

Q3 2021 Earnings Call

Company Participants

- Lei Chen, Chairman of the Board of Directors and Chief Executive Officer
- Tony Ma, Vice President of Finance
- Unidentified Speaker

Other Participants

- Eddy Wang
- Joyce Ju
- Natalie Wu
- Thomas Chong

Presentation

Operator

Good day, ladies and gentlemen. Thank you for standing by, and welcome to the Pinduoduo Third Quarter 2021 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' prepared remarks, there will be a question-and-answer session. Please be advised that today's conference is being recorded.

I will now turn the call over to your host for today's call, Mr.Chen [ph]. Please go ahead, sir.

Unidentified Speaker

Thank you, operator. Hello, everyone and thank you for joining us today. My name is Chen and I will help host the earnings call today. Pinduoduo earnings release was distributed earlier and is available on our website at investor.pinduoduo.com as well as through Global Newswire Services.

Before we begin, I would like to refer you to our Safe Harbor statement in 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 a reconsideration of the non-GAAP measures to get measures.

Joining us today on the call are Chen Lei, our Chairman and Chief Executive Officer; Tony Ma, our VP of Finance. Lei will make some general remarks on our performance for the past quarter and our strategic focus going forward. Tony will then elaborate further on

specific strategic initiatives and take us through our financial results for the third quarter ended September 30, 2021. After that, we will open the floor to questions from analysts.

During the Q&A session, Lei will answer your questions in Chinese and Preston will help translate. Please kindly note that all translations provided are for ease of reference only. In case of any discrepancy between the original remarks and translated version, statements in the original language should prevail.

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, Chen. Hello, everyone and thank you for joining our results announcement for the third quarter of 2021. Our total revenue for this quarter, excluding revenue for the merchandise sales were RMB21.4 billion. This growth is there a year-on-year increase of 55%. Our annual active buyers reached 867.3 million for the 12 months ending on September 30th. For the quarter, average MAU increased to 741.5 million.

Pinduoduo sales last month, what we call for opportunities to serve our users, farmers, merchants and where everyone, who has interacted with us in the past six years and we hope to continue serving them. It has been over a year, since I took over as the CEO and half a year Chairman of the Board. Over this period, we have been busy working on a transition, which I'm happy to report has been gradual and on track. There are two major things to this transition has been happening behind the scenes. The first is grooming younger talent and leaders to the second is shifting to more focus investment the R&D from a privileged focus on sales and marketing in the first five years.

And now, let me elaborate. First, ongoing younger talent and leaders. Since the beginning of last year, we have witnessed many of our younger team members stepping up to take more responsibilities. This young men and women, demonstrating their core value of commitment to our users. When COVID-19 was struck and disrupting our daily lives, many on our young team immediately took actions to source essential supplies and delivered to users we need.

When heavy rains struck (inaudible), they sprint into action to sort out of (inaudible) logistics, so that our users will not run out of daily necessities. This unforeseen event has accelerated that maturity and sales of further foods to our users and suppliers. We have been encouraged to see more with potential to become future leaders of our business. They make particle business decisions as to results strongly exceeding our expectations.

I'm proud able to work alongside with this young team. This pilot age, many of them has been with the company for a number of years and have matured on the job, like shaping the future of this company. Young talent will bring creativity in the bigger and constantly innovate. You see more of them taking on critical roles in the next six to 12 months, as we continue to create opportunities for them to step up.

And the second, shifting to more focus and investment in research and development. We're already serving 867 million users. To leverage our stress of having a management with years of engineering training, we're increasing our research and development investments. This is a significant shift in strategy from our first five years, when we were focusing much more on sales and marketing.

Agriculture has been amazing and the backbone of our business, since the very beginning. We saw an opportunity to create value and bring agriculture into a digital economy. Trained as engineers, my team and I have devoted ourselves to five technology solutions to implement across an agricultural project.

