Q2 2019 Earnings Call

Company Participants

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

Other Participants

- Alicia Yap, Analyst
- Binnie Wong, Analyst
- Charlie Chen, Analyst
- Joyce Ju, Analyst
- Natalie Wu, Analyst
- Piyush Mubayi, Analyst
- Thomas Chong, Analyst
- Tina Long, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to Pinduoduo, 2Q 2019 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 is being recorded. I would like to hand the conference over to your first speaker today, Ms. Xin Yi Lim, Director, Investor Relations. Thank you. Please go ahead.

Xin Yi Lim {BIO 17900961 <GO>}

Thank you, Karina. 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 GlobeNewswire 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 made 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 terminology such as will, expect, 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 is 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 everyone for attending our second quarter 2019 earnings call. The end of July marked our first anniversary as a publicly listed Company. During this past year, Pinduoduo has become widely recognized as the China's leading new e-commerce platform.

We witnessed strong growth in our annual active buyer base to 483 million and a significant increase in our last 12 month GMV to RMB709 billion. Pinduoduo is not the first adventure for me nor for some of our management team.

We founded Pinduoduo because we saw an opportunity to create something that could generate a positive and a lasting impact on the society, something that would create value, not just for us as an enterprise, but also for the society, as we devote ourselves to benefit to all, for the people first and be more open.

Looking at our scale today, what we have accomplished together with our ecosystem partners and users, we are one step closer towards that vision. I am thankful for the continuous support of our shareholders, our partners, our employees, and most importantly, our users in this journey.

When we were listed a year ago and unfamiliar to most people, despite our consistent messaging, some competitors tried to frame us as a platform that will only attract price sensitive users in lower-tier cities and that our products are cheap, because they are low quality or even knockoffs.

Today, our results have firmly demonstrated otherwise. In the past year, we have expanded our merchant base to over 3.6 million to serve our 483 million users with our broader product selection across all categories.

If a user is looking for beauty products, for example, they would be able to find a full range of unbranded, branded and imported goods on Pinduoduo. We appreciate that it uses a preference and the perception of value very widely across different product categories and change as their life stages and the surrounding change.

Hence, we have been working hard to serve the multiple aspects of our users' needs, as they evolve. In other words, we adapt and improve every day as our users grow. As a result, we have seen an increase in user satisfaction, engagement and a broader app penetration. Our GMV from Tier 1 and the Tier 2 cities, our percentage of total GMV has gone from 37% in January this year to 48% in June.

This meaningful change is the result of our relentless focus on serving our users regardless of their location, age and gender. It is what we mean by serving all and put to use -- and putting user first.

Our 6.18 campaign is the perfect example, e-commerce and shopping festivals in China have evolved over the years into complex promotional events that because it put the consumers through a lot of hassle. However, what the consumers really want is to buy what they have been coveting at a compelling prices without having to incur additional costs or complete arduous tasks.

As such, even though we're not a platform focusing on e-commerce shopping festivals, we did a successful trial this year during the 6.18 campaign by entering around a very simple and a consistent message: The price that you see is the price that you pay. We identified in advance 10,000 desirable hit products across major categories, be it branded or unbranded.

We then worked with our merchants to make possible the lowest prices. We had a dedicated team to ensure that users were getting the best deals over a wide range of products, so they wouldn't need to look any further. The result was a 300% year-over-year GMV increase for the 6.18 promotional period from June 1st to the June 18th, with daily order volumes averaging over 60 million.

We are pleased with this result and will continue delivering good and a clear deals to our users consistently. For merchants who partnered with us during the 6.18 campaign, we're focused on ensuring they receive a fair amount of exposure for the savings they offer to our users.

This demonstrates how we abide our own principal of benefiting all which we stand firmly for. In the past, many merchants had participated in online shopping festivals, but didn't always get a real benefit when they compare it to certain brands with preferential status. This clearly doesn't benefit all.

Similarly, we don't -- and will never force anyone to take sides or work exclusively with one platform over another. Such tactics may prolong the platform's marketing influence in the short term, but it would only hurt merchants and users in the long run.

Our aim is to build an open and a transparent platform where merchants compete fairly to offer greater value and the services to our users on a sustainable basis. User satisfaction is our sole KPI and we will work tirelessly with all our ecosystem partners to achieve this common goal.

