

## Q4 2019 Earnings Call

### Company Participants

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

### Other Participants

- Alicia Yap
- Binnie Wai Yan Wong
- Eddy Wang
- Gregory Zhao
- Han Joon Kim
- Jerry Liu
- Joyce Ju
- Natalie Wu Yue
- Piyush Mubayi
- Thomas Chong

### Presentation

#### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Pinduoduo 4Q 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. (Operator Instructions). I must advise you that this conference is being recorded.

I would now like to hand the conference over to your first speaker today, Ms. Xin Yi Lim, Director of IR. Thank you. Please go ahead.

#### Xin Yi Lim {BIO 17900961 <GO>}

Thank you, Rachel. 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](http://investor.pinduoduo.com) as well as through Globe Newswire services.

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

forward-looking statements can be identified by terminologies such as will, anticipate and similar statements.

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

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

On today's call, our CEO, Colin Huang, will make some general remarks on our performance last year and the implication of the ongoing coronavirus outbreak and our outlook for 2020. Our VP of strategy, David Liu, will then elaborate further on our specific strategic initiatives as well as take us through our financial results for the fourth quarter and the fiscal year ended December 31st, 2019.

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

## **Zheng Huang** {BIO 20683053 <GO>}

Thank you, Xin Yi. Hello, everyone, and thank you for joining us for our fourth quarter and fiscal year 2019 results announcement. Before we begin, allow me to first extend our deepest condolences to those whose lives have been affected by the coronavirus outbreak. And to those, braving the front lines to save others, we salute to you.

The recent events reminded me of what I wrote at the beginning of our letter to shareholders a year ago. The world is changing at an unprecedented pace, good and bad change are simultaneously unfolding, many of which are expected and some may even leave people anxious or in disbelief. 2019 was a important formative year for Pinduoduo. We built-out our capacity -- our capabilities, innovated our offerings and continued to invest in our users to enhance engagement and drive scale in our business. Our efforts were well recognized by users with our annual active buyers exceeding 585 million and our monthly active users reaching 482 million. Thanks to ongoing support of our users, merchants and partners.

We also crossed a new milestone. Our 2019 GMV surpassed RMB1 trillion, representing a year-on-year growth of 113%. Our order volume also grew 77% year-on-year to RMB19.7 billion. In 2019, our team expanded to around 6,000 employees, as we build-out our key internal systems and infrastructure. We continued to execute our open platform strategy to prioritize the interests of our users and to benefit all the participants in our ecosystem.

Specifically, we invested in sourcing and a supply chain management in C2M and agriculture, and in strengthening our IP rights protection, and David will elaborate on these later.

I am pleased to note that as a company we emerged from 2019 larger in scale and a stronger in capabilities, we're better equipped to seize new opportunities, take on expected challenges and showed great social responsibilities. As such, recent challenges is the COVID-19 epidemic that is impacting the world now. This has been one of the most intense and trying periods we have experienced as a team. The coronavirus upended a lives as we knew and affected everyone in China. Here in Shanghai, we have felt a sense of mission to fight the epidemic alongside the rest of the nation. As a platform that provides for the daily needs of nearly 600 million people, we showed a great responsibility under pressure as we raced against the clock to stabilize prices, sourced essential supplies and delivered them to those in dire needs.

At onset of the coronavirus outbreak in China, we saw the market for daily necessities and a personal protective equipment thrown into serious disarray. Prices surged as the demand far outstripped the supply. The mismatch was compounded by the Chinese New Year holiday, a time when much of the workforce was away and a most of the businesses were shut.

In the face of surging prices, we felt a duty bound to step in and do our part to relieve consumer anxiety and help our business partners. We thought hard about the limited resources we could mobilize to address the situation effectively. And if we decided on directly subsidizing -- subsidizing these daily necessities and the protective equipment to do our part in stabilizing prices. Of course, these subsidies might impact a company's P&L and the shareholders return in the short term. As significant a shareholders of PDD, the core management team has thought thoroughly about this since the start of the outbreak, and we deeply believe this is something we must do.

