(58)	(67)	(78)	(78)	(78)	(78)	(78)	(78)	(78)
FCFF	(2,778)	973	1,722	1,888	2,142	2,814	3,672	4,756	6,115	7,803
Terminal value										75,044
Terminal growth rate	3.0%									
WACC	13.7%									
Cost of equity	17.4%									
Cost of debt	6.0%									
Equity beta	1.20									
Risk free rate	3.00%									
Market risk premium	12.00%									
Target debt to asset ratio	30.0%									
Effective corporate tax rate	15.0%									
PV of terminal value (RMB mn)	20,765									
Total PV (RMB mn)	31,081									
Net debt (RMB mn)	(1,945)									
Minority interest (RMB mn)	(42)									
Equity value (RMB mn)	33,068									
Equity value (HK\$ mn)	36,743									
Price per share (HK\$)	57.97									

Source: CMBIGM estimates. HK\$/RMB = 0.9

Figure 66: Valuation range based on sensitivity analysis

Price per share (HK\$)		WACC				
		12.7%	13.2%	13.7%	14.2%	14.7%
Terminal growth rate	4.0%	72.28	66.90	62.11	57.84	54.01
	3.5%	69.38	64.39	59.94	55.95	52.35
	3.0%	66.77	62.13	57.97	54.23	50.84
	2.5%	64.42	60.09	56.18	52.65	49.44
	2.0%	62.29	58.22	54.54	51.20	48.16

Source: CMBIGM estimates

Figure 67: Peers table

Company	Ticker	Mkt cap RMBmn	P/S(x)			3- year CAGR of revenue	P/E(x)			3- year CAGR of net income
			FY23E	FY24E	FY25E		FY23E	FY24E	FY25E	
Sinopharm	1099 HK	62,766	0.10	0.09	0.08	10.4%	6.60	5.93	5.30	11.6%
SH Pharm	2607 HK	44,079	0.17	0.15	0.14	10.1%	7.15	6.52	5.91	9.9%
CR Pharm	3320 HK	30,811	0.11	0.10	0.09	10.8%	6.55	5.85	5.31	11.8%
Jointown	600998 CH	26,245	0.16	0.15	0.13	13.2%	9.98	8.39	7.10	21.1%
JD Health	6618 HK	120,615	2.13	1.71	1.38	23.1%	37.62	30.17	24.60	23.3%
Ali Health	241 HK	53,694	1.71	1.43	1.20	18.6%	71.90	51.62	36.40	25.2%
PingAn Health	1833 HK	17,304	2.85	2.53	2.20	8.5%	nm	nm	nm	nm
YSB	9885 HK	34,575	1.93	1.39	1.02	33.6%	193.03	48.27	24.44	nm
Average			1.15	0.94	0.78	16.0%	47.55	22.39	15.58	17.1%

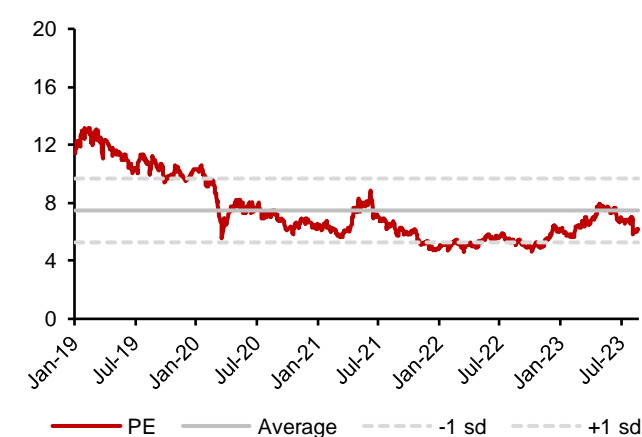
Source: Bloomberg, WIND, CMBIGM. As of 23 Aug 2023. P/S and P/E for PingAn Health and YSB are based on CMBIGM forecasts.