The benefits are shared with all participants and drive our virtuous cycle as we enable all our partners to deliver even more value to our users. How to create a long-term sustainable value is a question we'll reflect upon constantly, because of the scale of our user base, we're able to aggregate the demand and then dynamically recommend products that meet the users need. This enables our merchants to optimize supply chains, to yield a cost efficiency that would support sustainable, competitive pricing. More importantly, our traffic and the data analytics capabilities provide visibility and insights into such a demand, which we can share with merchants further to fundamentally improve their existing supply chain.

The value unlocked can be reallocated and drive further investments that would elevate efficiency and improve the income of our ecosystem partners. This is the fundamental thesis of our C2M and the total fund initiatives, which we have continued to make a progress on.

For the merchants on our platform, the traffic and the revenue from our platform, not just generate employment, but also give them the assurance to expand their business, build their brand and to do more. To date, we have expanded in a number of manufacturers in our new brand initiative from 20 to December -- at December 2018 to 63, and they cover industries ranging from large home appliances to glassware and kitchenware.

We have had over 1,300 products custom-made for our platform, cultivating [ph] over 17 million orders during this year's 6.18 campaign alone. We sold over 9 million items produced especially for Pinduoduo. At the same time, we continued to deepen our agricultural involvement. We launched a Phase II of Duo Duo Farms in Baoshan, Yunnan as the largest e-commerce platform for fresh agriculture produce.

We're deeply committed to realize a win-win situation whereby farmers capture more of the economic benefits and the consumers get a better price produce. We recently extended this initiative through our agreement with the Yunnan province to help a total of 74 impoverished counties, working together with the local authorities, we are pioneering a self-driven cooperative system and we are educating farmers on how to get better plan their planting cycles, how to efficiently modernize their production as well as how to market and price their produce.

The next step in that journey would be getting these fresh produce to consumers in a even more reliable and a timely manner. We often ask ourselves, what else do users want besides value for money products, and how do we help the people who actually produce these products?

One thing that keeps popping up is having, cheaper, faster and a more reliable logistics and supply chain networks. The current system has already improved significantly over the past decade, thanks to the economical growth China has experienced.

However, we believe technology building up -- building up on what we have learned from all the ecosystem participants of this platform could help further improve or even fundamentally change the structure of existing system. This is not a small task, but doing so would significantly widen the range of products available to users, especially agricultural products and a reduced logistics costs and a supply chain wastage.

Hence, we have started developing an open technology platform that can be a driving force for the logistics model of tomorrow, or what we like to call, new logistics. This asset-light model will be an open platform, focused on leveraging technology to provide solutions to our sizable and a growing merchants based to serve the users. We welcome all to participate.

The first pillar to our platform was the e-waybill system we launched at the beginning of the year. The rapid adoption of our ecosystem partners, including all the major 3PL providers coupled with positive user feedback, has propelled our e-waybill system to become the second largest in China within a few months.

To date, almost all of our orders have adopted our e-waybill system. This is a result of us keeping in housing our logistics platform by constantly introducing new features to satisfy users' needs, such as parcel intercept, deliver error warning and a service provider recommendation.

Our merchants have the freedom to choose -- freedom to use ours or others systems. We strive to offer the best product to them. Beauty on top of the e-waybill, we are systematically rolling out other value added services that form the foundation of our future logistics technology platform.

While increased economies of scale drove the improvements in industry efficiency previously, it is also beginning to reach its natural limitations. New technologies such as AI-driven routing -- route planning, IoT sensors and the devices, automated warehousing, sorting and routing, to name a few will become the basis of the next generation logistic services as we deepen our relationships with merchants through C2M, cross border e-commerce and other initiatives. We will be well positioned to work together with all parties on all areas spanning from supply chain to production to warehousing and to the deliveries.

Only through greater vertical integration and a partnership, would we be able to fundamentally change the allocation of economic value in the industry, and we are committed to doing so, such that greater value can be shared with our users and the value creators across the value chain.

As an example, we have been spearheading some investments to drive innovation in agriculture logistics. Our scale enables us to work with farmers to standardize fruit sizes and optimize packaging design. We're also working with ecosystem partners to evaluate having a dedicated e-waybill for agricultural produce and separate logistics from ordinary parcels to optimize efficiency and the quality.

Our predictive modeling technology can help power and route planning behind the agricultural produce network. We are confident that such optimization can be achieved, because of the unique technology background of our team, our funding principle of being open to all parties and the large and a growing amount of the demand of our platform from our diverse user base.