We have only scratched the surface after six years. There is still much more for us to do in agriculture, especially with technology. Therefore, we plan to deepen our investment in tech enabled agriculture solutions to address critical needs in this sector. These include first, bringing more agriculture products and agriculture committees into a digital economy and second, further improving efficiency in agriculture supply chains to meet user demand and reduce waste.

Over the past six years, Pinduoduo has provided the consumers across China with larger variety of agricultural produced at better prices while helping farmers to increase their income. When we started six years ago, we were among the first to serve agriculture produced online. And now, we are connecting 16 million farmers to 867.3 million consumers nationwide. During China's Golden Week in October, agriculture-related orders, our platform surged 279% over the same period last year. We hope Pinduoduo will be the go-to platforms for quality agricultural products for farmers and consumers.

We look forward to leveraging our platform to have more farmers in order to improve their life and the best fit their communities. To this end, we will continue to focus our efforts in digital inclusion in agriculture industry. We will expand our course offering on digital economy ask you farmers on e-commerce and store operations. We have the new controller price quantity. And in a way, the own destiny in their own hands as they can sell directly to consumers. In order to exercise agriculture disposition, we press to make better commission policy of agricultural products. At the same time, we will continue to improve consumer awareness and appreciation of agricultural produced through graphical indications, and agricultural brands through technology innovation such as live streaming, media marketing et cetera.

The more awareness consumers have the more educated farmers are, the more value can be created to agricultural communities in China. Well, our focuses are in tech-enabled services to increase the price for efficiency to agriculture sector. One of them is to merge local supply with local demand. And at the same time, it helps reduce unnecessary transit to provide flash options for consumers.

To further cut our transportation time and reduce food loss and weight, we are developing proprietary technology solutions, like raw planning, algorithm design, analytics and culture optimization. This solution helped to lay the foundation for infrastructure that's more suitable for agriculture produced and more environmentally

sustainable. Henceforth, the applying agriculture technology go beyond matching, supply and demand, and extend into identifying upstream technology solutions to improve productivity, nutritional profiles and the environmental sustainability.

Our strength in agritech applications, we also hope to make agriculture attractive to a tech service younger generation. A good example of our efforts in this area is our smart agriculture competition. It has demonstrated that precision farming techniques can make real improvements to fast output. Something through our competition last year have started to commercialize the technology of strawberries cultivation. It's that since then all staff and the bring tangible productivity gains to farmers. This year, we have joined force with China Agricultural University and Zhejiang University with technical gradient from a food and agriculture organization, and at University and Research.

In line with our priorities, we're expanding the challenge to accept, not just yield for the nutritional value, environmental sustainability and commercial viability. Contestants have adopted a multidisciplinary approach, applying nutritional science, precision farming, and other relevant technology to cultivate (inaudible) cross-disciplinary backgrounds, ranging from agriculture to computer sciences.

Currently, they are remotely planting tomatoes in our smart greenhouse space in (inaudible). We are encouraged to see that 80% of our team members are in their 20s bringing the clarity and new ideas to a traditional agricultural sector. And at the same time, we are partnering with world-class agriculture institutes to offer this young agritech talents, tailored courses and trainings on topics, such as greenhouse, agriculture, crop management and monitoring.

Agriculture is an industry with great potential for young people considering a future in technology, who aspire to make impact on society. As an agri-focused platform, we want to leverage our platform and technology to provide more opportunities for young talent to join agriculture sector, working with their applied technology to improve every link of agricultural supply chain. Investing technology to improve agriculture sectors is important, yet a challenging task. It requires our long-term commitments and we will be patient and systematic. We hope that some out efforts, we can help build a smarter and more sustainable future for agriculture.

Last quarter, we announced the launch of RMB10 billion agriculture initiative, which seeks to address critical needs in the agriculture sector and rural areas. The initiative will not be driven by profit or commercial goals, but strives to facilitate the advancement of agritech, promote digital inclusion and provide agritech talent with greater motivation and sense of achievement. Profit from the second quarter and any potential profit in the future quarters will go into this initiative until the final goal of RMB10 billion is met.