Figure 68: JD Health's 12-month forward PE



Source: Bloomberg, CMBIGM

Figure 69: Sinopharm's 12-month forward PE



Source: Bloomberg, CMBIGM

Investment risks

YSB is in the early stage of expanding its business and breakeven time is subject to uncertainties

Launched in 2014, YSB is still in the early stage of expanding its business and is faced with uncertainties to maintain its competency in the market. China's general healthcare and wellness market is highly competitive and key competitors include B2B platforms and traditional pharmaceutical distributors. These companies may have substantially greater financial, technical, research and development, marketing, distribution and other resources than YSB. They may also have longer operating histories, a larger customer base or broader and deeper market coverage. Furthermore, when it expands into other markets, YSB will face competition from new competitors, domestic or foreign, who may also enter markets where YSB currently operates.

Many operators in the healthcare industry have consolidated in recent years to create larger healthcare enterprises with greater bargaining power, which has resulted in greater pricing pressures. If this consolidation trend continues, it could give the resulting enterprises even greater bargaining power, which may lead to further competitive pressure. New partnerships and strategic alliances in the healthcare industry can also alter market dynamics and adversely impact YSB's businesses and competitive positioning. In addition, the technologies that YSB and its competitors employ are evolving rapidly, and new developments frequently result in price competition, product obsolescence and altered market landscape.

YSB has incurred net losses since its inception, with non-IFRS adjusted net losses of RMB465mn, RMB277mn, RMB344mn and RMB125mn for 2019, 2020, 2021, and 2022, respectively. YSB expects its operating costs and expenses to increase in the future in absolute terms as the Company expands its operations. The Company may also incur additional legal, accounting, and other expenses as a public company. If its revenue does not grow at a greater rate than expenses, YSB will not be able to achieve and maintain profitability. The Company may incur significant losses in the future for various reasons, many of which may be beyond its control. If cost of sales and expenses continuously exceed its revenue, YSB business may be materially and adversely affected and it may not be able to achieve or maintain profitability.

Buyers on YSB's platform mainly consist of small- to mid-sized pharmacies and primary healthcare institutions, whose demand and purchasing power fluctuate

YSB served around 354,000 downstream pharmacies and around 173,000 primary healthcare institutions as of 31 Dec 2022. The level of market demand and purchasing power of the end customers in China may affect the business of those downstream pharmacies and primary healthcare institutions, which may in turn affect the business, financial condition and results of operations of YSB. A number of factors beyond YSB's control may affect the level of market demand and purchasing power of the end customers, including general economic and industry conditions; disposable income of end customers; unemployment levels; minimum wages and personal debt levels of end customers; outbreak of viruses or widespread illness, including COVID-19 caused by the novel coronavirus; negative reports and publicity about the healthcare and pharmaceutical industry; fluctuations in the financial markets; and natural disasters, war, terrorism and other hostilities.

