

Q1 2021 Earnings Call

Company Participants

- David Liu, Vice President of Strategy
- Jason Shu, Investor Relations
- Lei Chen, Chairman of the Board of Directors and Chief Executive Officer
- Tony Ma, Vice President of Finance

Other Participants

- Alicia Yap
- Jerry Liu
- Jialong Shi
- Natalie Wu
- Piyush Mubayi
- Robin Zhu
- Thomas Chong

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Pinduoduo First Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions). Please be advised that today's conference call is being recorded. (Operator Instructions).

I would now like to hand the conference over to our first speaker today, Mr. Jason Shu. Please take over.

Jason Shu {BIO 20677992 <GO>}

Thank you, operator. Hello, everyone, and thank you for joining us today. Pinduoduo earnings release was distributed earlier and is available on the IR website at investor.pinduoduo.com, as well as through GlobeNewswire services. So, on today's call, our Chairman and Chief Executive Officer, Chen Lei, will make some general remarks on our performance for the past quarter and our strategic focus going forward. Our VP of Strategy, David Liu, will then elaborate further on our specific strategic initiatives. Our VP of Finance, Tony Ma, will then take us through our financial results for the first quarter ended March 31, 2021.

Before we begin, I would like to refer you to our Safe Harbor statement in the earnings press release, which applies to this call as we will make certain forward-looking statements. Also, this call includes discussions of certain non-GAAP financial measures. Please refer to our earnings release, which contains the reconciliation of the non-GAAP measures to GAAP measures.

Now, it is my pleasure to introduce our Chairman and Chief Executive Officer, Chen Lei. Lei, please go ahead.

Lei Chen {BIO 18939623 <GO>}

Thank you, Jason. Hello, everyone, and thank you for joining our first quarter 2021 results announcement. It has been over a year since the initial break of COVID-19. Since then, we have carefully moved towards normalcy, while respecting the necessary precautions and occasional measures to tamp-down [ph] the threat up of the coronavirus.

After mostly staying in place over Lunar New Year holidays in February, Chinese consumers finally took a well deserved break over the May day holidays, shopping and traveling along country. With summer approaching, we hope that the global pandemic situation will continue to improve, as more people receive their vaccinations. I would like to thank the merchants and logistic partners who work closely with us to serve our users throughout the period. Together, we created another industry-first by staying open and serving users over the Lunar New Year.

We provided users with cheer, by ensuring that they could get what they required over the holiday and easily send presents and care packages to their loved ones back home with just a few clicks on our app. According to the State Post Bureau, the total parcel volume over the period from 11th to 17th February stood at 660 billion, growing by 260% over the same period last year. We are proud to have contributed toward keeping up our users' spirit while they kept themselves, their loved ones, and their communities safe. Our overarching commitment to serving our users has helped us put yet another strong quarter. Our annual active buyers increased by 35.4 million from the December quarter to reach 823.8 million for the 12 months ending on 31st March, 2021.

We continue to build trust and mindshare with our users. User activity on our platform continued to increase. Over the quarter, our MAU increased to 724.6 million representing 88% of our annual active buyers. Total revenues excluding revenues from merchandise sales was RMB17 billion, a year-on-year increase of 161%. Our growing scale gives us both greater capacity as well as responsibility to live up to our mission to benefit all.

We constantly think about how we can best marshal our resources and reach to catalyze improvements and bring more benefit to society. Our direct access to over 800 million consumers and our understanding of them as well as our network of over 8.6 million merchants on our platform makes us uniquely well positioned to bring top minds from around the world together to develop practical solutions to real-world problems that our users encounter every day.

As we work toward our goal of becoming the world's largest agriculture and grocery platform, we must also seize the golden opportunity to transport and modernize the agri-food system. We want to help consumers adopt healthier and more environmentally sustainable diets while improving all the links of the supply chain and cost structure of agriculture industry.

And now, let me touch on two points. First, we are pursuing partnerships to answer questions on the future of food. We have just entered a research partnership to quantify the impact of plant-based meats on human health. Alternative proteins are a promising component of a more sustainable diet. It's useful to know how it will affect us. And this is not our first research partnership and it will certainly not be our last. For example, a year ago, we started a project to develop a more portable and low-cost test for pesticide residues. Upon commercialization, that project will improve food safety and quality thereby benefiting many people.

Second, we are rethinking logistics systems and infrastructure. We have the privilege of being the only exclusively mobile commerce players of this scale in the world. This unique characteristics of Pinduoduo has helped us to become world's largest commerce platform by the number of paying users. This singular focus of mobile-only experience came about, because we recognized back in 2015, the immense potential of ubiquitous mobile computing to drive change in consumer behavior and ushering a totally new era of interactivity among users.