The profits for the third quarter will also go into this initiative. After listening Board involvement, we held an EGM at the end of September and the initiative was approved by our shareholders. Pinduoduo is closely connected to the community that we operate in. Their support has been crucial in our development and we in turn was supposed to the best of our ability. Therefore, we are committed to take on more responsibility to society.

In July, we starting to action of the (inaudible) we donated RMB100 million to flood relief larger portal to support the emergency relief distribution. The total grocery network in Syntel took stock of our food and emergency supplies, and worked with suppliers inside (inaudible) nearly 20,000 partners there. In October, we also contributed to the relief effort in science in response, we have between there, donating RMB50 million to Charity Foundation to carry out emergency disaster relief and post disaster this construction work.

Looking forward, we plan to do more to contribute to the society. We will continue to (Technical Difficulty) proactively leverage our platform and resources to serve our users, farmers, merchants and their communities better.

Thank you. And now, let me pass to Tony Ma.

Tony Ma {BIO 19978312 <GO>}

Thank you, Lei. Hello, everyone. Let me begin by sharing highlights of some of our agriculture initiatives in the past quarter. Then, I will discuss our financials for the quarter. First, as part of our efforts for the digital inclusion of farmers, we initiated and supported a series of agricultural promotion activities to strengthen the direct connection between farmers and consumers. Autumn is a harvest season and this September, we were a main platform of the farmers harvest festival, and its golden autumn consumption season. We launched the Duoduo Harvest Hall and designed a series of initiatives to help farmers to better, including live streaming, merchants training, traffic support et cetera. Over 280,000 agri merchants participated in our event this year, nearly double the number last year.

In September, we joined the Ministry of Agriculture and Rural Affairs, Farmers daily and the China green food development center to kick off the 2021 campaign of China's GI agricultural products tool. The campaign helps to promote the agriculture product and their original heritage, helping to recognize quality agricultural products across China. To support the campaign, we provided the technical and platform support.

We offered online and offline training, including marketing and branding techniques tailored to GI products. During China's Golden Week in October, a time when families typically reunite and enjoy meals together, we rolled out various initiatives to make more agricultural produced across the nation, easily accessible through our platform. These initiatives helped to increase agricultural related orders, which search the 279% over the same period last year.

Second, we are stepping up efforts to raise consumer awareness, appreciation and the demand for quality, agricultural produced and the producing regions. In October, we launched our Apple Building Week, we worked with farmers in six major apple producing regions Saishi, Sang du, Su Chan and the Shin Cheung, to develop a grading and the director distribution framework. This framework helps to provide consumers with delicious and high-quality apples and to build awareness of the places, where these apples were cultivated. As part of this initiative, our fruit selection team stationed in these

regions for months to study local markets and help train high-quality apple merchants with strong supply chain capabilities. Alongside these drives, we are also working with research institutes to implement industry standards for agricultural products.

We partnered with the Jiangsu Freshwater Fisheries Research Institute, our industry standards for Chinese myth and crabs. These standards covered quality, size, packaging and transport, which will provide consumers with a clear basis to make and inform the decision on their purchases. We hope to help farmers to promote their product, better meet the demand, and the expectations of the consumers for quality goods and services, and to build a sustainable business on our platform. Therefore, we will continue to maintain our zero-commission policy for agricultural products.

Now, let me walk through our third quarter results, our annual active buyers for the last 12 months ending September 30th, 2021 increased to 867.3 million, up 17.4 million from the prior quarter. Our MAU in Q3 reached 741.5 million. This is up 15% compared to the same quarter in 2020. Given our current scale, our user growth will inevitably be more moderate going forward.

At the same time, as we serve a larger user base, we also face more diversified and even involving user needs. Our task has become increasingly difficult. We hope that our younger team leaders could embrace the challenges and continue to serve users' needs innovatively. In terms of P&L, our total revenues in the quarter end, September 30, 2021 were RMB21.5 billion, up 51% from RMB14.2 billion in the same quarter last year. Excluding revenues from our 1P trials, our total revenue grew by 55% to RMB21.4 billion in Q3 2021.