During this time of crisis, we must fulfill our social responsibilities and prioritize, the interests of our consumers, because without them there wouldn't to be Pinduoduo. As such, we remain focused on helping our users, getting again through this difficult time. I believe in the market, I also believe that consumers have their own weighing scales in their hearts. They will be the judge of our conduct during this time.

Here, I'd also like to take this chance to thank our team for their exceptional commitment and efforts during the outbreak. Confronted with a previously unknown disease, everybody was scared. We were no different. Yet, in spite of that our -- in spite of that, our management team stayed focused on their responsibilities, while our staff facing Shanghai returned voluntary during the holiday to join in the fight. We implemented measures to ensure the health and safety of our employees, so that all of us could focus on helping others tackle problems, brought on by reduced manpower, logistics disruptions, supply shortages and heightened demand.

Our team poured time and energy into supporting the relief efforts in Hubei Province and the other regions severely affected by the outbreak. We sourced and donated much

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needed medical supplies and equipment. We're also aided agricultural producers in regions affected by the outbreak. We're set up a new program to let the impacted producers list their agricultural goods more easily on our platform, and we recommended their goods to interested consumers. By doing so, we helped ensure that the most of our users who are quarantining at home needn't worry about getting quality fresh produce delivered to their homes.

The battle against the COVID-19 that China is waging is supported by the selfless contributions of a numerous ordinary people and SMEs. These people toil silently without any Halos and out of the limelight. They even put their own lives at the risk in similar way, we were glad to see many of our younger team members stepping up during this extraordinary time to lead. They demonstrated their core values of concern and a commitment to our platform, driven by their desire to uphold the interests of consumers and merchants. These young men and women choose to return and stand by their stations, working timelessly when they could have chosen otherwise.

They sourced out of stock goods that are 100 of millions of users were waiting for at home, procured the protective gears for frontline medical teams, coordinated logistics, supported for merchants. So that orders could be successfully fulfilled. And they responded patiently day after day to the higher than normal level of a user inquiries.

The unforeseen challenges from this outbreak accelerated their growth and development. These young men and women will become important future leaders of our organization. And I expect they will continue to take our platform to great height in 2020 and beyond. I am proud to be able to work and fight alongside our teams. It is this kind of professional dedication that it would ensure our eventual return to a peaceful life, where we hope to see is that due to our assets behind the scene, consumers on our platform can enjoy greater stability in their daily lives and experience more savings and more fun. This is how PDD aspires to be as a company, seeking as the spotlight will never be our goal.

During this difficult time, many companies including Pinduoduo are likely to suffer economic losses that are yet difficult to quantify. Instead of dwelling on the past, we must look forward. As a company, our most valuable asset is our people. We should all the more commend and reward our team members, who have tirelessly labored to create value. As such, we have decided to raise the pay for the vast majority of our staff rather than asking them to bear the short-term financial impact stemming from the outbreak.

We also plan to grow on short-term cash bonuses and a long-term share based incentives to those who went to the extra mile to serve others during the outbreak in recognition of their commitment to our values. At the same time, we're compensating those merchants who sacrificed their family-time in the process to provide a stable supply of goods to tens of millions of families, that we are looking to further expand this scheme.

The ongoing coronavirus outbreak has also prompted us to deepen our support for research in medical sciences. In January, we established our RMB100 million fund in collaboration with the Zhejiang University to support research into the prevention and control of viral infections and respiratory diseases. The fund will also support a medical

resource allocation to hospitals in heavily affected areas as well as a reward health care workers who have contributed significantly to the fight against the coronavirus outbreak.

Now a few words on our 2020 outlook. Today, marks one month since the resumption of work for most of China, our merchants operations and the logistics have resumed and are gradually returning to normal. We will continue our subsidies program to support their recovery. The disruption caused by the outbreak will have negative impact on our results for the first quarter of 2020, but our expectations for the long run remain unchanged and even more positive.

We have observed a broader adoption of digital services by consumers during outbreak, which bodes well for the future of e-commerce in China. We have seen rising consumer engagements on Pinduoduo, and I am confident that our platform stand better prepared for the future. We plan to continue investing in user engagement throughout 2020. And we'll remain optimistic that this year would be another year of rapid growth and innovation for our platform.

