

Q3 2019 Earnings Call

Company Participants

- David Liu, Vice President of Strategy
- Unidentified Speaker
- Xin Yi Lim, Investor Relations
- Zheng Huang, Chairman of the Board of Directors and Chief Executive Officer

Other Participants

- Alicia Yap, Analyst
- Grace Chen, Analyst
- Gregory Zhao, Analyst
- Jerry Liu, Analyst
- Natalie Wu, Analyst
- Thomas Chong, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Pinduoduo Third Quarter of 2019 Earnings Conference Call. At this time, all participants are in listen-only mode. After the speakers' presentation, there will be a question-and-answer session (Operator Instructions).

Please be advised that today's conference is being recorded. I'd like to hand the conference over to your first speaker for today, Ms. Xin Yi Lim. Thank you. Please go ahead.

Xin Yi Lim {BIO 17900961 <GO>}

Thank you, Annie. Hello, everyone and thank you for joining us today. Pinduoduo's earnings release was distributed earlier and is available on the IR website at investor.pinduoduo.com as well as through Globe Newswire services.

On the call today from Pinduoduo are Mr. Zheng Huang, Chairman and Chief Executive Officer and Mr. David Liu, Vice President of strategy. Mr. Huang will review business operations and Company highlights, followed by Mr. Liu, who will discuss financials. They will both be available to answer your questions during the Q&A session that follows.

Before we begin, I'd like to remind you that this conference contains forward-looking statements within the meaning of Section 21E of the US Securities Exchange Act of 1934 as amended and as defined in the US Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminologies such as will, anticipate and similar statements.

Such statements are based upon management's current expectations and current market operating conditions and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the Company's control, which may cause the Company's actual results, performance or achievements to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties or factors are included in the Company's filings with the US Securities and Exchange Commission. The Company does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise, except as required under applicable law.

Now it is my pleasure to introduce Chairman and Chief Executive Officer, Mr. Huang. Mr. Huang, please go ahead.

Zheng Huang {BIO 20683053 <GO>}

Thanks, Xin. Thank you everyone for joining us on our earnings call. Pinduoduo turned four years old last month, yet it still feels like yesterday, when we first started with only a handful of people. Today, we have over 5,000 employees, 503 -- 536 million annual active buyers and 430 million MAUs for the quarter ending September 30, 2019.

Thanks to the support of our users, merchants and partners, we continue to generate robust business momentum. Our last 12 month GMV grew 144% year-on-year to exceed RMB840 billion.

Thinking back to when we started the Company, we envisioned an open platform that will put users' ever-changing needs first, one that could provide equal opportunities and empower all for a better life. Being born in a mobile era, we set out to build a platform that connects people and promotes trust and a sense of community. We are doing this in several ways; first, invest in user engagement; second, support users' freedom to choose; and third, enhance IP rights protection.

First, investing in user engagement, the most effective way to build trust with our users is to encourage them to try new products and new features on our platform. We make discretionary sales and marketing investments to reduce the barriers for our users to buy the item that they have always coveted and to try new products -- new product categories on our platform.

Our RMB10 billion subsidy program that we have launched around June 18th shopping festival is a great example. The user response has been so positive that together with our

merchants, we continue to make the program available all the way through Single Day and beyond.

What this has done is to change people's perception of PDD. We don't just sell apples, but we also sell authentic Apple iPhones. During the first 11 days of November, we sold over 400,000 latest iPhone models to consumers who might have otherwise thought twice about making that purchase on PDD. Similarly, on Singles Day, we sold over 1,000 cars for emerging domestic brands like Wuling Hongguang in the first 16 minutes, with most of the buyers mainly coming from Tier 3 to Tier 5 cities.

Our investments in user engagement, not only help us to attract new users, more importantly, it allows us to quickly build mind share. Typically, it takes time for users to gain enough confidence from the initial purchase to develop a broader, sustainable shopping habit on a e-commerce platform. Our peers worldwide have gone through a similar process of educating their users and building their consumption habits to get to their current scale.

The difference for us is that we don't have the same luxury of time. By reducing friction for our users, we encourage them to buy across more categories at an earlier point in their life cycle, which means we start addressing a great share of their wallet sooner, while enriching our understanding of their shopping preferences. What we have observed is that users don't simply leave after they buy a discount brand on our platform, rather, they stick around to explore other attractive products on offer and to become repeat buyers.