Similarly, with logistic systems and infrastructure, we are looking at how things can be done with a fresh pair of eyes with no preconceptions. Pinduoduo has an advantage in this area. We originate many parcels, over a third of daily parcels in China last year and have expertise in complex technological system design. We are already working on algorithm design, data analytics, and cold-chain logistics development and optimization. We have applied for some patents as well. We hope to roll it out widely in actual operations and help logistics providers achieve higher efficiency and lower cost. As we continue to grow, I believe that we can use our scale for good.

As we search for solutions in science and logistics, we remain committed to becoming the world's largest agricultural and grocery platform. Our mobile-only and discovery-oriented platform as well as team purchase model are well suited for items and daily essentials. We see strong demand for Duo Duo Grocery, which is giving consumers the chance to buy a greater variety of perishables directly from farmers and agri-merchants located in the region.

We will continue to iterate our products and make grocery sources around the world affordable and available to our growing number of users. We foresee Pinduoduo becoming an important force multiplier and enabler that can truly make a meaningful difference in the world. At the same time, we remain committed to our social inclusion effort and support for the vitalization of rural communities. For any advancement to be truly durable, we must look out for all our stakeholders. It is critical that we partner and empower them with tech.

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This means that we will keep on helping farmers and agri-merchants operate better and earn more. We will continue to provide training for them to harness the full suite of tools on our platform to optimize sales and benefit from our platform's visibility into final demand. We will help them increase their productivity by working with local government and agronomics institutes to harness new technology. Since the beginning, we have brought approximately 100,000 new farmers back to their hometown and we have committed to training another 100,000 new farmers over the next five years. We want to be a catalyst in this virtuous cycle. Only when farmers and agri merchants earn more, can they invest in greener agriculture.

In building China's first agri-focused infrastructure, our priority remains partnering existing third-party service providers, first and foremost on everything from cold-chain logistics, warehousing, sorting, and delivery. For Duo Duo Grocery, we focus on partnering local communities closely. We work with existing shops including mom and pop stores to serve as our pickup point, enabling them to gain extra income. We also provide courses to them to aid their digital transition.

In fact, since the start of Duo Duo Grocery, we have catalyzed the creation of millions of jobs up and down the entire supply chain. We hope that the system we build will truly benefit all for a long time to come. This is in line with our core value of Ben Fen, of doing the right things. We hope that this helps you understand better where we are coming from and share our hope for better tomorrow. Thank you. Let me now hand over to David.

David Liu {BIO 21976168 <GO>}

Thank you, Lei. Hello, everyone. To echo Lei, our overarching commitment is serving our users. We're laser focused on understanding our users' constantly changing needs and working with our partners and merchants to fulfill them in a way that is respectful of the community and the environment. With our aim of becoming the world's largest agriculture and grocery platform, we want to help create food systems that are greener, healthier, more inclusive, and more resilient. We develop and assess all our initiatives against those objectives.

Let me elaborate on how this has worked in three key fronts. First, we're gratified by our positive early foray into agriculture-focused logistics infrastructure system, Duo Duo Grocery. Our next-day self-pickup grocery service is creating many social benefits. It intelligently connects our users directly to local farmers and increases the variety of fresh produce they can purchase online. It lowers cost by reducing spoilage from storage and transport and improves the carbon emission and eliminates that from the last mile. Farmers earn more as well.

Along the way, we create new economic opportunities within the communities by tapping our existing shops to serve as collection points and through third-party service providers and warehouses that we have built to support it. We're happy that the growth momentum for Duo Duo Grocery remains very strong. We continue to see an increasing number of farmers and agri-merchants as well as pickup points joining our platform. This will only emphasize the social benefits that Duo Duo Grocery can bring.

We have also applied for patents for our proprietary cold-chain logistics network system that is aimed at minimizing the loss and quality degradation of agriculture products and other perishable products in transportation. This system applies novel technologies that can plan routes based on information of collection and distribution points, availability of cold-chain infrastructure and transit points among others. It is still early days, but we are optimistic that the solutions we develop and employ will bring very positive impact going forward.

Second, we will introduce our consumer to manufacturer or C2M revolution to agriculture. We already enjoy a very good partnership with farmers and agri-merchants. More than 12 million farmers sell through our platform. This relationship has deepened with initiatives such as help the farmers live streaming session last year when COVID-19 struck. We also have longer-term partnerships to plant, operate, and sell better through Duo Duo Academy and Duo Duo Farms. It is time to elevate this partnership with C2M.

Pinduoduo pioneered C2M and in the process recast how Chinese manufacturers think of their value in the supply chain. We have helped factories build a new generation of brands that is delivering both quality and value for money to our users. By aggregating demand and spending patterns of over 800 million users on our platform, we create useful insights for our manufacturers. They become more responsive to market trends by making what consumers indicate they need to and want. C2M also cuts down waste and cost of distribution and marketing and provides better price for consumers.