Now, let me turn over to David to share more specifics on our strategy and discuss our financial results.

David?

### **David Liu** {BIO 21976168 <GO>}

Thank you, Colin. And hello, everyone. Let me first recap our key initiatives in 2019 and discuss the relief efforts and measures that we have implemented since the outbreak to support our consumers and facilitate recovery of the SME activities on our platform.

From day one, Pinduoduo has sought to create an open platform that will align the interests of our merchants and partners to serve our users better. Ultimately, offering them an experience of more savings and more funds. Our top priority remains the same to deepen the trust and engagement with our substantial user base. We did so by first investing in sourcing and offering a broader range of products at compelling value for our users to purchase without hesitation.

Second, we continue to push for greater efficiency upstream in agriculture and in manufacturing industries to our C2M initiatives through deliver tailored high quality choices for our consumers.

Third, we further invested in technology and operations to strengthen our IP rights protection program.

We continue to see strong growth in our user base. As we further increased our reach and understand our users better, we have seen how their interests and needs evolve across categories and price points. Improving our capabilities to source attractively priced high

quality products and to service them effectively is a key to elevating the shopping experience on our platform.

The innovative CNY 10 billion subsidy program we launched 2Q last year has become synonymous with our platform. And proven effective encouraging users to venture-out and try new product categories. This program also encourages our user to share great deals more frequently within their network. In addition, we ramped-up our cross-border business to offer users popular imported products, ranging from electronics to cosmetics and casual luxury, directly from reliable and competitive sources.

We also partnered with Amazon to open a pop-up store during the Black Friday sales to offer 1,000 products directly from its global stores. We continue to explore partnership opportunities and collaborative models to offer our users a more differentiated experience.

The investments in developing our supply chain enabled us to respond quickly to the extraordinary circumstances around COVID-19. To support the frontline medical staff, we leveraged our network to source equipment and supplies and donated over 1 million medical mask, 20,000 protective suits, 200,000 pairs of medical gloves and 30 tonnes of German imported disinfectants to the affected cities in the Hubei province.

We provided RMB600 million in subsidies to more than RMB80 million orders as of February 1st to stabilize prices of these critical supplies and ease our user's anxiety. During this difficult period, it was even more important that we stood with our merchants to help them overcome the logistical and operational challenges they faced.

Hence, we reserved RMB1 billion to fund a subsidy of RMB2 to RMB4 per order for merchants fulfilling orders during the outbreak.

At the same time, we are not just content with sourcing what is currently available in the market for our users. Through our C2M initiatives, we're seeking to better align supply chain capabilities with user demand in the market. We launched our new brand initiative in mid-December 2018 with a modest goal of helping a 100 SMEs to build-up their brands domestically.

Over the course of 2019, we brought over 900 companies into the pilot phase of this initiative to develop, manufacture and price tailor made goods specifically to our users requirements. 2,200 custom SKUs were created, spanning 20 categories, such as household electric appliances, digital and bedlinen for over 150 million orders placed cumulatively.

Our approach has evolved over time from supporting a single manufacturer to engaging the entire manufacturing belt across China. We have also moved from focusing only on manufactured goods to incorporating agricultural products, a category which has always been close to our hearts.

In 2019, GMV for agricultural products on our platform reached RMB136 billion, up 109% from the year prior. We connected 586,000 merchants selling agricultural products on our platform with 240 million active users who purchased such goods with over 70% repurchase rates.

Last year about 1,500 SKUs received over 100,000 orders as a result of our team purchase models. Our efforts are improving the lives of over 12 million farmers directly.

At the beginning of this year, our new brand initiative expanded to cover a 130 tea producers in the Yucheng Lingnan Province to bring quality affordable tea to the masses. Tea, as you know, is consumed widely in China, but it is often difficult for consumers to ascertain the quality of what they are paying for. We as a platform are well-positioned to help set parameters and provide more transparency to the product, which in turn helps expand the market for the producers.

More broadly, in agriculture goods production, we have been developing technology related products, logistics and user demands, and we're gaining insights from the machine-learning based central processing system. The insights generated help farmers better trend their farming and delivery schedule and ensure our users receive fresh produce at good price.