As such, our annual spend per active user has been growing rapidly for the past few months -- past few quarters and is now close to RMB1,600. For users who have been on our platform for over 12 months, we see that they are capable of spending a few thousands of RMB per year, and this level continues to increase.

Our Tier 1 users are already spending well over RMB5,000 based on annualized 2019 Q3 spending. Moreover, taking into account the social nature of the shopping journey on our platform, these are also knock-on effects when users starting to buying it on -- to buying new categories, positive experiences get further disseminated across the users' social network and the users' endorsement are likely to help to trust and encourage others to shop on PDD. Ultimately, our goal is that whenever users think about buying something, coming to PDD would be second nature.

Second, support users freedom to choose by providing equal and fair opportunities for merchants to sell and users to purchase. Our user base comprises a wide spectrum across different social and economic standing, the same user may have strong preferences for imported or branded goods in categories such as cosmetics, mother and infant care, whilst preferring to buy the most economical option for household goods. Therefore, we continue to strengthen our ability to source a wide array of goods, including branded and imported items based on users' needs. At the same time, we are committed to give equal opportunities to all merchants and brands, big or small.

We believe the decision on which merchants products to view and to purchase should be made by our users themselves rather than it being a result of certain platforms' actions. Indeed, as we continue to grow, we see more and more users voting for us with their wallet, with many merchants following suits as we constitute an attractive source of growth.

From day one, Pinduoduo has focused on delivering value for money goods to our users by aggregating demand and cutting out unnecessary intermediaries. By keeping our commission fees low, we also have nurtured new brands, many of which have helped us bring even better value to users to tailor-made products.

Our prices are presented in a straightforward manner and users are given the option to purchase authentic quality goods across all categories and all price ranges. We're also unlocking additional sources of quality products, while fighting poverty by training and educating farmers in the impoverished counties on how to sell their produce online.

Double 11 this year was a special day for us, not because of some one-day sales target, but because it was a day we launched our inaugural tech for poverty alleviation course in (inaudible) autonomous district in Lingnan Province. Over the course of the next six months, 60 students aged 20 to 50 from (inaudible) villages in the district will start from scratch to learn e-commerce-related skills and ultimately open their own stores on PDD. Soon, these farmers will go from sitting on the sidelines to being active participants on our platform to share the literal fruits of their labor directly with all Chinese online shoppers rather than virtual skyscrapers, who are building real capabilities for the next-generation of farmer merchants. For instance, the Agricultural Goods Festival, we held our platform in August, generated 110 million orders for 20,000 farmers and merchants across 500 agricultural areas, driving meaningful volumes to small-scale farmers.

Lastly, enhance IP rights protection. We are actively defending that trusted users placing ads by (inaudible) platform quality control. We launched a branded care program in the first quarter of this year, covering 1,000 well-known brands. We designed a customized anti-concentrated plan, leveraging technology. We've studied the platforms -- studied the patents of infringing activities against the brand products and tailor-made hundreds of rules to screening every product listing application for IP infringement. 97% of the suspected infringing products listings are intercepted and blocked before they reach consumers.

We also designed over 6,000 screening models to come through existing product testings on our platform for specific countertrade hallmarks to machine learning. These pre-listing rules and post-listing screening models continuously define themselves to identify and block new exploitation tactics, attempted by infringing merchants. At the same time, we are closely working with brand owners, merchants, consumers and the law enforcement agencies to drive lasting and sustainable results.

More than 12,000 brand owners have registered their IP rights on our IP protection program. We have cooperated with law enforcement agencies across China to put counterfeiters behind the bars. As an open platform, we're actively reaching out to all

stakeholders and exploring innovative and collaborative ways to create a safe and a clean shopping environment for consumers.

Four years after we started PDD, we are proud of the fact that we remain singularly focused on developing the best interactive e-commerce experience for our users. And we are dedicated to offering equal opportunities for all. We plan to continue to invest in our user engagement to further the trust they have placed in us and invite you all to join us on this journey.

Now let me turn over to David to go through our financial results for this quarter. David, please.

David Liu {BIO 21976168 <GO>}

Thank you, Colin, and hello, everyone. We saw strong growth across our operational metrics in the third quarter of 2019, in particular, with our annual active buyer and MAU growth maintaining good momentum on par with the second quarter. Our annual active buyers for the last 12 months ending September 30, 2019 grew by 53 million compared to our annual active buyers at the end of last quarter to reach 536 million. And our MAUs grew by 64 million from the prior quarter to reach 430 million.