Our new brand initiative helped many export-oriented OEM partners survive the drought in international demand for their products during the COVID-19 pandemic. Agriculture will similarly benefit from C2M. Agriculture produce is diverse and unique. Much scale and effort go into cultivation. By helping farmers to sell directly to users on our platform instead of the multiple intermediaries, we give value to the diversity and uniqueness of their produce as well as sight over their final demand. We're now focused on helping more farmers to sell better by sharing market insights.

Just as we have helped manufacturers, we help farmers more appraise their market information. This enables them to be more responsive to market demand and develop agriculture brands that meet the needs of the market. China is a treasure trove of agriculture and culinary delights. There are plenty of gems hidden in plain sight waiting to be discovered by millions of consumers across the country. We will lend these growers and producers a helping hand to better market their products and develop brand recognition.

Third, we are making headway in tapping on science to improve the food system. As Lei mentioned, we are backing a first-of-its-kind study on the health impact of plant-based meats. There is growing recognition our current dietary patterns are neither healthy nor environmentally sustainable. Replacing meat with plant-based alternatives is a promising solution to both issues.

When completed, the study will help consumers make informed choices on dietary transition and manufacturers refine their products correspondingly. The spirit of this

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partnership is very much in line with our earlier partnership to develop a more portable and lower-cost test for contaminants on produce, which will help improve food safety and consumer confidence. We will continue to actively look for collaboration opportunities on agri food tech with partners around the world.

At the same time, we have also been active supporter of initiatives to apply the most advanced technology in agriculture. We're proud to have jointly organized the First China Agricultural Robot Innovation Competition. The competition was conducted -- concluded with an award presentation last week, attracted over 195 participating teams to apply robotics to agriculture. We're proud to have supported this competition as robotics is at its early stage in agriculture in China, but holds a lot of promise.

We are convinced that our holistic efforts will bring progress to our food systems and benefit stakeholders, including our users, farmers, and merchants, the communities we operate in, and the planet. Finally, even as we place a lot of emphasis on agriculture and food, we have not lost sight of the need to nourish the mind. In April, we launched Duo Duo Reading Month. Through our app, users could access classics like Moby Dick or Notre Dame de Paris and purchase them at discounts. Famous historians and writers join our live streaming sessions to recommend books to readers.

In conjunction with the inaugural China International Consumer Products Expo at Haikou earlier this month, we partnered with CCTV News to bring our 10 billion program live streaming studio to Hainan. Through our live stream, users were transported to Hainan and learned about the specialty products, cuisine, and fruits as well as interesting items to offer at the expo. We'll continue to bring color and new experiences to our users through similar initiatives going forward. Let me now hand it over to Tony.

Tony Ma {BIO 19978312 <GO>}

Thank you, David. Now let me take you through our financial results for the first quarter 2021. We continue to see solid user growth in Q1 and are pleased with the progress we have made in building trust and winning mindshare with our users. Our annual active buyers for the last 12 months ending March 31, 2021 increased to 823.8 million, up 35.4 million from the prior quarter. Our MAU in Q1 reached 724.6 million from the prior quarter. This is up 49% compared to the same quarter in 2020. Our MAU as a percentage of our annual active buyers was 88% in the quarter, our highest engagement record achieved for any first quarter.

According to National Bureau of Statistics, during the Q1, total retail sales in China grew 34% and online sales of physical goods increased 24% from the same quarter in 2020. The number of express delivery parcels in Q1 grew 75%. A significant growth rate in both online sales of physical goods and parcel shipment volume reflected strong recovery in e-commerce activities from the low base in Q1 2020 due to the business interruption caused by the COVID-19 outbreak. We also saw less pronounced Chinese New Year holiday related seasonality in Q1 this year, as more merchants stayed open in response to people staying put. We collaborated with merchants and logistics service providers to ensure uninterrupted order fulfillment and delivery during the quarter.

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In terms of P&L, our total revenues in the quarter ended March 31, 2021 were RMB22.2 billion, up 239% from RMB6.5 billion in the same quarter last year. Excluding revenues from our 1P trials, our total revenues grew by 161% to RMB17 billion in Q1 2021. The main driver of this growth was our online marketing services. Online marketing services revenue was RMB14.1 billion this quarter, up 157% compared to the same period last year, due primarily to continued increase in merchant activities. We continue to offer better advertising products and analytic tools to our merchants, educate them on how to best leverage these features and improve their services to their targeted users and thereby help them meet and exceed their ROI targets.