As of the end of 2019, our central processing system covered all of China's counties. We leveraged that during the Covid-19 outbreak to source and efficiently deliver more than 100 tonnes of fresh produce to hospitals in Hubei Province. This was a month of supply for 5,000 medical staff at our four hospitals.

The disruption caused by the coronavirus not only affected farmers current income but it also disrupted their farming plans for the entire year. Meanwhile, restriction on travel and activities made it difficult for many urban residents to purchase vegetables and fruits in a timely manner. To alleviate the situation, we launched our " Help the Farmers" program on February 10, which enable consumers to buy fresh produce directly from farmers in approximately 400 agriculture areas, including 230 national poverty stricken counties covering 280,000 SKUs. This online channel helped farmers affected by the closure of their usual offline sales channel to reach new consumer base. Consumers meanwhile get to access a much broader selection than what their local outlets can stock.

To continue building our trust with our user base, we invested throughout 2019 in anti-counterfeiting technology and grew our platform team in order to stamp out counterfeits and IP infringing products, and to help our users better identify trustworthy merchants.

Our improved capabilities not only contributed to better user satisfactions overall, but they also enabled us to exert greater impact during the outbreak and protect our users during this critical time.

We initiated an emergency measures on January 22 to inspect disease prevention necessities on our own platform around the clock. Between January 23rd and February

4th, we have prevented the listing and taken down over 500,000 products in question and imposed restrictive penalties against over 6,000 merchants in questions.

Now let me take you through our financial results for the quarter and fiscal year ended December 31st, 2019. Our annual active buyers for the last 12 months ending December 31st, 2019 grew by nearly 50 million compared to our annual active buyers at the end of the last quarter to exceed 585 million. Compared to the same quarter in 2018, our active annual buyer base grew by 40%. Our MAU grew by 52 million from the prior quarter to reach 482 million. This is an increase of 77% from the same quarter in 2018.

The growing engagement of our user base is a result of our prior investments. We believe these activities will contribute to long-term GMV growth as these users mature on our platform. Our last 12-month GMV for 2019 surpassed the RMB1 trillion mark, representing 113% year-on-year growth. Our continued GMV increase was driven by the sustained growth of our annual spending per active buyer, which rose 53% year-on-year to reach RMB1,720. The increase in this average numbers should be considered in the context of the rapid increase of our active buyer base over the past few quarters.

It highlights that our value proposition is resonating the strongly with users who are staying on and increasing their spending as they find more that appeals to their needs on our platform.

Our total revenues in the quarter ended December 31st, 2019 were RMB10.8 billion, up 91% from RMB5.7 billion in the same quarter last year. The main driver of this growth was our online marketing services. Online marketing services revenue was RMB9.7 billion this quarter, constituting 90% of our total revenue. This is down 91% compared to the same period in 2018 and is driven by the rising demand for our advertising products as the user traffic and GMV on our platform continued to expand rapidly.

The remainder of our revenue comprised of transaction services revenue, which in this quarter amounted to RMB1.1 billion. This is up 87% compared to the same period the year prior. We continue to offer preferential rates to high-quality merchants, and while this effects the monetization in the short-term, we believe this will accrue the long-term value of our platforms.

Moving on to costs. Our total cost of revenue increased 43% from RMB1.4 billion in the same period last year to RMB2 billion this quarter. This translates to gross margin of 81% as compared to 75% a year ago. Total cost of revenues increased mainly due to higher cost of cloud services, call center and merchant support services.

Total operating expenses this quarter was RMB10.9 billion as compared to RMB6.9 billion in the same quarter 2018. Our sales and marketing expenses this quarter increased 54% to RMB9.3 billion from RMB6 billion in the same quarter of 2018. This is mainly due to an increase in online and offline advertisement and promotions, as we continued to invest in growing our user engagement and user base.



We also leveraged our mega deal and RMB10 billion subsidy programs to feature specific items. When we did this for our Black Friday pop-up store collaboration with Amazon, we observed not only high conversion for the featured products but also meaningful traffic increases to Amazon store fronts.