User engagement has been steadily increasing, which we believe bodes well for our long-term GMV growth as these new users mature. Our last 12-month GMV grew 144% year-on-year to reach RMB840 billion, which was in line with our expectations, considering this was a seasonally lower quarter and on the back of our successful June 18 campaign.

We continue -- our continued GMV increase was driven by the sustained growth of our annual spending per active buyer, which rose 75% year-on-year to reach RMB1,567. The increase in this average number should be considered in the context of the rapid increase in our active buyer base over the past few quarters. And it highlights that our value proposition is resonating strongly with users who are staying on and increasing their spending over time as they are finding more and more that appeals to their needs on our platform.

I would also note that this growth momentum is all the more encouraging in light of the prolonged pressure exerted by dominant platforms on merchants to take sides. For the last 12 months, the pressure on brands' emergence to take sides has intensified, and over 1,000 well-known brands, flagship stores have been affected on our platform, with a total number exceeding 10,000, forcing merchants to take sides and in extreme case, leveraging technology to do so, does not make it easier for them to do business. It makes it harder and it ultimately hurts the consumers. By restricting access to users, dominant platforms can charge higher fees to merchants, who became involuntarily dependent on those platforms for traffic. These fees ultimately get passed onto consumers and pricing, and over time, these dominant platforms will lose incentive to provide a better user experience, hurting consumers both in the near-term and in long term.

If such platforms exploit their market position against merchants for a long period, it could even result in forced retrenchment of workers as these businesses' growth take a hit. We know that it is not easy for merchants. And obviously, both the growth of their businesses, and our platform would have been even faster if they were given the freedom to choose where to operate. We cannot do much to stop such behavior, but we believe that as long as we put our users first, we'll continue to progress together, and we're partnering with our merchants to soldier through any obstacles. We do not mind making short-term concessions to take -- on take rate, if it paves the way for better long-term growth.

Notwithstanding these anti-competitive measures, which did affect us, we continue to deliver solid top line growth. Our total revenue grew 123% year-on-year to reach RMB7.5 billion with the increase primarily due to the growth of our online marketing services. Online marketing services revenue was RMB6.7 billion this quarter, constituting 89% of our total revenues. This is up 126% compared to the same period last year and is driven by rising demand of our advertising products as the user traffic and GMV on our platforms continue to expand rapidly.

We have been focusing on making it easier for merchants to get started with advertising on our platform, be it through our merchant platform interface design or by having more training courses online and in person to provide our merchants across different industries with stellar support. For some of our newer app products, we will also incentivize merchants to try them. At the same time, we continue to innovate around our user experience. For example, our new games opened up more browsing opportunities for our users to discover great products, serving as powerful incremental sources of free traffic for our merchants.

We always maintain a balanced approach when it comes to monetization or traffic in our platform as we believe that aiding the growth of promising good quality merchants is likely to be more beneficial to our long-term value rather than trying to maximize short-term gain. The remainder of our revenues came from transaction services.

Our transaction services revenue for the quarter grew by 101% year-on-year to reach RMB802.5 million. We continue to incentivize merchants this quarter to provide better service to our users as we know that this is beneficial to our platform's growth longer term. To give an example of good service, we have seen the merchants who offer free returns tend to have a 56% lower dispute rate and better customers' rating. Prior user satisfaction drives positive word of mouth and repeat purchases on our platform, while the better customer ratings also help the merchants to get greater exposure organically.

Moving on to costs. Our total cost of revenue increased from RMB775 million in the same period last year to RMB1.8 billion this quarter. This translate to a gross margin of 76% this quarter as compared to 77% a year ago. The lower gross margin this quarter as compared to the prior year reflects our investments in network infrastructure and merchant support services to support our rapidly-growing operations.

Total operating expenses this quarter were RMB8.5 billion as compared to RMB3.9 billion in the same period last year. Our sales and marketing expenses this quarter increased to RMB6.9 billion as we continue to invest to build off the momentum from our efforts in the second quarter. Many new users started to hear about the RMB10 billion subsidy campaign during the second quarter. And we noticed that there was a considerable amount of traffic and sharing generated by this campaign, reflecting user satisfaction with and recognition of the differentiated experience this campaign offered. Hence, we work with our merchants to continue our investment in this program this quarter to help prepare the ground for our anniversary sales in early October.