As a result, we have seen merchants spending more and exploring new ways to engage with users and our users' browsing more and discovering more items of interest. We are pleased to see the growing endorsement by our merchants and our users. Our transaction service revenues this quarter amounted to RMB2.9 billion, which is up 180% compared with the same period last year. The increase in our transaction service revenues was due to two primary factors. Number one, the increase in our GMV in Q1; and number two, the service revenues that we recognized in connection with Duo Duo Grocery for which we provide fulfillment and other related services.

We also recorded RMB5.1 billion in merchandise sales from our 1P trials in Q1 2021 as compared to RMB5.4 billion in the preceding quarter. This 1P trial is meant to temporarily meet the demand of our users on products, which our merchants cannot fulfill. Therefore, this number may fluctuate from quarter-to-quarter. Our strategy is unchanged and this will remain a very small part of the business.

Now moving on to cost. Our total cost of revenues increased from RMB1.8 billion in Q1 2020 to RMB10.7 billion this quarter. The increase was mainly due to the costs and the expenses attributable to 1P merchandise sales, higher cost of payment processing fees, cloud service fees, and delivery storage fees. Total operating expenses this quarter were RMB15.6 billion as compared to RMB9.1 billion in the same quarter of 2020.

On total non-GAAP basis, operating expenses were RMB14.6 billion as compared to RMB8.3 billion in the same quarter a year ago. Our non-GAAP sales and marketing expenses this quarter increased 80% to RMB12.7 billion from RMB7.1 billion in the same quarter of 2020. This was mainly due to an increase in online and offline advertisement and promotion as we continue to invest in user engagement and mindshare. In the first quarter, we had an incentive program for merchants who could stay open and continue dispatching orders during the spring festival.

We also recently marked the second anniversary of our hugely popular 10 billion program, which has steadily expanded over time to cover all categories including agriculture products and fresh produce. In line with our platform's vision of helping to accelerate the transformation of the agriculture sector, we will continue to make it free for agriculture products and fresh produce to be featured in this program. At the same time, we will continue to refine and improve the quality of our 10 billion program by raising the standards required for merchants to participate. Our 824 million users trust us to deliver great value and quality to them and we will constantly seek to improve to uphold their trust in us.

On a non-GAAP basis, our sales and marketing expenses as a percentage of our revenue, excluding 1P trials this quarter was 75% as compared to 103% and 108% for the same quarter in 2019 and in 2020. The reduction in sales and marketing expenses as a percentage of revenue is a reflection of our economies of scale and our consistent efforts of sticking to a high standard of our benchmarks.

On a non-GAAP basis, our general and administrative expenses were RMB161 million, an increase of 36% from RMB118 million in the same quarter of 2020, primarily due to an increase in headcount. Our non-GAAP research and development expenses were RMB1.7 billion, an increase of 55% from RMB1.1 billion in the same quarter of 2020. The increase was primarily due to an increase in headcount and the recruitment of more experienced R&D personnel as well as increase in R&D related cloud service expenses. On a non-GAAP basis, our R&D expenses as a percentage of our revenues excluding 1P contribution was 10% as compared to 17% for the same quarter last year.

To sum up, operating loss for the quarter was RMB4.1 billion on a GAAP basis, compared with operating loss of RMB4.4 billion in the same quarter of 2020. Non-GAAP operating loss was RMB3.2 billion, compared with operating loss of RMB3.6 billion in the same quarter of 2020. Our non-GAAP operating loss as a percentage of our revenue improved from minus 55% in Q1 2020 to minus 14% in Q1 2021. Net loss attributable to ordinary shareholders was RMB2.9 billion as compared to net loss of RMB4.1 billion in the same quarter last year.

Basic and diluted net loss per ADS were RMB2.33, compared with RMB3.54 in the same quarter of 2020. Non-GAAP net loss attributable to ordinary shareholders was RMB1.9 billion compared with RMB3.2 billion in the same quarter last year. Non-GAAP basic and diluted net loss per ADS were RMB1.52 compared with RMB2.73 in the same quarter of 2020. That completes the profit and loss statement for the first quarter.

Our net cash flow used in operating activities was RMB3.7 billion compared with outflow of RMB567 million in the same quarter of 2020, primarily due to an increase in restricted cash outflow due to seasonality, offset by an increase in online marketing services revenues. As of March 31, 2021, the company had RMB83.4 billion in cash, cash equivalents and short-term investments. As of the end of April 2021, \$756.4 million of our 0% convertible bonds due in 2024 have been converted into equity.

This concludes my prepared remarks. Operator, we are ready for questions. Thank you.

Questions And Answers

Operator

(Question And Answer)

Certainly. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) We have the first question coming from the line of Thomas Chong from Jefferies. Please go ahead.