And the key driver was online marketing services. Online marketing services revenue was RMB17.9 billion this quarter, up 44% compared to the same period last year, primarily due to the increase in merchant activities. Our transaction service revenues this quarter amounted to RMB3.5 billion, which is up 161%, 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 transaction processing fees. Number two, the service revenues that we recognize in connection with duoduo grocery, for which we provided the fulfillment and other related services. Revenue from the merchandise sales from our 1P trials was RMB81 million in Q3 2021, as compared to RMB2 billion in the preceding quarter. Our 1P business was a temporary solution to meet the demand of our users on products, which our merchants could not fulfill. As we see more products offering from our merchants, we expect contribution from 1P trials to be insignificant.

Now, moving on to costs and expenses. Our total cost of revenues increased from RMB3.3 billion in Q3 2020 to RMB6.6 billion this quarter. The increase was primarily due to higher cost of payment processing fees, cloud services fees, and delivery and storage fees. Total operating expenses this quarter were RMB12.8 billion as compared to RMB12.2 billion in the same quarter of 2020.

Our total non-GAAP basis operating expenses were RMB11.7 billion as compared to RMB11.3 billion in the same quarter a year ago. Our non-GAAP sales and marketing

expenses this quarter is RMB9.7 billion decreasing 1%, compared to the same quarter of 2020. On a non-GAAP basis, our sales and marketing expenses as a percentage of our revenues this quarter was about 45% as compared to 89% and the 69% for the same quarter in 2019 and in 2020.

The continued reduction in sales and marketing expenses as a percentage of revenue reflects our efforts to proactively reduce sales and marketing expenses as we gravitate towards more investment on R&D. On a non-GAAP basis, our general and administrative expenses was RMB178.1 million compared to RMB132.6 million in the same quarter of 2020.

Our non-GAAP research and development expenses were RMB1.9 billion, an increase of 30% from RMB1.4 billion in the same quarter of 2020. This increase in R&D was primarily due to an increase in headcount and the recruitment of more experienced R&D personnel. As we continue to strengthen our technique bench, to lay the foundation for future sustainable growth and continue improving our services to meet the evolving user demand, we are committed to expand our investments in R&D, and expect a continued increase in R&D expenses.

To sum up, operating profit for the quarter was RMB2.1 billion on a GAAP basis compared with operating loss of RMB1.3 billion in the same quarter of 2020. Non-GAAP operating profit was RMB3.3 billion compared with operating loss of RMB339.8 million in the same quarter of 2020.

Our non-GAAP operating profit as a percentage of our revenue improved from minus 2.4% in Q3 2020 to 15.2% in Q3 2021. Net income attributable to ordinary shareholders was RMB1.6 billion as compared to net loss of RMB784.7 million in the same quarter last year. Basic earnings per ADS was RMB1.31 and the diluted earnings per ADS was RMB1.15, compared with basic and diluted net loss per ADS of RMB0.66 in the same quarter of 2020.

Non-GAAP net income attributable to ordinary shareholders was RMB3.2 billion compared with net income of RMB466.4 million in the same quarter last year. Non-GAAP diluted earnings per ADS was RMB2.18 compared with non-GAAP diluted net earnings for ADS of RMB0.33 in the same quarter of 2020.

In August, we announced the launch of 10 billion agriculture initiative, which aims to address the critical needs in the agricultural sector and the rural areas. The initiative would not be driven by profits or commercial goals, but strive to facilitate the advancement of agritech, promote digital inclusion and provide agritech challenge with greater motivation and sense of achievement. The initiative received shareholders' approval at the EGM held at the end of September. Profits from the third quarter, will also go into this initiative. We expect that the initiative to have a near-term impact on earnings per share for shareholders. That completes the profit and loss statement for the third quarter.

Net cash flow provided by operating activities was RMB8.7 billion compared the ways RMB 8.3 billion in the same quarter of 2020. As of September 30, 2021, the company had RMB97.9 billion in cash, cash equivalents and short-term investments.