We believe that one can only succeed by constantly innovating and being more open. As we look forward to the second half of the year, we'll remain confident that our strategy of focusing on users and benefiting all will continue to generate strong results and we will continue to invest in technology and capabilities that will enhance our users' experience.

With that, I would now hand over at the time [ph] to David.

David Liu {BIO 21976168 <GO>}

Thank you, Colin, and hello, everyone. The second quarter of 2019 was a strong quarter for us, as we continue to execute on our strategic priorities to serve our users. Our last 12 month GMV grew 171% over the same period last year to reach RMB709.1 billion. During the 6.18 campaign period from June 1st to June 18th, our GMV grew more than 300% year-on-year with over 1.1 billion orders.

Total revenues for the quarter grew 169% year-over-year to RMB7.3 billion, up significantly from RMB2.7 billion a year ago. Our strong revenue growth was driven primarily by the rapid growth in our GMV, coupled with our steadily improving monetization rate, which is a reflection of the value we have created for our users and our merchants.

Our last 12 months monetization rate for this past quarter was 2.9%. Online marketing services revenue was RMB6.5 billion this quarter constituting 89% of our total revenues. This is up 173% from RMB2.4 billion for the same period last year. Our last 12 month online marketing services revenue increased for the seventh quarter -- consecutive quarter in a row to reach 2.6% of our total GMV.

The sustained growth reflects the continuous expansion of our platform and our services. As more buyers visit our platform more frequently, spend more time browsing through our product feeds and purchase with greater trust, the advertising ROIs for our merchants on our platform also improves. This encourages our merchants to leverage our advertising products more actively, in order to ramp up their exposure to target the users and drive more sales.

In the meantime, we also continue to enhance the advertising and selling tools available to our merchants. For instance, this quarter, we introduced a feature that automatically scans all active product listings to see if they are optimized for display and discovery on our platform. Merchants can now quickly identify inefficient listings and easily follow our system's prompts [ph] to fix these issues. This helps merchants to reduce ineffective marketing spend and achieve better ROIs, which in turn drives greater investments by them on our platform.

Many of our merchants are still in the process of building out their presence and accumulating sales on our platform, and they are still familiarizing themselves with our platform's rules. It is therefore critical to have more comprehensive tools and to educate our merchants about these tools. We anticipate more participation of our active merchants on our platform.

Let me give you an example of a merchant who has built on his initial success on our platform with better use of our advertising tools. This is a women's wear merchant, who has been on our platform for over two years. They have their own factories and 30% of their sales are online, of which Pinduoduo constitutes 70%.

On Pinduoduo, they decided to focus on higher ticket price, higher quality women's wear and their hit product is a trench coat which they launched in late 2018. The coat is priced 50% higher than that of their competitors, but still offers great value given superior materials. Despite the higher price, they sold over 40,000 units with the help of targeted advertising. They spent initially on keyword bidding to build up sales volume and through a continuous optimization of their keywords creative and listing details, improve their conversion rate to double that of their peers.

After building up their sales for a few months, they then added a feed advertising on top of keyword bidding. In their peak sales months, they had ramped their combined monthly spend to 3 times of the prior month as they incrementally targeted users who had gross competing products. That way not only the users who have searched for trench coat see their products. They would also be re-targeted and re-exposed through the key ads to different portions of the app as they continue to browse.

In the first quarter, the marketing spend helped them generate an incremental 10,000 units sold on top of the organic traffic and the merchants realized an average ROI around 10 times. This is just one example of a successful merchant, who [ph] on our platform, but it gives some perspective on the drivers of our online marketing service revenue.

Rounding our discussion on revenue, the remainder of our revenues come from transaction services. Our transaction services revenue for the quarter grew by 143% year-over-year from RMB338.1 million last year to RMB822.9 million. Our transaction services revenue as a percentage of our GMV fluctuates from quarter to quarter, primarily as a result of our tactical adjustment to incentify merchants and partners to provide superior services to our users.

We continue to build out other value-added services such as logistics and merchant advisory to help our merchants grow their business more rapidly on our platform and realize better return.

Moving on to costs, our total cost of revenues increased from RMB387.8 million in the second -- in the same period last year to RMB1.6 billion this quarter. This translates to a gross margin of 78% this quarter as compared to 86% a year ago. The lower gross margin this quarter as compared to the prior year, reflects our investment in network infrastructure and merchant support services to support our rapidly growing operations.