As reiterated many times, we do not manage our business towards specific quarterly financial targets as our platform is still at such an early stage of growth in a competitive industry. We need to make the right investment in the early years to set up a strong foundation for our future growth. And this investment in our users is one such example.

Not only are we investing to grow our user base, we are all investing to increase our mind share with these users, such that they come to trust the platform and treat us as a default shopping destination. This is a process that does not happen overnight. And so in evaluating the returns on investment, we keep in mind the potential lifetime value of the user rather than expect an immediate return to occur in the same quarter as the investment.

On a non-GAAP basis, our sales and marketing expense as a percentage of our revenue was 89%. In the next few quarters, we expect this to still be fairly dynamic, but we will again remind everyone that we do not set internal budgets around targeted sales and marketing to revenue ratio, but rather we focus on expected ROI of our investments.

Our general and administrative expenses this quarter were RMB436.6 million or 3% of our revenue on a non-GAAP basis. This marks an increase of 43% year-on-year as we incurred expenses relating to our initiatives with local governments to alleviate rural poverty. One example of such initiative is Duo Duo Farms. Agriculture is one of the hallmarks of our platform, and the Duo Duo Farms initiative aims to improve the entire agriculture supply chain from the moment the farmers decided what to sell to the moment the produce reaches our users' hands.

To complete our discussion on expenses, our R&D expenses were RMB1.1 billion this quarter, a significant increase from last year and a step-up from the past quarters as we added more headcount, in particular, hiring more experienced algorithm engineers and spending more R&D related to cloud services to accelerate our growth. On a non-GAAP basis, R&D expenses as a percentage of revenue was 12%.

Operating loss this quarter came to RMB2.8 billion compared with a loss of RMB1.3 billion in the same period last year. Non-GAAP operating loss was RMB2.1 billion compared with a loss of RMB790 million in the same period last year.

Net loss attributable to ordinary shareholders was RMB2.3 billion compared with net loss of RMB1.1 billion in the same quarter last year. Basic and diluted net loss per ADS were

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RMB2 compared to a net loss per ADS of RMB1.2 during the same period last year. Non-GAAP net loss attributable to ordinary shareholders were RMB1.7 billion compared with net loss of RMB619 million in the same quarter last year. Non-GAAP basic and diluted net loss per ADS were RMB1.44 compared to a net loss per ADS of RMB0.68 for the same quarter of 2018.

That completes the profit and loss statement for the third quarter. Net cash flow provided by operating activities for this quarter was RMB2.6 billion compared with RMB1.6 billion in the same quarter last year, primarily due to an increase in our online marketing services revenue. We also raised \$1 billion of additional capital through our convertible senior notes offering in late September. We issued a 0% coupon convertible note due in 2024, which is well-received by the market. We view this rate as a way to give us more flexibility on our future investment plan.

As of September 30, 2019, the Company had a strong balance sheet with RMB34.4 billion in cash, cash equivalents and restricted cash. Excluding restricted cash, we had RMB15.7 billion in cash and cash equivalents. In addition, we had RMB24.6 billion in short-term investments bringing our total cash available to RMB40.3 billion. So while we continued to invest in sales and marketing, we also maintained a healthy cash position with positive operating cash flow. This puts us in a good position to make necessary investments for our long-term growth and further our competitive advantage.

This concludes our prepared remarks. And operator, we are now ready for questions.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions) Your first question comes from the line of Grace Chen of Morgan Stanley. Please go ahead.

Q - Grace Chen {BIO 2548665 <GO>}

Thank you for taking my question. Good to see nice growth on revenue, but at the same time we're seeing sales (Technical Difficulty) increase in the quarter. So I'm interested to know what kind of good opportunities that you see to increase ROIC for (inaudible) in terms of sales and marketing. And specifically if any product categories are spending more aggressively to promote this category? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you, Grace. For the question. Apologies if I didn't catch all of your question, you were coming in and out a little bit, but I believe the question was around sales and marketing and then also in terms of product categories that we are focused on.

As we have communicated to the investors in the past, there has been no change in how we think about sales and marketing. Our focus is still very much on first growing our user

engagement; and secondly, on our user base.

So to the extent we can grow faster, while meeting our ROI hurdle, we will choose to do so. And that means we can reach a wider user base at an even earlier stage and start converting them into loyal PDD users over time.