Q - Thomas Chong {BIO 21155199 <GO>}

Hi. Good evening, thanks management for taking my questions. I have two questions. The first question is about monetization. Can you comment about the feedback on our advertising products and how we should think about the monetization rate going forward.

And my second question is about the 1P business. Is it that the 1P GMV contribution to our overall GMV is like 1% and on the other hand, can you also comment about our non-GAAP net margin with and without the 1P business and also how about the non-GAAP net margin without 1P and Duo Duo Maicai. Thank you.

A - Tony Ma {BIO 19978312 <GO>}

Okay, sounds a little bit more than two questions, but let me try to address one by one. Thank you again for the questions. For the first question, I want to emphasize here, our strategy has always been serving our users well. That being said, we believe either the growth or the monetization are a natural result of that and we also believe there's still a lot of room to grow from where we are now.

Today, we see very strong growth performance in Q1, because of the merchants ROI actually is reflected in our revenue. As you can see, our revenue in this quarter continued to grow which is a reflection of our merchants' confidence with the platform and the confidence in the ROI they achieved. What the platform is providing is better design of various tools to help them to understand their target user better so that they can leverage as well as the Duo Duo Academy to gain more insights on how the technology analysis can help them to enhance their ROI. I believe as long as this target can be achieved, naturally, the growth and monetization will follow.

On your second question on the 1P business, as I mentioned in the prepared remarks, our 1P business is temporary measurement to offer products that our consumer wants, but for which our vendor cannot offer at that time. So this is another strategic priority for us. The GMV contribution of the 1P business is immaterial compared to the overall GMV of the platform.

And I guess that's your third question on the margin profile, the 1P business' contribution to this does have an impact, but stripping that out, our total platform margin profile will stay more or less the same range as previous quarters.

Q - Thomas Chong {BIO 21155199 <GO>}

Got it. Thank you.

A - Jason Shu {BIO 20677992 <GO>}

Operator, next question, please.

Operator

The next question comes from the line of Natalie Wu from Haitong International. Please go ahead.

Q - Natalie Wu {BIO 19852429 <GO>}

Hi, good evening. Thanks for taking my question and congratulations on a very solid quarter. Just curious how do you see the update of the competitive landscape change in this coming year. On the one hand, we've seen several antitrust related regulatory dependence [ph] lately. And on the other hand, the space seems to be getting more and more crowded with the entry of cross-border players like social content platforms and local live service providers. Just wondering does any of that affect your internal GMV target for this year. Thank you.

A - Lei Chen {BIO 18939623 <GO>}

(Foreign Language) Thank you. Let me go ahead and address this question in Chinese and David will translate into English this evening.

(Foreign Language)

A - David Liu {BIO 21976168 <GO>}

So first, your question regarding competition. In China, the internet space has always been very competitive. And it is also true that e-commerce in China is very advanced and in terms of development ahead of the rest of the world, but many people underestimate the retail opportunity that comes about in the broad market potential that exist as the experiences improve.

(Foreign Language) So, taking agriculture as an example. The digitization industry remains low, and opportunities are abundant for those like PDD that can help drive efficiency and other fundamental changes.

(Foreign Language) Looking back to 2015, when we entered this business, we foresaw that mobile internet would lead to some very fundamental changes to consumer behaviors, making it more real time, more spontaneous and making that access more ubiquitous and we have decided to focus on the development of an entirely mobile product. And that meant we also had to make some very fundamental changes to the commerce part available at the time.

(Foreign Language) Customers' behavior can evolve quickly, and we believe that people always want to more -- have more choices. So to constantly serve our users better we need to be aware of these constant changes in consumer trends, and to invest in technology and business model innovation.

(Foreign Language) Today being the largest agricultural platform in China, Pinduoduo is well positioned to play another leading role in driving some change. The team is very excited about the value we can bring to the agriculture industry.

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(Foreign Language) So, going back to your question around competition, I believe that each company is unique, and ultimately it boils down to the unique value proposition that each player represents to the consumers. For us, we have been focused on delivering value for many products with fun interactive shopping experiences to our consumers, through our mobile only platform from day one. User-centric is deeply rooted in our principles and it's the first thing that we think of, when we need to make tough decisions.

(Foreign Language) The market potential is huge and we are still in the early days, particularly early in a business like Duo Duo Grocery. As the service standards improves and the consumer experiences improve, we believe this new business model will be able to motivate more consumers and further expand the addressable market.

(Foreign Language) At the same time we think healthy competition is a good thing, whether you're talking about the 2B [ph] side of the business or the 2C [ph] side of the business, because there's more platforms developed, the users can get better services and that is really fundamentally why we entered this business in the first place.

(Foreign Language) Thank you, Natalie. Why don't we move on to the next question?