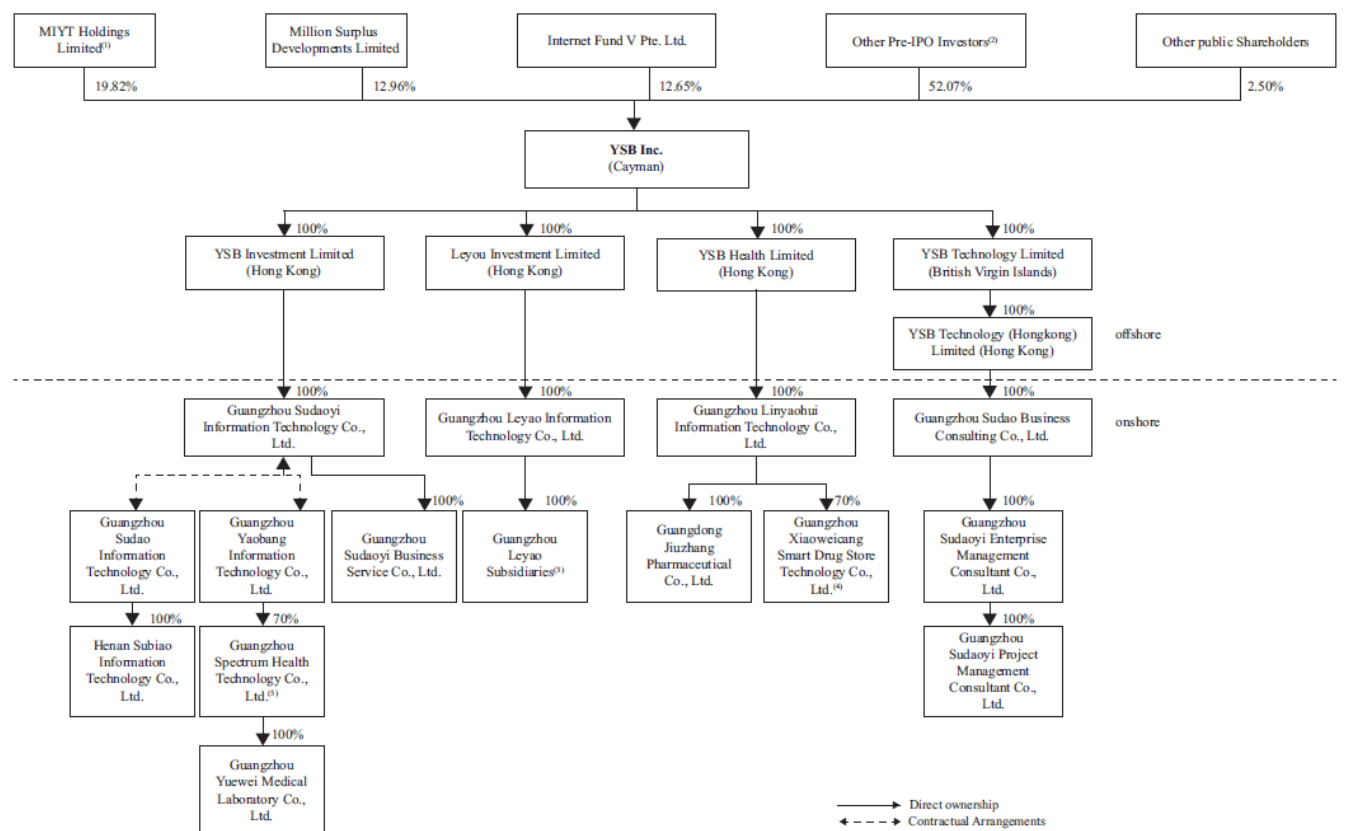
YSB is subject to extensive and evolving legal and regulatory requirement

Due to the complex nature of its business, YSB is subject to legal and regulatory requirements of multiple industries in China, primarily including internet, healthcare, pharmaceutical and out-of-hospital pharmaceutical circulation industries. Various regulatory authorities of the Chinese government are empowered to promulgate and implement regulations governing broad aspects of the internet and healthcare industries. In respect of the healthcare industry, in particular, any violation of the relevant laws, rules and regulations may result in harsh penalties and, under certain circumstances, lead to criminal prosecution. Meanwhile, the regulations of both the internet industry and healthcare industry are evolving, and their interpretation and enforcement involve significant uncertainty.

The pharmaceutical circulation industry in China is subject to extensive government regulation and supervision as well as monitoring by various governmental authorities. Certain other laws, rules and regulations may affect the pricing, demand and distribution of pharmaceutical products, such as those relating to procurement, prescription and dispensing of drugs by hospitals and other medical institutions, retail pharmacy, government funding for private healthcare and medical services, and the inclusion of products in the drugs catalogues for national basic medical insurance, on-the-job injury insurance and maternity insurance promulgated by the Ministry of Human Resources and Social Security of the People's Republic of China, or the MOHRSS. Any unfavourable regulatory changes in these industries may increase compliance burden and materially and adversely affect YSB's business, profitability and prospects.