Total operating expenses this quarter were RMB7.2 billion as compared to RMB9 billion in the same period last year. Our sales and marketing expenses this quarter increased from -- increased to RMB6.1 billion as we made a large marketing push towards the second half of the quarter with promotional activities leading up to and throughout our 6.18 campaign.

Over the course of June 1st to June 18th, we saw our GMV grow over 300% year-over-year, as we generated a huge amount of interest and engagement for our new and existing users alike. We received over 1.1 billion orders during this campaign, which translates to over 60 million orders daily.

In just the first week of our campaign, we saw over 12 million buyers place at least five orders each indicating a high level of repeat visits. Over the course of our quarter, we also saw higher average order values and growing purchase frequency, which combine to drive our annual spending per active buyer to RMB1,468, representing a 92% increase from RMB763 for the June 2018 quarter.

Sales and marketing expenses as a percentage of revenue this quarter came in at 81% on a non-GAAP basis against meaningful GMV growth and revenue uplift. We continued to be very focused and targeted in our marketing strategy. As we have shared previously, when -- we strictly and on a real-time basis evaluate the ROI of our sales and marketing investments. We go beyond financial metrics to include the changes in engagement that these investments bring about. For example, has the users come from being active annually to being active monthly or even daily and in that journey, has the user being sharing more with their friends and family or inviting new users to the platform.

User engagement influences user trust, user spending, merchant ROI, merchant spending and more importantly our entire platform's user satisfaction level. We believe that our strong results this quarter demonstrate the meaningful underlying leverage of our business model and the initial benefits from the investments that we have made in the past.

We continue to see significant value and potential in enhancing our user engagement and we will remain disciplined and opportunistic with our sales and marketing investments. We will only invest when ROI requirements can be met, and if the investments accrued to the intrinsic value of the Company.

Our general and administrative expenses this quarter were RMB278.3 million, a significant decrease from last year due to lower share-based compensation expenses. On a non-GAAP basis, our G&A expenses as a percentage of our revenue was 1%.

Our research and development expenses were RMB803.7 million this quarter, a significant increase from last year, as we invest in hiring more experienced algorithm engineers and spent more on R&D related cloud services.

On a non-GAAP basis, our R&D expenses as a percentage of our revenue was 8%. We are on track with our plan to add at least 2,000 engineers, this year and will continue to invest in our distributed AI infrastructure.

Operating loss this quarter came to RMB1.5 billion compared with loss of RMB6.6 billion in the same period last year. Non-GAAP operating loss was RMB898.4 million compared with a loss of RMB815.7 million in the same period last year. Net loss attributable to ordinary shareholders was RMB1 billion compared with net loss of RMB6.5 billion in the same quarter last year.

Basic and diluted net loss per ADS were RMB0.88 compared to net loss per ADS of RMB13.4 during the same period of last year. Non-GAAP net loss attributable to ordinary shareholders were RMB411.3 million compared with net loss of RMB673.4 million in the same quarter last year. Non-GAAP basic and diluted net loss per ADS were RMB0.36 compared with RMB1.40 for the same quarter of 2018. That completes the profit and loss statements for the second quarter.

Net cash flow provided by operating activities for the second quarter was RMB4.1 billion compared with RMB1.1 billion in the same quarter last year, primarily due to an increase in our online marketing services revenues. As of June 30th, 2019, the Company had a strong balance sheet with RMB40.7 billion in cash, cash equivalents and restricted cash. Excluding restricted cash, we had RMB23.9 billion in cash and cash equivalents.

In addition, we had RMB7.9 billion in short-term investments, bringing our total cash available to RMB31.8 billion. As such, we are in a good position to make the necessary investment this year to build our platform and strengthen our competitive advantage. We still see a lot of room to innovate and deliver more value to our users and merchants and we will invest prudently to further our strategy.

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

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Your first question comes from the line of Piyush Mubayi from Goldman Sachs. Please ask your question.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Thank you for taking my question. I'll limit it to one, but it's a big question. When I look at competition, I look at your market share, you captured more than 31% of the GMV growth in China for the second quarter, and that's up from 21%, 25%, 19% in the last couple of quarters, at that run rate by the time you get to the end of the year, your market share will be fairly significant.

I wonder if you could comment on the competitive landscape currently at the end of the year, how this is likely to change, and what are the challenges you think you will face in the coming quarters? Thank you.