With that, I conclude my prepared remarks.

Unidentified Speaker

Thank you, Tony. For today's Q&A session, we have Lei, our Chairman and Chief Executive Officer; and Tony, our VP of Finance on the line. Preston will help translate Lei's remarks in Chinese to English for ease of reference.

Operator, we may now take questions from the first analyst on the line.

Questions And Answers

Operator

(Question And Answer)

Certainly. (Operator Instructions) Your first question comes from the line of Natalie Wu of Haitong International. Please ask your question.

Q - Natalie Wu {BIO 19852429 <GO>}

Hi, good evening. Thanks for taking my question. I have two questions here. First of all, since that your sales and marketing expenses is tapering off, just wondering are you changing your ROI for sales and marketing spending.

How should investors understand your future sales and marketing strategies? This is also the second consecutive quarter that your company is showing both non-GAAP and GAAP profit. Just wondering, are you prioritizing profitability as a goal going forward? And should investors expect full year profitability for 2021 and going onward as well.

And my second question is regarding the agriculture initiative, we're just wondering, Lei Chen, can you provide an update on the RMB10 billion initiative you started last quarter? Has any investment being reflected in the latest financial results, which initial line items has been affected? Thank you.

A - Lei Chen {BIO 18939623 <GO>}

(Foreign Language)

Thank you, Natalie for the questions. To answer your question, our high standards for certain marketing investments ROI have not changed. But as our user base expands and our user needs diversify, we are also constantly applying micro adjustments to our ROI model, and the goal is actually to better serve our users diversified demand.

(Foreign Language)

So when we were just starting, we were hoping that with the application of technology, we can serve the wider consumer pool for our principle of benefit all. So when our user base was relatively small, then investment goal was actually to attract more users to get to know about us, try different features and also try out our platform.

Now, as our user base is much larger with more and more users, starting to use Pinduoduo, our new challenges now is, how can we constantly encourage them to try out new categories, to explore new experiences, and how can we actually meet their changing and much higher expectations so far, so that we can improve our trust and build longer term user mindshare.

(Foreign Language)

It is a challenging task to constantly satisfy users, especially given that we have such a large and diversified base of users. It is also the challenge for our new generation of leaders. We are also learning and adjusting through iteration. But one thing that is not changing is that we will continue to hold ourselves to high ROI standards in terms of sales and marketing, and spend our sales and marketing dollars in a highly disciplined manner.

(Foreign Language)

At the same time, we are also stepping up to our investment and investing patiently for long-term development of our company. You may have noticed that we are increasing our R&D investments, which is a key area for our future investments. And in your question, you also touch upon profitability so let me ask Tony to help address that.

A - Tony Ma {BIO 19978312 <GO>}

Okay. Natalie, coming back to your question regarding the consecutive been profit with for the past two quarters, the main contribution of our profitability in the past two quarters is the leverage efforts from sales and marketing expenses showing a declining percentage of revenue. But for us, the probability is not any team's KPI internally.

We are more focused on long-term investment to address users fundamentally. As we have been communicating with the market, to us investment into sales and marketing is similar in nature to capital expenditure, which crystallize our user mindshare, a long-term asset for us. So, this is a strategy that we have been digitally executing for the first five years and an area where we will continue to practice financial prudence.

It is worth to highlighting that we are shifting our focus in the investments towards R&D, and expect to step up our investment where to lay the foundation for the solid long-term growth. As a result, we will expect R&D expenses to increase going forward.

Coming to your second question, I think Lei will address that question, but let me just point out one comment on that. I think you mentioned about the financial impact in the third quarter for the RMB10 billion program. Since this program has only get the EGM approval at the end of September, so in Q3 financial result, there's nothing has been booked or reflected yet.

Lei, I'll pass the floor back to you.

Q - Natalie Wu {BIO 19852429 <GO>}

Got it.

A - Lei Chen {BIO 18939623 <GO>}

(Foreign Language)

I'd like to add one more point here. So after we announced our RMB10 billion a agri initiative last quarter, we have received many quality product proposals and advices from various stakeholders in the industry. So together with my team, I'm also diligently studying various proposals. And so that will conclude answer for this.