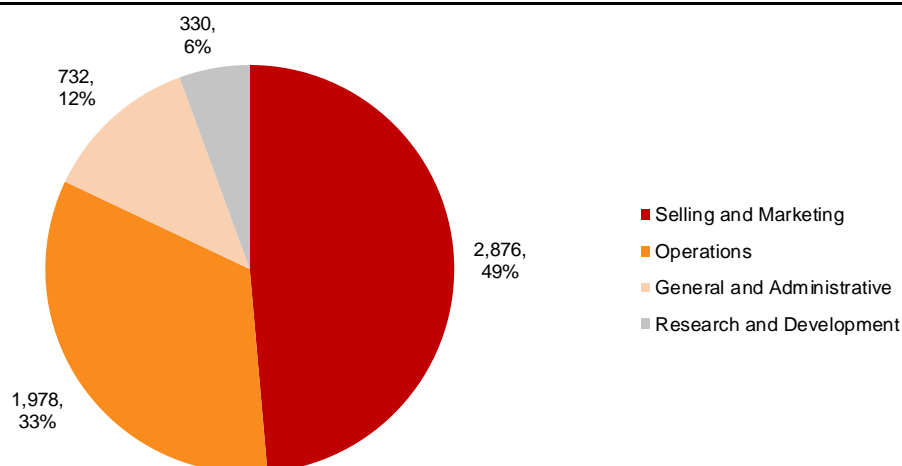
Appendix: Company Profile

Figure 70: Shareholder structure immediately after IPO



Source: Company data, CMBIGM

Figure 71: Employee structure as of Dec 2022



Source: Company data, CMBIGM

Financial Summary

INCOME STATEMENT	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Revenue	6,065	10,094	14,275	17,902	24,960	34,030
Cost of goods sold	(5,456)	(9,180)	(12,840)	(15,948)	(21,972)	(29,686)
Gross profit	609	914	1,435	1,954	2,988	4,344
Operating expenses	(877)	(1,274)	(1,583)	(1,844)	(2,317)	(2,986)
Selling expense	(726)	(1,064)	(1,326)	(1,468)	(1,797)	(2,348)
Admin expense	(156)	(207)	(287)	(340)	(449)	(579)
R&D expense	(25)	(57)	(79)	(99)	(151)	(229)
Others	30	54	109	63	81	170
Operating profit	(268)	(360)	(148)	110	671	1,358
Gain/loss on financial assets at FVTPL	(294)	(129)	(1,300)	(3,172)	0	0
Other gains/(losses)	(3)	(6)	(39)	(14)	0	0
Net interest income/(expense)	(10)	(8)	(10)	(11)	(11)	(11)
Pre-tax profit	(576)	(503)	(1,497)	(3,086)	660	1,348
Income tax	5	1	(3)	0	0	0
After tax profit	(572)	(502)	(1,500)	(3,086)	660	1,348
Minority interest	0	(8)	(11)	(23)	5	10
Net profit	(572)	(494)	(1,489)	(3,063)	655	1,337
Adjusted net profit	(277)	(344)	(125)	179	716	1,415
BALANCE SHEET	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Current assets	1,793	2,573	3,685	4,718	6,267	8,734
Cash & equivalents	131	384	835	1,506	2,547	4,348
Restricted cash	158	209	298	298	298	298
Account receivables	528	375	503	687	821	1,026
Inventories	516	848	1,016	1,223	1,625	2,115
ST bank deposits	76	244	320	320	320	320
Financial assets at FVTPL	345	513	711	683	655	627
Other current assets	39	0	0	0	0	0
Non-current assets	798	864	424	368	326	297
PP&E	79	107	98	90	90	96
Right-of-use assets	142	168	166	123	87	56
Intangibles	63	113	99	94	89	84
Other non-current assets	515	476	61	61	61	61
Total assets	2,591	3,437	4,109	5,086	6,593	9,031
Current liabilities	4,948	6,226	8,376	3,131	3,922	4,945
Short-term borrowings	97	0	0	0	0	0
Account payables	1,833	1,930	2,398	3,015	3,792	4,798
Other current liabilities	2,931	4,222	5,872	0	0	0
Lease liabilities	47	64	81	81	81	81
Contract liabilities	40	9	24	35	48	65
Non-current liabilities	105	120	103	103	103	103
Obligations under finance leases	105	118	99	99	99	99
Other non-current liabilities	0	2	3	3	3	3
Total liabilities	5,053	6,345	8,478	3,234	4,024	5,047
Share capital	0	0	0	0	0	0
Retained earnings	(2,462)	(2,901)	(4,351)	1,895	2,606	4,010
Total shareholders equity	(2,462)	(2,901)	(4,351)	1,895	2,606	4,010
Minority interest	0	(8)	(19)	(42)	(37)	(27)
Total equity and liabilities	2,591	3,437	4,109	5,086	6,593	9,031