A - Zheng Huang {BIO 20683053 <GO>}

Okay. A lot of people ask me about competition. E-commerce in China is indeed a very competitive landscape, but I wanted to reiterate here that we are more focused on our operations and how we could serve our users, rather than look at what others are doing.

With that said, competition has always been here. We have always operated in a very, very competitive industry and we have managed to grow to our current scale, despite these competitions. Actually, we should be thankful to these competitions, since they help us to learn faster and innovate faster to serve our users. To some degree, the result of last quarter is somewhat a result of the competition.

One example is the 6.18 campaign, which shows that we are on the right path. We saw good results this year, because we are laser focused on our users, instead of our competitors. Speaking of the specific competition techniques, on the merchant side, there indeed has been very intense competition, some of which are against the recent e-commerce law and forces merchants to pick sides and work exclusively with one platform. This actually goes against our principles to provide an open platform and a fair platform to order merchants.

Recently, actually we noticed that the general office of the State Council released the guidelines for regulating and nurturing the sustainable development of the e-commerce industry to boost economic growth. It reiterated the importance of fair market competition and a product quality control for consumer perception.

So the State Administration for market regulation has been tasked to implement these guidelines. So maybe there is some short-term impact by the forced exclusivity, but it doesn't seem to be sustainable. And so far, it looks like -- to some degree it stimulates innovation within our own team and help us accelerate [ph] much faster than before.

And if you look at this problem as a long-term question, then, it is very clear that forced exclusivity is against the fundamental interest of the brand owners and order users.

So with that, I don't think it can last that long. So if we look even longer term, so we should notice today the e-commerce market in China is still not a zero-sum game yet. I would say, it is still sort of the early to middle kind of stage faced with a growing RMB30 trillion market plus a retail sales opportunity. This industry should focus resources and energy on innovation instead of looking at what others are doing, trying to take others pile or something like that.

So if you look at China's total retail, and I would say e-commerce will still take more and more market share or a bigger pile of the overall retail. So with that, this huge growing e-commerce market order players, I think will still have a large room to grow despite the severe competition in between.

So does that answer your question?

Operator

Your next question comes from the line of Thomas Chong from Jefferies. Please ask your question.

Q - Thomas Chong {BIO 21155199 <GO>}

Hi. Good evening management. Thanks for taking my questions and congratulations on a strong set of results. I have a question relating to sales and marketing expenses. I noticed that the sales and marketing expenses is RMB6.1 billion for this quarter, which is slightly higher than The Street expectations, but what we see is that as a percentage of revenue, it came in better than expected because of better monetization.

So my question is about the trend, where is the delta coming from compared with The Street expectations and how should we think about sales and marketing expenses as we go into the second half? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you. Thank you, Thomas. We understand sales and marketing spend is a focus of our investors and we would like to again reiterate our strategic focus in terms of what we want to achieve with our sales and marketing investment has not changed. That is to say that we seek to enhance user recognition of our platform, increase user engagement and our user's trust, because we believe this will translate into growth of both our GMV and revenue and ultimately margins and accrue to our long-term intrinsic value.

As such, sales and marketing leverage as demonstrated by our second quarter result is really an output. The RMB6.1 billion, you see, this is not a target variable that we optimize for. We also do not manage towards a fixed budget in terms of dollar or ratio.

This is because blindly adhering to such a target we believe, may result in us missing out on good investment opportunities in today's dynamic environment. So going forward, we will continue to make investments in sales and marketing as long as our ROI requirements are met.

We see our results in the second quarter as a good indication of our strategy being on the right path. However, we are not in a position to comment whether our sales and marketing numbers will increase or decrease and we hope that investors appreciate our discipline and strength to always act quickly on marketing opportunities.

A - Zheng Huang {BIO 20683053 <GO>}

Next question?

A - David Liu {BIO 21976168 <GO>}

The next question?

Operator

Yes. Your next question comes from the line of Alicia Yap from Citigroup. Please ask your question.

Q - Alicia Yap {BIO 15274658 <GO>}

Hi. Thank you. Good evening, management. Thanks for taking my questions. Congrats on the solid quarter. My questions is related to your new user growth. Given these 483 million active buyer this quarter is very solid, just wanted to get a sense among order user acquisition strategy that you engage in the past which one does stand now as the most effective in acquiring the new user? And then given the step-up effort by some of your peers to aggressively penetrate into the lower-tier cities, are you seeing any change in the cost of new user acquisition? Any change in the user retentions and even if we look into longer-term say -- let's say PDD able to achieve the similar size of the user base of our largest peer?