Operator

The next question comes from Robin Zhu from Bernstein. Please go ahead.

Q - Robin Zhu {BIO 17643541 <GO>}

(Foreign Language)

So I have two questions, one is on bringing brands on to the DD platform and what progress we shared in Q1, some of the key bottlenecks and challenges that management might want to share. And then the second question is again on monetization rates in Q1 compared to the last few quarters and an outlook for how quickly they think this can increase. Thank you.

A - David Liu {BIO 21976168 <GO>}

Sure Robin. Thank you for your questions. Let me speak to the brand question that you raised, and then I will pass it over to Tony to talk about your question on monetization.

So, first and foremost, I would say that we are making steady progress with brands because we believe our user-centric mentality is very much aligned with how brands efforts and in terms of looking for new channels to reach and serve their prospective customers.

So as our user scale and engagement grows, we are seeing an increasing number of brands approaching us to collaborate. Since the beginning of the year, you have seen a number of notable new additions to our platform entering to fairly deep strategic collaborations. This includes brand names on international side Adidas, Johnson and

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Johnson, and Unilever and we have also entered new strategic collaborations with the likes of Midea and Ecovacs.

So you asked about challenges in terms of working with brands. I think it's really, really helping them to understand the incremental value that PDD as a platform can bring to brands and how we can work with them to better target and address new users and identify users in a very cost-efficient way and improve their own experiences and their own reach.

As an example of that I would point to our efforts with Midea on the C2M side. We're working with them to deliver more value for money quality products to consumers on our platform by developing a whole customized line of washing machines. So these are the type of differentiation and efforts of our strategic collaborations that we can invest and we're investing in brand partners, who are working with us to grow their businesses on PDD.

Let me then actually ask Tony to make some more comments on your question on monetization.

A - Tony Ma {BIO 19978312 <GO>}

Yes, again, coming back to our vision and our key strategic priority for Pinduoduo is always focusing on the users, how to serve our users better and as you know that we have 824 million users and in the past few quarters basically, we are having incremental new users coming to the platform like around 15 million per quarter and last quarter is around 35 million, close to 40 million and these new users they need time to build their mindshare and trust with the platform and what we are focusing now is really helping our merchants by providing them tools and help them to understand better to reach their target first. Therefore, our users can benefit from the service provided by our platform and the merchant. Then we can have this fun and interactive experience with us and stay longer time with us and monetization will be a natural result coming out of this target being achieved.

Q - Robin Zhu {BIO 17643541 <GO>}

Got it. Thank you.

A - Tony Ma {BIO 19978312 <GO>}

Thank you.

A - Jason Shu {BIO 20677992 <GO>}

Operator, next question.

Operator

Thank you. The next question comes from Jialong Shi from Nomura. Please go ahead.

Q - Jialong Shi {BIO 18647437 <GO>}

Good evening, management. Thanks for taking my questions. Congratulations on a very solid quarter. My question is, can you provide any color as to help us to understand the size of your community grocery business and its associated loss in 1Q. And earlier this year, we noted from media several local governments issued warning to community grocery platforms due to the alleged excess of subsidies provided by platforms for products sold. I just wondered after the intervention of the governments, have you guys seen any sort of de-escalation in the competition. Thank you.

A - Tony Ma {BIO 19978312 <GO>}

Okay, let me take the first question. Let me just repeat the question raised is on the overall performance of total grocery business financially, I guess.

Q - Jialong Shi {BIO 18647437 <GO>}

Yes.

A - Tony Ma {BIO 19978312 <GO>}

First of all, I think we started Duo Duo Grocery business around a little bit more than two quarters. This is still a very young business and as previously mentioned by Lei and David in their remarks, Duo Duo Grocery is one of our strategic priorities, very, very important initiative for us to help to review the agriculture sector, help to bring additional values to our users. So to me, this is a long journey, a journey full of challenge and excitement. So up to now, I would say it's too early to tell the business model and there's still a lot of room to improve operationally.

So far we have been quite disciplined in our investment in Duo Duo Grocery and we evaluate every decision based against a set of internal ROI targets. We are quite pleased with the progress we have made to date. We will continue to evaluate the necessary investment on a case-by-case basis. One thing we need to highlight here, we will continue to invest in this area. Some of the areas in the remarks Lei mentioned, things like logistics, infrastructure, technology and also technologies around how to better aggregate the demand in each of the location, all these type of investments, we will invest heavily.

A - David Liu {BIO 21976168 <GO>}

Jialong, let me just add up to Tony's comments and your question around competition. I will say that look, as we have conceived Duo Duo Grocery as an extension of our platform business, our priorities are really focused around how to give our users more holistic and integrated experiences whether they decide that fulfillment and the convenience through Duo Duo Grocery makes more sense or they decide to continue to shop or make purchases for some items on the overall platform. So while the competition in the space continues to be intense, I think it's more important that we focus on serving our users well and that's certainly what pre-occupies us as opposed to looking at what other people are doing.