How exactly can we improve the ROI, I think it depends on how we can improve the user engagement and one of the things that you would note that we are doing is to continue to enrich the product categories on our platform and we are leveraging promotional events and coupons to encourage our users to explore new product that we bring on to the platform and to enhance their experiences and to build trust through that process.

What do I mean by that is as our user base continue to expand, the type of product that they demand are going to continue to vary. And one of the things that we have noted as an example is that there are certain demand for branded and imported products on our platform from our users. And this is particularly true in categories such as cosmetics and mother and infant care. And it is important that we let our users understand and experience first-hand that the product that they can procure in these categories on platform are genuine, are high-quality and are competitively valued. And this is why we have been quite successful with our RMB10 billion subsidy program, which, as we have communicated, we aren't paying out RMB1 billion ourselves, but instead we are leveraging marketing resources, and we're working with merchants to address -- providing this program to our investors, and by encouraging them to try these categories, which they may not have otherwise do. That allows them to experience firsthand and develop a trust with our platform much earlier.

I would also note that our other cohorts are now already spending a few thousand RMB each year on average. And as Colin mentioned, our Tier 1 users today are already spending well over RMB5,000 based on annualized 2019 Q3 spending. That is a testament of the fact that they are coming to our platform and are spending with higher frequency and buying products at higher ASP.

Q - Unidentified Participant

Operator, next question please.

Operator

Thank you. Our next question comes from the line of Alicia Yap of Citigroup. Please go ahead.

Q - Alicia Yap {BIO 15274658 <GO>}

Hi. Thank you. Good evening, management. Thanks for taking my questions. I have a question regarding some of the promotions. So just wondering, if you can share with us who are users that bought the iPhones during the June 18 and also the Singles Days? And are these like the younger generation or from first and second-tier cities or lower tier cities? And if these are the one-time buyers or after that if they stay, how active they are

on purchasing the items from your platform? And then just follow-up a bit, how should we think about the lower monetization rate in the third quarter and translate into the fourth quarter? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you, Alicia. So the question was regarding the buyers' profile in these promotion programs. As Colin had alluded to, we sold during the Singles, on November 11, in the 11 days, we sold over 400,000 iPhones. And the buyers for these new iPhone models, 80% of them were buyers born in the 1980s and the 1990s. So yes, these are younger generations, younger users on our platform.

And in terms of your question on the take rate, as I mentioned earlier, as a platform, our focus today is actually on the user engagement and it is important that we make sure that the merchants that we are bringing on to our platform have an opportunity to also showcase themselves to all the users and letting our users have the opportunity explore the different possibilities. So we are continuing to provide we -- our priority is actually to seek a balance between growth of online marketing take rate versus the overall scale of the platform.

A - Unidentified Speaker

Operator, next question.

Q - Alicia Yap {BIO 15274658 <GO>}

Thank you.

Operator

Thank you. Our next question is from the line of Thomas Chong of Jefferies. Please go ahead.

Q - Thomas Chong {BIO 20051280 <GO>}

Hi. Good evening. Thanks management for taking my questions. I have a question about our strategy. How should we think about the priority on user growth versus monetization? I understand that if we focus more on user growth, though we may not allocate that much resources on monetization. So just want to see our prioritization next year. And also, regarding our GMV per buyer, we actually see a very good momentum. And I want to understand about the dynamics between ASP and order frequency. How would we drive the ASP and order frequency for next year? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you for the question. In terms of our Company's growth strategy, I would say, actually, it is not so much growth versus monetization, but rather on engagement.

So if you look at -- and I think it is good to focus on our annual spending per active buyer. As we mentioned at the annual spending per active buyer for the quarter -- for the last 12

months ending in September, it's RMB1,567. In that context, we also referenced the Tier 1 buyers for the annualizing their spending in the third quarter is well over RMB5,000.

We actually think that RMB1,567 average spending per user is a very healthy number because that number needs to be put in context of the absolute number of buyer ads in the past couple of quarters. In Q3, for example, we added the most number of active buyers in the last seven quarters.

So -- and the reason why we think it is important to actually think about user engagement as opposed to growing the absolute size is because of the social or the tiered purchase nature of our platform. As we continue to activate our users on platform to increase their engagement to explore more, and this is why promotional programs like the \$1 billion [ph] subsidy continue to be so impactful is as users learn more about products and features on our platform, have good experiences and build further trust with our platform, they also tend to share more.