On a non-GAAP basis, our sales and marketing as a percentage of our revenue this quarter was 84% as compared to 89% in the prior quarter and 103% from the same quarter last year. The variation in our sales and marketing expenses as a percentage of our revenue not only demonstrates the potential operating leverage in our business model, but more importantly underscores the discretion we have in driving our business. 2020 will continue to be an important year of investment for us.

In the next few quarters, we expect our sales and marketing expenses to remain fairly dynamic, and we will continue to spend when we see opportunities that meet our ROI requirements.

General and administrative expenses were RMB346 million, an increase of 7% from RMB322 million in the same quarter of 2018, primarily due to an increase in headcount.

Research and development expenses were RMB1.3 billion, an increase 142% from RMB525 million in the same quarter of 2018. The increase was primarily due to an increase in headcount and the recruitment of more experienced R&D personnel and an increase in R&D-related cloud services expenses. On a non-GAAP basis, our R&D expenses as percentage of our revenue was 9%.

To sum up, operating loss for the quarter was RMB2.1 billion on a GAAP basis compared with operating loss of RMB2.6 billion in the same quarter of 2018. Non-GAAP operating loss was RMB1.3 billion compared with operating loss of RMB2.6 billion in the same quarter of 2018.

Net loss attributable to ordinary shareholders was RMB1.8 billion as compared to net loss of RMB2.4 billion in the same quarter last year. Basic and diluted net loss per ADS were RMB1.52 compared with RMB2.16 in the same quarter of 2018.

Non-GAAP net loss attributable to ordinary shareholders was RMB815 million compared with RMB1.9 billion in the same quarter last year. Non-GAAP basic and diluted net loss per ADS were RMB0.72 compared with RMB1.72 in the same quarter of 2018.

That completes the profit and loss statement for the fourth quarter. Net cash flow from operating activities was RMB9.6 billion compared with RMB5.7 billion in the same quarter of 2018, primarily due to an increase in online marketing services revenues.

As of December 31st 2019, the company had RMB33.3 billion in cash, cash equivalents and restricted cash. Excluding restricted cash, we had RMB5.8 billion in cash and cash equivalents. In addition, we had RMB35.3 billion in short-term investments.

As Colin mentioned, we expect our first quarter 2020 results to be negatively impacted by the coronavirus outbreak, given suspension of commercial activities during much of February and a gradual resumption to normalcy thereafter. Our priority as an e-commerce platform that serves nearly 600 million users is to help facilitate the recovery of people's lives and resumption of smooth business operations.

To that end, we will continue to provide the necessary support to our merchants and users, and we look for opportunity to invest our users via sales and marketing to resume our growth trajectory.

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

## Questions And Answers

### Operator

(Question And Answer)

(Operator Instructions) Your first question comes from the line of Mr.Thomas Chong of Jeffries. Please ask your question.

### Q - Thomas Chong {BIO 21155199 <GO>}

Hi. Good evening. Thanks, management, for taking my questions, and wish everybody is in good health, and stay safe. My question is about recovery trend across different product categories in the first two weeks in March. Can management share about how it trends versus the same period last year? And my second question is about the GP margin. We noticed that the GP margin is over 80% in Q4. So how we should think about the GP margin trend going forward and our investment areas in 2020?

And finally, I have a quick question about the sales and marketing expenses given the fact that it's going to be quite dynamic in the next couple of quarters. Should we still assume that as a percentage of revenue, there would be a leverage on marketing spending?  
Thank you.

### A - David Liu {BIO 21976168 <GO>}

Hey, Thomas. Thanks a lot for the question. With regard to your question on recovery, I would say that it is too early yet to assess the full impact of the coronavirus outbreak. During this period, our priorities are still with our users, merchants and ecosystem partners. So as discussed, we plan to continue subsidizing the SME merchants on our platform and to focus on improving the user experience. As we noted, we believe the investments today, and by standing behind our users, will accrue value for the shareholders in the long run.

That said, I will note that as we launched, at the end of February, a three-day campaign on our CNY 10 billion subsidy shopping festival on the theme of people returning to work,

we have sensed a recovery on the consumer demand. So, during the first 12 hours of that campaign, we sold over 50,000 iPhones on our platform and 20,000 MAC lipsticks. That give us confidence that the longer-term demand for the industry remains unchanged.