Q - Jialong Shi {BIO 18647437 <GO>}

Thank you.

A - Jason Shu {BIO 20677992 <GO>}

Next question, please.

Operator

Thank you. The next question comes from Alicia Yap from Citigroup. Please go ahead.

Q - Alicia Yap {BIO 15274658 <GO>}

Good evening. Thanks for taking my questions. Congratulations on the strong set of results. I have two questions. The first one is, when we look at the transaction commission revenue line. Is there any change of the payment rate or is it fair to assume all the incremental improvement in the revenue was mainly due to the fees that you're able to charge for the Duo Duo Grocery.

And then second question is, how many of these new users that you were able to acquire or coming to our platform is just purely purchasing the Duo Duo Grocery produce only versus the original Duo Duo platform. Any color you can share would be great. Thank you.

A - Tony Ma {BIO 19978312 <GO>}

Okay, thank you for your question. Let me go first on the transaction service revenue. Our transaction service revenue increased nearly 180% versus last year the same period. The rate itself doesn't change. We didn't change the rate and there's two factors contributing to this increase. Number one is in line with the GMV growth in Q1. Number two is the revenue associated with Duo Duo Grocery.

And as for your second question, I will let David comment.

A - David Liu {BIO 21976168 <GO>}

Alicia, we have not disclosed obviously the breakdown of users between Duo Duo Grocery versus our main e-commerce platform, because that's really not how the management thinks about the business. With the introduction of Duo Duo Grocery, we saw improvement in engagement and purchase frequency among our users. This is because the users needs in fresh produce and groceries. They now have multiple channels to satisfy those needs whether it is through the Duo Duo Grocery channels or continuing through the main app.

From the users perspective, we are looking at this really as satisfying their needs across different product categories and across different types of fulfillment. So this really is meant to be one integrated app as the orders mostly are generally through Duo Duo Grocery channel through our app. So we don't focus on what percentage of our annual active buyer base uses Duo Duo Grocery only, any more than we focus on how they are specific for any particular product categories.

Q - Alicia Yap {BIO 15274658 <GO>}

Okay. Great, thank you.

Operator

Thank you. The next question comes from Jerry Liu from UBS. Please go ahead.

Q - Jerry Liu {BIO 17515547 <GO>}

Hi, management, thank you for letting me ask a question. Two parts, the first is following up on the service fee. Could we just describe the accounting in a little bit more detail, especially if we're talking typical say RMB10 or RMB100 of GMV from Duo Duo Maicai, then how does that flow through in terms of the service fee. Is that just a markup for the platform. And then secondarily, just want to ask about the logistics investments. We saw the additional commentary in a separate press release. Where could any of these investments show up this year. Is it still pretty small or could we see R&D CapEx or any other forms of investments. Thank you.

A - Tony Ma {BIO 19978312 <GO>}

Okay. I will go with the first question. Actually, I don't get it very clear what your question is, but like I said, the transaction service revenue is composed of the -- or the transaction service fees we are charging on the main platform and also including a part coming from the Duo Duo Grocery, but the portion of the Duo Duo Grocery kind of transaction service revenue as a percentage of total numbers are actually small and I'm not quite sure I get what's your question on the accounting treatment on this, probably you can rephrase your question a little bit, but probably David, you can comment on the second one first.

A - David Liu {BIO 21976168 <GO>}

Yeah, so, Jerry, maybe if I can just jump in here a little bit, so Duo Duo Grocery as you know is really in -- in providing the Duo Duo Grocery service, what we as a platform are offering incrementally is fulfillment and other transaction related services and for this we do charge the merchants participating on our platform a service fee. So that fee is included or is being categorized as part of transaction services revenue. So there isn't actually anything competitive from an accounting perspective per se and the cost associated with that is booked under cost of goods -- as part of the cost of goods sold.

So coming back to your question around logistics and investments over the long run. Look, I mean we are looking at logistics really as a result of how consumer purchasing behaviors and fulfillment requirements evolve over time, but if you take a step back and look back to the rise of e-commerce in China, it was quite hard for anybody to imagine China today will have an infrastructure that can serve or service handle 300 million daily parcels efficiently.

While the current system what we have today can cope with the scale, we do think that next wave of efficiency gains is going to come from a more flexible system, right, so more technology, more efficiency driven that can help reduce the need for example, multiple

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shipment needs or how to leverage the current infrastructure such that we can deliver a greener logistics experience.

So as we look at how the consumer experiences are changing and the new fulfillment methods and better technologies are becoming important and this is an area where we are innovating. So, from an investment perspective, I think for the time being, you will see us reflecting this mostly in R&D.