How do you see the user on your platform versus the competition? How -- what are the attractiveness on PDD platform that could continue to attract and retain the user to shop on PDD? Thank you.

A - Zheng Huang {BIO 20683053 <GO>}

Thank you for your question. I understand that you're curious about which technique might be the most effective or most useful, but I'm sorry to say, is that this is the result of a consistent strategy, really it's not a secret, but to be honest, it is -- there is no secret there, it's just -- we keep doing the same thing and we keep a laser focused on our users.

So the user acquisition as a result of the user satisfaction level, and sometimes the number will be higher, sometimes the number will be lower, but if you forget about a quarter-by-quarter numbers instead and you look a little bit longer, look at a year or several years, then you will gradually sort of believe in a simple philosophy, which is, if you do the right thing continuously and consistently, then you will see the power of compounding.

So this quarter to us, it's just a normal quarter. There really is -- nothing dramatic has had been happening. But the beauty of our model is that, it's simple and it's -- there is no magic there.

A - David Liu {BIO 21976168 <GO>}

Hey, Alicia, just to add on top of Colin's comments, I would say that from a longer -- if you look at our results, it is really a reflection of us continuing to focus on what users need and want and being able to deliver on that value.

So as a result, you can see that almost half of our GMV in June -- well, almost half of our GMV in June actually came from Tier 1 and Tier 2 cities. This shows that our investment in building our brand recognition are paying off and we also continue to see user adds in the lower tier city as well.

So as we have mentioned or communicated in the past, Pinduoduo is really designed to be a full blown e-commerce platform to serve the entire population of China and we are really seeing adds, user adds being across the board. We would further highlight that, because of our better understanding of user's preference and how they interact and influence the network, this actually has helped us refine the relevancy of recommendations and we now have -- and because we now have a wider rate of products packed [ph] with more characteristics for us to utilize and down [ph] for more nuanced recommendation, we have seen this being reflected in increasing our AOV now to over RMB50.

Q - Alicia Yap {BIO 15274658 <GO>}

Okay.

Operator

Your next question comes from the line of Natalie Wu from CICC. Please ask your question.

Q - Natalie Wu {BIO 19852429 <GO>}

Hi. Good evening. Thanks for taking my question and congratulations on a very robust result. My question is regarding the JD's upgrade which had level one entry starting from this October which is going to be more targeted at the lower Tier city users with value for money goods.

So I was just wondering should we worry about any potential impact on us? We would appreciate if management can give us some color on that. Thank you.

A - Zheng Huang {BIO 20683053 <GO>}

Well, in general, we don't comment on other's strategy or other's activities, but I can say a little bit. I think the slots is already there and they have been doing this for quite a while and in parallel, I think we're just doing our own thing and the strategy has been stayed the same and we have always been focusing our own users instead of worrying about what others are doing and looks like our simple-minded strategy does reward us in the past. So we'll just just stay with what we are. Next question?

Operator

Yes. Your next question comes from the line of Binnie Wong from HSBC. Please ask your question.

Q - Binnie Wong {BIO 16260213 <GO>}

Hey, good evening management. Congrats on a big quarter with bid [ph] across the board. So speaking of logistic right, that's one of the key investment for e-commerce company in general, to improve the order efficiency and also ensure the quality delivered to our customer. Especially important as you said, we are moving to -- into Tier 1, 2 cities where users tend to demand more.

So a question here is that, what is the business model here and that as we see earlier this year, Pinduoduo has been offering more logistic software and proactively working with merchants, the e-waybill and also what is the -- how much capital investment we needed for our logistic support, and how would you compare your logistic support versus our competitors who already have a more established logistic network there? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you for the question, as Colin mentioned, we always ask ourselves what else we could offer to our users to enhance their user experience and to further enhance their trust, and logistics is one thing that we are focused on, it keeps coming back. We launched our e-waybill system at the beginning of the year to make shipping information more transparent and more up to date to our users.

And as you may have seen, in the first half of the year, we had over 7 billion orders on our platform. So according to China close [ph] totality of 27.8 billion [ph] completed parcel deliveries during the same period in China, our implied parcel market share is well over 25%.

The bulk of these parcels -- the bulk of our parcels are now processed through our e-waybill system. The success of our e-waybill system is what prompted us to -- with the idea to build on top of it an open technology platform to further enhance the logistics and supply chain efficiency in our ecosystem.