Your second question was with regard to gross margin trends. And I would say that, as we continue to move forward with our investments, it will fluctuate from quarter-to-quarter between 70% to 80%. We will invest as needed and to build infrastructures, and I would not read too much into the patterns.

And finally, I think, Thomas, you had a question around sales and marketing. As we have discussed with investors previously, we do not have a quarterly target for our sales and marketing spend. Instead, we make our decisions on sales and marketing spend based on internal ROI hurdles. So if we see an attractive opportunity to spend, we will go ahead and do so.

Going forward and for the 2020, as I mentioned, this will continue to be a year of investment for us. And of course, as the scale growth of our platform grows, certain leverage is likely, but I would not -- I would say there is no fundamental change in terms of how we are managing the sales and marketing spends.

**Q - Thomas Chong** {BIO 21155199 <GO>}

Got it. Thank you.

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

Thanks, Thomas. And operator, before we go to the next question, just a reminder for all the analysts to keep the questions to one question so that we can get around to more people. Thanks. Next question, please.

**Operator**

Your next question comes from the line of Jerry Liu of UBS. Please ask your questions.

**Q - Jerry Liu** {BIO 17515547 <GO>}

Hey. Thank you, guys. Management, I just want to ask about long-term consumer behavioral changes. First of all, during this outbreak period, have you seen any changes in GMV mix, potentially more consumers having enough trust in the platform to buy fruits and vegetables? Any kind of new categories?

And secondarily, on the supply side. As we've seen some pressure for the merchants, do you see any potential structural changes as we recover from the outbreak? For example, maybe more manufacturers could turn their attention towards the domestic market versus exporting. So just wondering what are some of the long-term implications? Thank you.

**A - David Liu** {BIO 21976168 <GO>}

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Sure. As the fight against the coronavirus continues in China, I will say that we have seen certain changes in behavior because of the extended period of time that people are staying -- during -- inside the homes. And we have seen more users turning to Pinduoduo during the crisis for their daily needs. So, our DAU numbers in the fourth quarter have held out very well -- have held out well versus the end of the last year. And we are doing our best to meet our users' requests and needs.

In terms of -- and I will say that the outbreak has also incurred more users to conduct more of their activities digitally online and -- including the purchases of agricultural produce. And last year, as we noted that agriculture products accounted for 19 -- RMB136 billion on our platform, and we are already seeing that trend grow in the first quarter.

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

All right. Next question please.

## Operator

Your next question comes from the line of Gregory Zhao of Barclays. Please ask your question.

**Q - Gregory Zhao** {BIO 18710278 <GO>}

Hi, management. Thanks for taking my question. So, on the user side, we see very strong user growth in the past quarter. So, I just want to know what's your plan to further improve the user engagement such as like some new functions like live streaming or gaming or some social functions to further like enhancing the engagement?

Second one, the take rates. So, the implied take ratio varied stable year-over-year expansion. So just want to understand more about what kind of new advertising products you will develop to improve the monetization? Thank you.

**A - David Liu** {BIO 21976168 <GO>}

Sure. As we have discussed, the priority for our platform is to focus on growing user engagement. So, we, of course, are paying attention to different new medias or ways of engaging, and we decided to introduce live streaming function for our merchants a few months ago on popular request. And we will observe how things proceed before pushing monetization of live streaming.

I would also say that timing was probably quite apt as homebound consumers during this special time were also more receptive to watching live streaming. Through live streaming, we have sold a variety of goods and agriculture. Live streaming has been surprisingly popular. A recent series of live stream that we did featured Mayors from different agriculture areas spotlighting a local produce, and we have seen strong support from our users with 15 tons of passion fruit and over 10 tons of orange juice being sold out in one day.

Your second question, I think, was regarding take rates. We do not diminish our business towards a specific take rate targets. In fact, over the past few quarters, our priority has been bringing on board high-quality merchants who can offer our users a broader range of selection and giving them better value and better experience. As such, we are continuing to offer merchants preferential rates. And as activities of users spill on our platform, we believe monetization will naturally follow.