So we actually see the growth in our user base more as a derivation or a natural offshoot of users having great experiences on our platform. And we are convinced that by having strong user engagement, good user experiences, monetization will follow. So I would say that in terms of the foreseeable future, certainly for next year, we are going to continue to prioritize user engagement, i.e., how to increase users frequency or platform, increase the product -- the number of product categories that they purchase and explore on our platform and to increase our wallet share with these users. And from there, we believe the knock-on effect will drive the user base growth.

A - Zheng Huang {BIO 20683053 <GO>}

So I want to add a little bit to David's answer as I constantly receive questions like yours, so I really want to emphasize that when I write -- when I wrote in the letter to shareholders, we focus on the long term really mean it. And when we talk about the growth strategy and the trade-off between growth and monetization, I think if you read through my share -- letter to shareholders, in my mind, there is no trade up between growth and monetization. We really don't think it's a trade off. We always think the money we spend is an investment. We are always looking at long-term investment opportunities where we can spend the money. When there is opportunity, we should spend our money aggressively. We shouldn't put our money into the piggy bank.

So with that said, we will be often in a seemingly ironic situation where numbers are very beautiful, it usually means we didn't grab the opportunity good enough and we're -- we were being too conservative. While on the other hand, where the numbers are not so shy, probably means we seized the opportunity we're aggressively spending, just like when we put up the slogan RMB10 billion subsidiary, we really mean it. It's not just a marketing slogan. It's actual dollars we are spending and we see this as a very good opportunity. And we think that every penny we spend on behalf of our investors, it's a worthwhile investment.

Operator

Thank you. Our next question is from the line of Jerry Liu of UBS. Please go ahead.

Q - Jerry Liu {BIO 17515547 <GO>}

Hi. Yes. Thank you. My question is around brands. Could we get an update on Pinduoduo's traction with brands? We've seen significant increase in GMV, GMV mix from the high tier cities. We've seen more incentives to drive the brands to come here. And also, we've seen the promotional program. So when we look at both brands and C2M, how much did GMV mix trended in recent quarters? And how does that look going forward in the context of competition? Thanks.

A - David Liu {BIO 21976168 <GO>}

Sure. Thank you, Jerry, for that question. As we have mentioned, we don't -- strategically, Pinduoduo has always been a platform designed to address all user base across both geographic and socioeconomic spending. So our focus on brands in recent promotions is a result of us trying to fill up the holes or the gaps in terms of product portfolios on our platform. We have noticed that with increasing demand -- as we bring in more users, I would say, from Tier 1, Tier 2 cities, there are demand and interest in product or categories that where our brands are important and these have been historically areas where Pinduoduo hasn't been being very strong at.

And as such, we have focused on bringing brands onto the platform. We also are very effective to run promotional campaigns with these brands in terms of creating a recognition of the quality of experiences in terms of letting people understand that real value and authenticity of the products are not in direct contradiction [ph] of each other. And that helped us to build trust very quickly with that cohort of users. And this is why, I think, from our perspective, we will continue to explore opportunity to work with more brands.

That said, of course, as we have discussed in our prepared remarks, (inaudible) exclusively continues to be a factor at play. Whilst we have merchants willing to work with us, we have done that a lot of times, we need to explore alternate ways of bringing it on to our platform products, which could have otherwise been made available to us much more directly. So from our perspective, we're seeing that experience of consumers being impaired through that process and thus additional friction is creating additional costs.

Nevertheless, I think our interest remains in making sure that the product our users are interested in are available, and we will do our best to continue to source and work with merchants to bring those products onto our platform.

In terms of C2M, as you asked, it is still small, and it's going to take a long time before they become a meaningful GMV contributor. Put differently, I think the way that Pinduoduo as a platform is differentiated is the fact that we are very much thinking from the perspective of the consumers. Our slogan of more saving, more fun, it is a consumer-oriented approach to e-commerce.

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Bloomberg Transcript

Not only are we trying to make it easier for all the merchants to do business on our platform, we also want to make sure that our consumers are able to get the best value. C2M is an example where we try to basically create value in the existing supply chain by eliminating improving existing supply chain. In terms of C2M, and in terms of monetization of C2M brands, we are not going to be -- well, put differently, because we have the ability to aggregate demand and to provide our manufacturing partner with insights into consumer preferences, we believe Pinduoduo is better equipped than other -- our competitors to drive demand for the C2M brands.