Q - Natalie Wu {BIO 19852429 <GO>}

Got it. Very clear. Thank you, Lei Chen and Tony.

A - Tony Ma {BIO 19978312 <GO>}

Thank you.

Operator

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

Q - Thomas Chong {BIO 21155199 <GO>}

Hi, good evening. Thanks management for taking my questions. I have two questions. The first question is about the competitive landscape in online shopping, as well as the impact to our side due to the increase in popularity in live streaming, online shopping?

And my second question is about our support measures. Can management highlight about the support measures for the trends? And how should we expect the growth rate between GMV and advertising due to the support measures. Thank you.

A - Lei Chen {BIO 18939623 <GO>}

(Foreign Language)

Thank you, Thomas for your question. Let me address this question. So in my view e-commerce in China is a huge industry, full of vibrancy and potential. As we see mobile technologies continue to develop and the relevant infrastructure continues to mature. And also at the same time consumer demand is also constantly evolving with all these moving pieces and these changes, commercially, we do expect more and more platform entering this space and this would make commercial sense.

(Foreign Language)

At the same time, we also noticed that the recent issued rules and regulatory measures are promoting healthy competition, and the orderly development of the entire e-commerce sector. In our view, we think that more competition is always good in terms of promoting positive and benefits and providing benefits to users, the industry and all the companies involved.

(Foreign Language)

For example, we have seen platform companies, including the short video platforms, entering the e-commerce sector. And to us, it is not surprising to see these companies with such huge user base and high user frequency such as the short video platforms to enter the space. At the same time, we are also seeing more and more platforms with sizable user base and engagement level, entering this space.

(Foreign Language)

So, just now I've discussed the external factors, but I think it's always important to come back and zoom into ourselves and see what kind of value are we providing. So Pinduoduo, actually started off from selling agricultural produce. We always aim to help address users daily necessity and basic needs. So, in my view this sets us apart from the other e-commerce players and potential new entrants.

(Foreign Language)

And so for us, how to serve our nearly 870 million users better and we mean user-centric is our concern as a company. So the question that we constantly ask ourselves are, how could we continuously iterate to serve our users better? At the same time, are we creating value for the society? Are we promoting a greener environment and sustainability? So for us, our key strategy as a company has always been to gain user trust and to create value for society, which we believe will also become our long-term asset.

Q - Thomas Chong {BIO 21155199 <GO>}

Thank you. My next question is about, how should we think about the support measures to merchants and the growth rate between GMV, and advertising as a result of the support messages? Thank you.

A - Tony Ma {BIO 19978312 <GO>}

Thank you Thomas. Let me try to address your question. I think your question is a pretty much linked to the outlook of monetization. Let me share some of our views. Our strategy has always been serving our users well, as Lei just mentioned in his response. We believe the revenue growth and monetization are natural result of that. And our merchants' ROI is already reflected in our revenues.

As you can see, our revenue for this quarter shows a healthy ROI merchants are seeing, when they sell more on our platform. We do not focus on the monetization on a quarterly basis. It is a result of user satisfaction and merchant ROI. And our merchant, the monetization rate has -- I think saturated in the past and it will be the case going forward.

We are also raising the bar on the quality of merchant, and the products to meet our users' needs, to help promote agricultural produce to users and strengthen PDD as a go to platform for agricultural products. Therefore, we are committed to keeping our zero commission policy for agriculture and fresh produce.

Q - Thomas Chong {BIO 21155199 <GO>}

Got it. Thank you.

A - Tony Ma {BIO 19978312 <GO>}

Thank you Thomas.

Operator

Your next question comes from the line of Eddy Wang of Morgan Stanley. Please ask your question.