**Q - Gregory Zhao** {BIO 18710278 <GO>}

Thank you.

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

Operator, next question please. And please, everybody, keep to one question. Thanks.

**Operator**

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

**Q - Alicia Yap** {BIO 15274658 <GO>}

Hi. Good evening, management. Thanks for taking my questions. Can management actually elaborate a little bit when you say first quarter will be negatively impacted? Could you help us frame and think relatively impact on the GMV terms, the active buyers' terms and also on the revenue terms? Would that be a scenario that we even see a negative GMV growth or the negative revenue growth? Thank you.

**A - David Liu** {BIO 21976168 <GO>}

As you know, we do not give guidance on GMV or any financial metrics. So, I will keep the comments fairly generic. As we have seen a broader -- so, the epidemic, I would say, has a broad impact across the businesses in China, the industry, and we are no exception. Chinese New Year is a seasonally low quarter for e-commerce. And this year, the impact has been prolonged because of the lack of labor force and logistics disruption.

A number of products were sold out on our platform, and it could not be replenished in time. And other products were experiencing shipment delays and simply undeliverable. That said, I would note that our platform has been a very fast-growth platform. So, any setback does not change our perspective in terms of opportunity for the entire year.

**Q - Alicia Yap** {BIO 15274658 <GO>}

Okay. Thank you.

**A - David Liu** {BIO 21976168 <GO>}

We will also say that the broader adoption of e-commerce during the outbreak is actually a favorable thing for the overall industry and for Pinduoduo.

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**Q - Alicia Yap** {BIO 15274658 <GO>}

Thank you.

## Operator

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

**Q - Natalie Wu Yue** {BIO 18841234 <GO>}

Hi. Good evening. Thanks for taking my question. I was just wondering for the RMB9 billion of the marketing dollars spend in the fourth quarter, how much is related with subsidizing new users and how much is related with subsidizing the existing ones? And it would be great if management can help us understand the evolution of the ratio in the past several quarters. Thank you.

**A - David Liu** {BIO 21976168 <GO>}

Thanks, Natalie, for the question. But -- as you know, we do not give such breakdown. And I would just say that we continue to manage our spending on new user adds as well as coupons and subsidies very dynamically based on where we see the market opportunities.

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

Operator, next question please.

## Operator

Your next question comes from the line of Han Joon Kim of Macquarie. Please ask your question.

**Q - Han Joon Kim** {BIO 21310553 <GO>}

All right. Thank you. I just wanted to understand what your GMV mix by category might look like at the end of last year and then how you might want to see that change this year? I think you talked about agriculture quite a bit. It sounds like it's almost 20% of your mix. But just, overall, apart from that, what are some of the categories you want to incubate further this year? Thank you.

**A - David Liu** {BIO 21976168 <GO>}

Sure. So, as I mentioned, agriculture GMV was CNY 136 billion out of CNY 1 trillion, so it's really more -- it's like 13%. The overall mix of GMV on our platform has not changed. Apparels and FMCG continue to account for roughly 50% of our GMV. And as we look forward, the idea is actually not to target specific changes in category mix, but to increase the depth of offerings that we have, and we actually see opportunity for growth across all the sectors.

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

Next question please.

## Operator

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

### Q - Eddy Wang {BIO 19169337 <GO>}

Hi, management. Thank you for taking my question. Just a very quick follow-up on the apparel category. Some of the platforms have mentioned that they have been increasing in store inventory, often the apparel brands. So, have you -- when is ending the any potential for more brands addition in terms of apparel in our platform to do such destocking in March and the second quarter this year? Thank you.

### A - David Liu {BIO 21976168 <GO>}

What I would say is in terms of spending behavior over the course of the first quarter, because of the outbreak, consumers' initial preoccupation were around health-related products and devices, and that certainly has an impact on their spending behaviors around the discretionary products. However, as China resumes to normal, the pace of recovery starts to pick up. We have seen continued demand across discretionary growth in across different categories. As I mentioned earlier, at the end of February, when we did three-day campaign, we sold 20,000 MAC lipsticks in the first 12 hours.