At the same time, it is important that we allow the C2M brands to have enough exposure opportunities on our platform. This is why we cannot off the bat work with thousands of manufacturers and try to bring them all onto the platform all at once. We're working with these vendors one by one. In the first batch, we had around 20 manufacturing partners across a couple of major categories. And we are now up to around 65 partners in our new brands and C2M program. So we will continue to invest in our C2M initiative. We believe in the longer term, that's what's going to provide sustainable value to and differentiated value to our users. But in the near term, we will not be ascribing a lot of GMV into it.

A - Zheng Huang {BIO 20683053 <GO>}

Well, just add a couple of comments to David's answer. The competition around brands are pretty severe in the past few quarters. And therefore, the older (inaudible) forced exclusivity has been adopted again and it has interesting effect in the industry. And it also has a long-term profound impact in the ecosystem. In a way, it also affects the dynamics -- dynamics between different departments whether within the brand owners or within -- between the China branch and headquarter and so on and so forth.

So it is a very interesting phenomenon to observe and it's an interesting battle to attend, actually. But if we step back a little bit, I think the overall change is very obvious. It's just like looking at a river running down a mountain, and you will see big stones in its way. And therefore, in the past, you may observe some zigzag path of the river but overall, it's running on. And it's inevitable. So I think that pretty much describes the current situation of the competition around brands and around the topic of forced exclusivity.

Okay, next question.

Operator

Yes. Thank you. Your next question is from the line of Gregory Zhao of Barclays. Please go ahead.

Q - Gregory Zhao {BIO 18710278 <GO>}

Hi, management. Thanks for taking my question. So the first one is about your user acquisition. So we saw your users do maintain both MAU and that new buyer still making very strong growth momentum. So I guess to understand in terms of your user acquisition channel, right, so like buyer percentage, how many of the new users will come from WeChat or from your native app or from other media platform channels? And also very quick one on our sales and marketing, so just want to understand more, how do you

measure the marketing campaign and the promotional events ROI, right, to drive your operating leverage going forward? Thank you very much.

A - Zheng Huang {BIO 20683053 <GO>}

Well, I'll answer your question first, and then David will follow -- I'll answer it very quickly. I think the vast majority of our users are on our apps and are -- speaking off the high-growth -- the active annual users and also MAUs, I think instead of thinking of a new user acquisition, I would rather think it's actually a result of high retention of all the users. If you look at a number of annual active buying users, it's actually some active users in the past 12 months. So more importantly, more important that revenue is actually -- we have to maintain the majority, the vast majority of the existing users to stay on our platform and remain active. And that is a necessary condition for the growth of yearly active users. David?

A - David Liu {BIO 21976168 <GO>}

To add on to Colin's comments, so first of all, in terms of users acquisition, as Colin mentioned, related to that it -- again, our focus on user engagement, right. In order to make sure that the vast majority of our user base have a good and solid experiences. And more importantly, in terms of trying to drive growth, it's more important that will increase. And the one thing we can do is help induce the increased frequency of the activities on our platform, both in terms of making purchases, but also in terms of having great experience and therefore helping to share and helping to draw in new users.

So as we have talked about, our sales and marketing expenses really encapsulate a few different parts, offline advertisement aside, really comes from, both in terms of online user acquisition, but more importantly, on promotional activities and coupons. And as we mentioned before, we evaluate the ROI of these promotions and coupons by looking at the behavior change of our users after they receive the coupon.

So for example, we would observe our users time spend, whether they share with their friends and invite new users as well as the AOV, order frequency and product categories purchased. If we observe that some users only purchase when they have a coupon and do not do anything else, then these will be low-value users that do not meet our ROI thresholds for investment.

On the other hand, if our -- we see our users are responding to a program the way we expected to and are sharing that we would choose to continue those programs above and beyond a certain shopping holidays or festivals. As Colin had mentioned at the last earnings call, Pinduoduo is not a platform designed specifically to have peaks around shopping festivals, but instead we want users to be able to come to our platform all the time and be able to find the best value for money and products. And we believe the spending pattern that we're seeing with our Tier 1 users on our platform over -- well over RMB5,000 based on Q3 annualized figure is a good testament to the quality of their experiences and the quality of the user base that we're seeing similar to our larger peers.

A - Unidentified Speaker

Operator, we can have our one last question.