The efficiency in the current logistics industry has been driven largely by economy of scale. And we realized that there is significant room to improve using technology. So our initiative will be as asset light as possible. We do not plan to invest in warehousing assets or build delivery fleet.

Our aim is to connect and optimize available capacity in the industry to provide better service quality and realize greater efficiency to further lower per-unit cost. We have already started to do this in agriculture as part of our Duo Duo farm initiative.

Over the long run, we actually anticipate using this platform to address different supply chain SaaS opportunities that may arise from working closely with our factories and agriculture producers and to realize further restructuring of the value chain in order to reallocate economic value across the supply chain to the producers and benefit our consumers.

Next questions, please.

Operator

Your next question comes from the line of Tina Long from Credit Suisse. Please ask your question.

Q - Tina Long {BIO 21068620 <GO>}

Hi. Thank you, management for taking my question and congratulations on the good results. The question is on the take rates, because I understand that the Company started to give some discounts for quality merchants. But I think the take rate hasn't seen some recovery in this quarter. So I want to know what's the direction of the take rate for the next few quarters? Are we started -- will we start to narrow down or scale back the discounts to those quality merchants?

And secondly, very small on the sales and marketing sort of as a follow-up. Because in during the June 2018 campaign, there has been talk basically, we have a RMB10 billion subsidy program, but after the month of June, basically, now we are still seeing the (inaudible) in the apps in July and August. So does that mean that we sort of prolong this campaign for a longer period of time? And also, what would be the implication for the full year, especially second half sales and marketing? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you for the question. As I mentioned, we will -- user experience or user satisfaction is our priority. So we will always continue to support quality merchants on our platform, so I think the way to think about the transaction services take rate this quarter, we actually begin doing this in last quarter and we continue to be mindful of balancing that versus growth.

This quarter, we actually continue to effectively reduce transaction services fee for some merchants, but you should expect fluctuation in this ratio, because, as we mentioned, we do not actually manage to a specific target.

A - Zheng Huang {BIO 20683053 <GO>}

Yeah. So I'll add a few words. Speaking of take rates, in my mind is fluctuation we are seeing right now is negligible and I generally recommend you don't focus too much on the fluctuations either increase or decrease of the take rate. In the media term, I think it will be fairly stable in my mind. And speaking of the specific campaign, the 10 billion campaign, I would say -- I want to take this opportunity to remind you that, not like other platforms, they are more event and festival driven, but we are really not that festival driven.

So the 6.18 event is just a little kind of a trial for us to participate and it's a place for us to train our staffs, but all the order campaigns we launched before the 6.18, during 6.18 or after that may last longer or last shorter.

But basically what I'm trying to say is, our order campaigns you see today are not related specifically to a particular festival. So it should be there. Well, you should expect the campaign to be there for some time and and our colleagues will decide when to change to a new one.

Operator

Your next question comes from the line of Charlie Chen from China Renaissance. Please ask your question.

Q - Charlie Chen {BIO 21012902 <GO>}

Hi, management. Thank you for your time to taking my questions. I have a question regarding your C2M business. So can you share with us your current status of the C2M business and also what is the value proposition of the products of your C2M business? So is that a just a cheaper alternative to your other products or it is actually upgrade of your non-branded products? Thank you.

A - Zheng Huang {BIO 20683053 <GO>}

Okay, thank you for your question. Our -- while speaking of C2M, I'm proud to say that our new brand initiative has been very popular and we have received over 6,000 applications thus far. And with about 500 companies participating in pilot tests. And as you know, our partnership model for the new brand initiative is built and opened in an asset light manner.

We don't have binding targets set for our partners, and it is really more of a two-way process as we learn from each other to see what value we can bring to benefit our users. And during our 6.18 campaign, we sold over 9 million C2M products and we also featured both our new brand initiative and the Shanghai heritage brand initiative partners such as Warriors Shoes and Bee and Flower. So going forward, we will continue to deepen our engagement with our manufacturers on our platform.

One of our recent partner is Shenzhen MTC, an ODM who produces over 10 million TV sets annually for brands like Phillips and JVC. So MTC provides us with information related to their product design and the cost structure and we share with the team -- we shared them the consumer data and the mix suggestions on product development and the pricing strategy.