CASH FLOW	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec (RMB mn)						
Operating						
Profit before taxation	(576)	(503)	(1,497)	(3,086)	660	1,348
Depreciation & amortization	82	102	135	112	104	102
Tax paid	0	0	0	0	0	0
Change in working capital	75	(211)	190	237	255	329
Others	294	125	1,270	3,194	14	(64)
Net cash from operations	(124)	(487)	98	456	1,034	1,713
Investing						
Capital expenditure	(22)	(67)	(39)	(51)	(58)	(67)
Acquisition of subsidiaries/ investments	(5)	(10)	0	0	0	0
Net proceeds from disposal of short-term investments	(333)	(258)	106	0	0	0
Others	37	(17)	(26)	59	76	165
Net cash from investing	(324)	(353)	41	7	18	98
Financing						
Net borrowings	211	(6)	0	0	0	0
Proceeds from share issues	0	1,163	350	218	0	0
Others	(52)	(32)	(88)	(11)	(11)	(11)
Net cash from financing	158	1,125	262	207	(11)	(11)
Net change in cash						
Cash at the beginning of the year	420	131	415	835	1,506	2,547
Exchange difference	0	0	19	0	0	0
Cash at the end of the year	131	415	835	1,506	2,547	4,348
GROWTH	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Revenue	86.6%	66.4%	41.4%	25.4%	39.4%	36.3%
Gross profit	166.0%	50.1%	57.0%	36.2%	52.9%	45.4%
Operating profit	na	na	na	na	508.2%	102.4%
Net profit	na	na	na	na	na	104.1%
Adj. net profit	na	na	na	na	299.9%	97.5%
PROFITABILITY	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Gross profit margin	10.0%	9.1%	10.1%	10.9%	12.0%	12.8%
Operating margin	(4.4%)	(3.6%)	(1.0%)	0.6%	2.7%	4.0%
Adj. net profit margin	(4.6%)	(3.4%)	(0.9%)	1.0%	2.9%	4.2%
Return on equity (ROE)	na	na	na	na	29.1%	40.4%
GEARING/LIQUIDITY/ACTIVITIES	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
Net debt to equity (x)	na	na	na	(1.0)	(1.1)	(1.2)
Current ratio (x)	0.4	0.4	0.4	1.5	1.6	1.8
Receivable turnover days	32.6	16.3	11.2	14.0	12.0	11.0
Inventory turnover days	27.3	27.1	26.5	28.0	27.0	26.0
Payable turnover days	103.0	74.8	61.5	69.0	63.0	59.0
VALUATION	2020A	2021A	2022A	2023E	2024E	2025E
YE 31 Dec						
P/S	na	na	na	1.1	0.8	0.6
P/E (adjusted)	na	na	na	39.4	20.0	13.5
P/B	na	na	na	15.7	11.3	7.3
P/CFPS	na	na	na	63.8	28.2	17.0

Source: Company data, CMBIGM estimates. Note: The calculation of net cash includes financial assets.

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