You also see us looking at our Duo Duo Grocery infrastructure that we have today and looking at where we need to bulk up in terms of our ability to better provide for user experience. One example I can give you is that we have rented additional sorting facilities for fresh produce as a way to improve the service experiences that we can offer to our users.

So that will be -- and that would result in higher cost of goods sold from a fulfillment perspective, but more specifically though we are looking ahead, we're looking at the long-term how we can invest and we are looking at technology. So we've been investing as Lei mentioned that working on algorithms, data analytics, and on cold-chain logistics development and optimization. So we will continue to focus on innovation in the space to better serve our consumers.

Q - Jerry Liu {BIO 17515547 <GO>}

Okay, thank you, guys.

A - Jason Shu {BIO 20677992 <GO>}

Operator, why don't we take one last question in the interest of time?

Operator

Certainly, sir. The last question comes from Piyush Mubayi from Goldman Sachs. Please go ahead.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Thank you for taking my question. If I look at DDG and look at the scope of the business, could you take us through what the footprint is now? Could you take us through and give us a feel for what the investment line has been? If I look at the investment line that's been bobbing around quite a bit and it's hard to discern how much of that is going into PP&E, how much is going into other areas of investment, potentially because it's one line.

So if you could help us better understand where we are and if you could also dwell on the overall impact of DDG on the business, and in particular looking at sales and marketing spend in the recent quarter, which as a percentage of revenue, excluding 1P seems to have risen after two or three quarters of holding steady. Those are my three questions. Thank you.

A - Tony Ma {BIO 19978312 <GO>}

Yeah, Piyush, so thank you for that question. So I think your question generally revolves around Duo Duo Grocery, so I will say this, as I mentioned on the last quarterly call, our service is now available nationwide across all the 300 plus major cities in China. So from a footprint expansion perspective, we have a footprint that we find as sufficient and necessary, and we are adding to that gradually as the infrastructure on a local basis becomes more mature and could provide for the type of consumer experiences that we want. So that's done.

And your question then around investment, I believe you are referring to the investing cash flow line and there maybe Tony can comment -- correct me if I'm wrong, but most of the investing you see in there is actually more from our cash management investment perspective as opposed to investment in hard capital assets. There are some of that infrastructure required in association to Duo Duo Grocery, but most of the investment to date has been really in build out of the operations, which is reflected in the cost of goods sold as opposed to in capital assets and in PP&Es.

And then I think, Piyush, you asked -- the last question you asked was around sales and marketing expenses. I would encourage you to look at this really over a longer-term basis, right. So, obviously the number in the first quarter, first quarter being typically the weaker seasonality quarter, of course, this year because of the staycation in China, the seasonality is less pronounced, but if you look at this quarter versus the same quarter last year, the year before, sales and marketing intensity as a percentage of revenue, excluding the 1P is coming down, right. So, I do think you need to take that seasonality into account.

We are seeing the efficiency from a sales and marketing perspective for us to continue to improve and this is being done so in a way that's also includes the Duo Duo Grocery as we think about these businesses quite holistically. I realize I didn't specifically comment on your question on Duo Duo Grocery's impact on our business and this may be a good way to just kind of touch upon that.

The Duo Duo Grocery business as we had alluded to earlier on this call does allow us to extend the services that we can provide to each consumer on our platform allowing us to better fulfill their grocery needs that requires a 24-hour type of fulfillment cycle, but it also does mean is that the users who are participating in Duo Duo Grocery does have a higher frequency of purchase and higher level engagement activities on our platform and that's synergistic with the overall activities on the platform and that does have some benefits when it comes to sales and marketing spend over the long run.

A - David Liu {BIO 21976168 <GO>}

I have just one point to add, David here. I think speak of the investment on Duo Duo Grocery, it's worth to mention as well, investment on people, not just embedded in the lines under the cost of goods or PP&E, we have dedicated, Pinduoduo teams deployed at each location we're operating and also our employees work closely with third-party contractors to ensure the Duo Duo Grocery service can be implemented in manners that needs our quality standards.

Since the start of Duo Duo Grocery, we have catalyzed the creation of millions of jobs up and down the entire supply chain.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Thank you.

A - Jason Shu {BIO 20677992 <GO>}

Operator in the interest of time, we will conclude the call here. Thank you everyone for taking the time to join us this evening. If you have any follow-up questions, please feel free to reach out to our IR team at investor@pinduoduo.com. Thank you very much.

A - Lei Chen {BIO 18939623 <GO>}

Thank you.

Operator

Thank you. Ladies and gentlemen, that concludes our conference call for today. Thank you all for your participation. You may disconnect now.

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