Q - Eddy Wang {BIO 19169337 <GO>}

Thank you, Lei Chen, Tony for taking my question. I also have two questions. The first one is regarding, our effort to attract more brands and the branded products merchants on our platform. But we noticed that the merchandise sales actually declined significantly on quarter-on-quarter basis. Should we suppose that this is a very ideal progress for us in the last quarter, actually to attract more the branded brands in our platform? That's question number one.

And the second question is about the relatively weak consumption environment in China since the third quarter. So as we see that some of the competitor platform, they actually have been affected by this weak consumption significantly, but then seem to be very resilient.

I just want to hear your view on how this -- the weak consumption has been affected PDD, especially given that we have higher exposure to the agricultural products and the -- for example value for money. Does that mean that our GMV growth or revenue growth actually is more resilient under this environment. Thank you.

(Foreign Language)

So let me answer your question. I believe your first question is on brand. So as our user base increase, we are noticing that, our users need and demand also becoming more and more diversified. At the same time, we are observing that our users need -- they do require more and they also require more abundant supply of product offering and brand.

So from our view, we do think that, in terms of getting more brands, this process will do take some time. At the same time, the recent anti- (inaudible) measures have may had some initial impact, whereby we have noticed that a number of brands finally dare to come to the platform, and start to operate.

And -- but however, store opening is a gradual process, which requires, both the platform and the brands to put in resources, energy and time, and to build trust and foster successful partnership. So we do expect this to take some time, and the process to be more gradual.

A - Lei Chen {BIO 18939623 <GO>}

(Foreign Language)

(Technical Difficulty)

Operator

Please hold in the conference, we'll resume shortly. Thank you for your patience.

A - Tony Ma {BIO 19978312 <GO>}

Hi. Operator, we may resume.

Operator

Thank you for standing by. We're now back on. (Operator Instructions) Your next question comes from the line of Joyce Ju of Bank of America. Please ask your question. Once again, for the line of Joyce Ju your line is on. You may ask your question.

Q - Joyce Ju {BIO 17733819 <GO>}

Thanks management for taking -- giving me the chance to -- taking my questions. I have two questions. My first question is related to the regulatory environment. Could management give us an update on the recent regulatory environment, specifically does Tencent-BABA opening up affect our operations? May you also share some colors on if there are any regulatory measures that affect your operations?

And second my question is, we have seen our 1P business continue to decline in the third quarter. Does this mean that you have winded down this business, any comment on the future 1P business contribution? Thanks a lot.

A - Lei Chen {BIO 18939623 <GO>}

(Foreign Language)

So we think the recent series of revenue from our shares would have to promote the high quality growth of the platform economy and the entire industry. So we have always been fully embracing and sporting the regulatory measures, and we'll continue to firmly and thoroughly implement all relevant guidance and measures.

(Foreign Language)

We saw that many companies are taking action and continuing to optimize under the backdrop of these changes brought up by regulations in the Industry. We're one of these companies, our company as a whole is proactively taking this as an opportunity to improve our sales and also to further enhance compliance with regulation.

(Foreign Language)

So, in the short term, you may notice the impact from these changes, but in the medium to longer term though, we believe that these changes would be very beneficial to users, the industry and the companies involved in this industry.

Okay. Joe, let me --

(Foreign Language)

We are also following the development of opening up, as you mentioned. As we believe that such measure would set a great example for platform companies and entire sector. And so, we believe such measures would eventually be very beneficial for the users and the healthy development of the sector in a long run.

A - Tony Ma {BIO 19978312 <GO>}

Okay. Joyce, let me come to address your question regarding the 1P business. As we mentioned at the outset when we started this 1P business, we already stated very clearly our 1P trial is a temporary measure to offer products that our consumers want, but our merchants cannot offer at that time. So 1P is not a strategic priority for us. As we see more product offering from merchants on our platform, we do not expect a significant revenue contribution from 1P going forward.

Q - Joyce Ju {BIO 17733819 <GO>}

Got it. Many thanks.

A - Lei Chen {BIO 18939623 <GO>}

Thank you. Thank you everyone for joining us on the conference call today. If you have any further question, please refer to our IR team's email address. Thank you, and have a

great day.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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