So MTC uses these inputs to further improve their supply chain and can rollout quality products to our users, offering greater value for money. So the customized TVs that they produced for us under the JVC brands, which was really -- which was licensed from the JVC. It's launched a few days ago, and they have sold out of their first two SKUs within a few days, selling 1,000 65-inch 4K TVs and the 1,500 62-inch 4K TVs.

So these TV sets are just the tip of the iceberg, and there are still many other industries where we can lock and unlock value through our C2M partnerships with merchants. So further, we are developing our logistics technology platform to further help them with supply chain and a logistics efficiencies, such as the packaging, route, optimization, warehousing systems, et cetera.

So we do hope to bring a holistic upgrade to our partners and make fundamental change in the vertical value chain of various sectors.

So with that said, it's really a long-term goal. You shouldn't expect this can happen overnight, but the initial efforts we have made does give us a positive feedback. So this will provide a meaningful value, not only to our merchants, but to our users as well.

So we will expect to them to grow significantly in the future, and it will become a trend, not just on our platform, I believe other platform will follow and should follow I guess in the near future as well.

Operator

Your next question comes from the line of Joyce Ju from Bank of America. Please ask your question.

Q - Joyce Ju {BIO 20718580 <GO>}

Good evening, and congrats on the solid quarter and thanks for taking my question. My question is related to the progress of our category expansion and development of key categories. What's the key category actually driving our strong growth, GMV growth this quarter and how is the development of our some signature categories such as agriculture products? How much they are now representing our total GMV and what's the strategy to further increase their -- strengthen these categories down to the road? Thank you.

A - Zheng Huang {BIO 20683053 <GO>}

Okay, thank you very much for your question. Well, first of all, I want to say that we don't really focus on categories, we focus on users. We are trying very hard to match different kind of products to the user's need. As long as our users want those products, we'll just try very hard to bring them on to the platform and make that available with the lowest possible price.

Speaking of agriculture category, it is a special category. It's not because we -- sort of GMV growth rely on that, it's just because we start with agriculture produce at very beginning of our platform. We don't -- we usually we don't disclose the GMV breakdown. But we are encouraged to see agriculture as an important part of our platform.

As I mentioned multiple times in my shareholder letters and other communications, agriculture sector landscape is different in China compared to other countries such as the US. Therefore, we need to take a very different approach, the supply of agricultural products is very scattered across China and of smaller scale, though in aggregate, it's a very large industry, involving hundreds of millions of people.

Therefore, we need to tailor the logistics system, the growth cycle, the marketing strategy and a distribution network of this industry to return value to the farmers. So in 2018, we handled RMB65 billion worth of agricultural products, selling them directly from farmers to consumers.

This year, we still see very strong growth in this segment. And with Tier 1 and Tier 2 city users accounting for 70% -- almost 70% of the agricultural product orders during our 6.18 campaign.

So in 2019, we are -- continue seeing a good runway for sustained growth and a lot of potential for us to help improve industry efficiency. And on the supply side, we are working with both farmers and the local authorities to effective change.

We have signed agreement with Yunnan province to help a total of 74 impoverished counties and take a comprehensive approach towards reshaping the economic value chain. So for example, to help farmers learn how to sell directly on Pinduoduo, we have provided training courses on marketing and also provided AI driven farming suggestions, utilizing predicted approaches patterns for fruits and likely delivery schedules.

Farmers are better enabled to plan their planting schedule making the production process more scientific and reducing wastage. We're also working with authorities and agriculture universities to groom agriculture talent in this regard.

So we hope and we do hope that what we learn in that province can be transplanted to other province as well. And I also mentioned how we are leveraging logistic technology to improve agriculture sector just now. So, over time, this will allow more good and fresh produce from all parts of China to reach our consumers and providing them with even more choice at an affordable price.

We do all of this not only because it's a very good category, very large market, it can grow our GMV, more importantly, we view agriculture as a very special category that has a special meaning to China, which involves hundreds of million people who is on the field and also affects the daily life and the health of the citizens in Tier 1 and Tier 2 cities.

So it is a very good category. We both view it as very long-term investment value. We also view this category as a place where a lot of innovation can be done and should be done. And we also feel this is a category, we should take our responsibility and do more social good.

Operator

Thank you, ladies and gentlemen. Unfortunately, we have run out of time for any further questions. I would now like to hand the conference back to today's presenters please continue.

A - Xin Yi Lim {BIO 17900961 <GO>}

Thanks everyone for listening in to our call and if you have any follow-up questions, IR is always available. Thank you.

Operator

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