Operator

Yes. Our last question is from the line of Natalie Wu of CICC. Please go ahead.

Q - Natalie Wu {BIO 19852429 <GO>}

Hi, good evening. Thanks for taking my question and congratulations, a very solid quarter. My question is regarding the shopping pattern for the newly-added users. Just wondering if they are acquired by those subsidized branded commodities, how much of them will be, how many of them will be still sticking to those high ticket size brand commodities in the future? And how much -- how many of them will diversify their shopping choices on our platform to those value for money products?

And also, is there any notable differences regarding the, let's say, retention rate or spending pattern for those newly acquired users, whose made the first purchase on our platform is the brand commodities? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you, Natalie. The way we think about high-value users who came to our platform initially, maybe to buying a Dyson hair dryer or buying the new latest iPhone is actually to deliver them and really -- well, we see them actually as an investment in the user experiences on our platform. Again, if they come to our platform and are spending the money to buy an iPhone and have great experiences in terms of quality and authenticity, it gives us actually a lot more confidence. This actually creates a number of different ways.

First of all, we don't think it is -- so value for money for us as we -- the way we think about it is always we think of it as a universal concept, right, across different products or categories. If you're looking for the premium items like iPhones and Dysons working with our merchants, we make sure that you have the lowest available price and the highest quality product in terms of authenticity. At the same time, this lowers your barrier psychologically to try other things on our platform, right?

I mean, having bought an iPhone gives you greater comfort to try other categories, for example, like cosmetics, which are not -- the ASPs are also fairly high. But this is something that you can potentially buy with higher frequency. At the same time, you might have heard that Pinduoduo offers great fruits, great household products, high-value for money products. And we actually -- we -- well, in terms of user experience, we have seen is these high-value customers come to our platform, they end up actually spending a lot more time exploring and started buying products across other categories a lot faster.

A - Zheng Huang {BIO 20683053 <GO>}

Well, just to add to David's answer a little bit, where -- I guess, you may have seen some investor friends around you are buying some of the high-valued products. But at the same time, objectively, you really need to bear in mind that a vast majority of the users who are buying the subsidized products are old users. They are not newcomers. The majority of

them actually are the old ones. They are here, and they have the sight of their needs. Although they are buying cheaper products before, they also need a cheaper iPhone. So our RMB10 billion subsidiary program, just sort of jump-started this side of their need. It's not that this program targets a different set of users. The fact that you are seeing friends around -- some investor friends around you buying this, is just a very, very minor side effect. It's not a main purpose, and it's not sort of the big picture or it's not even close to the effect.

Q - Natalie Wu {BIO 19852429 <GO>}

Got it. I have a very quick follow-up, if I may. Just in terms of the subsidy part in your sales and marketing spending, just wondering is there operating metrics that plays as a key parameter after which reaches to a certain level, you will decide to reduce the level of subsidizing the existing users. Thank you.

A - David Liu {BIO 21976168 <GO>}

Yes, we do have a measure, but obviously, we cannot disclose the measure to you. So probably yes, we basically cannot comment on when we will stop and when we will increase the investment. But what I can say now is that we are pretty happy with the money -- every penny we spend. And we're very happy with reactions of the users. And we're worried about whether the users are actually coming to buy iPhone and they never come again, then probably the best time to answer your question is next quarter and the quarter after next. When you see the numbers, the question goes away.

Q - Natalie Wu {BIO 19852429 <GO>}

Understood.

A - Zheng Huang {BIO 20683053 <GO>}

And Natalie, just to wrap this question up, I will also make references to the fact that a lot of the so-called deals that we offer are actually only available in limited quantities, right. So in terms of our actual investment exposure, that is actually within our control. But rather the knock-on impact of people sharing that experiences is what we are looking to do. And for people who have managed to buy these products, and it's important that, that gives good experiences, and that will continue to help us to pass the word of mouth.

Q - Natalie Wu {BIO 19852429 <GO>}

Got it. Thank you.

Operator

Thank you. Ladies and gentlemen, this is the end of our question-and-answer session. I'd like to hand the conference back to management. Please go ahead.

A - Unidentified Speaker

Thanks, Annie, and thank you, everyone, for dialing in to our earnings call. If you have any questions, feel free to just reach out to IR. Thank you very much.

A - Zheng Huang {BIO 20683053 <GO>}

Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you.

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today, and thank you for participating. You may now all disconnect.

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