So, I think, overall, we expect the trends for the whole year continue to be quite positive. The other thing that I would note is this is a platform that will have around 600 million users now with monthly active users close to 500 million. Brands are approaching us more and more so to participate and take advantage of our ecosystem.

### Q - Eddy Wang {BIO 19169337 <GO>}

Thank you.

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

Next question.

## Operator

Your next question comes from the line of Piyush Mubayi of Goldman Sachs. Please ask you question. Mr.Mubayi, your line is now open.

### Q - Piyush Mubayi {BIO 1530844 <GO>}

Hello. (inaudible) the magic RMB1 trillion GMV figure in record time in 2019. What categories ramped up in the year? What would be the areas of focus for 2020 category wise? And how is the lower tier versus high tier mix changed for the last year? And how should we think of this -- all of these parameters through 2020? Thank you.

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**A - David Liu** {BIO 21976168 <GO>}

Sure. Thanks, Piyush. As we do not give specific breakdown between different sectors, I will comment generally in terms of trends. As our user base continued to grow, our user distribution from a population perspective has not changed necessarily. However, what we have seen is because of the trust that we are building with our user base, we are gaining more confidence and consumers are shopping with greater ease on our platform, and we continue to observe that they have more and more needs that we can address as a platform.

So, moving forward, I would say that if it's about, again, increasing the diversity of the product that we have, the breadth of the products we have across all the categories, and it is about increasing their frequency of purchase on our platform, which accrue to increasing our average order value. Specifically, I would say that because of the behaviors that we are seeing, we do see growth in electronics and beauty categories given the interest that we see in Tier 1 and Tier 2 cities.

**Q - Piyush Mubayi** {BIO 1530844 <GO>}

Thank you. Could I ask another question? I know you've said one only.

**A - David Liu** {BIO 21976168 <GO>}

(inaudible).

**Q - Piyush Mubayi** {BIO 1530844 <GO>}

Basically, when I look at the pace of your active buyer addition, if you continue at the pace of the last two years on average, in 10 months, you would have caught up with the market leader and you'd have over 0.75 billion active buyers. At that point of time, how does the business change for you?

**A - David Liu** {BIO 21976168 <GO>}

China is a very large market. And as you know, e-commerce penetration is only around 25%. So frankly, I think, we are not so preoccupied with what our competitors are doing or where we are by -- in terms of how can we be doing things better on our own platform. As we stand today, I think it is again about continue to build trust with our users, continuing to increase engagements and continue to create a unique, fun and interactive experiences for them.

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

Shall we call in one through Ed?

**A - David Liu** {BIO 21976168 <GO>}

Yeah. Well, I think it's an interesting question and it's a very good observation. It's true that you if we continue this pace, then the user base will be very similar, even surpassing the major competitor. So, on the other hand, I think it is really a question that we should ask the other part of you. I mean, even today, there are still a lot of press release that are



talking about lower tier city users. But when we are looking at 1 billion user base, what's the difference between larger tier and upper tier? So, it's kind of interesting to me that people are still dividing the users between lower tier cities and upper tier cities. And as you rightly pointed out, very soon, on the question itself of low tier and first tier cities will be meaningless.

So, at that point of time, it's not your questions related to us, but it's also a question valid to all the players in the market. And so -- and together with this very unusual time during the coronavirus, a lot of the user behavior has been changing. So, I would say it's going to be a very interesting time in the next two years.

**Q - Piyush Mubayi** {BIO 1530844 <GO>}

Thank you.

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

Next questions please.

## Operator

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

**Q - Joyce Ju** {BIO 20718580 <GO>}

Good evening, management. Thanks for taking my question. I actually would like to get more colors in terms of the impact from coronavirus. I note you have mentioned that from the demand side, couple category suffered kind of like demand shock. But just want to know from the supplier side or the supply chain side, what you have observed like for your merchants, what kind of challenging they are facing? And you mentioned your Pinduoduo is going to invest to help these small merchants to recover their business. What the platform has done and what's the like new initiative ahead? And also, just for financially, shall we recognize those kind of investment or support for SME merchants in the revenue side, i.e., take rate, or they will actually impact our gross margins for the next couple of quarters? Thanks a lot.

**A - David Liu** {BIO 21976168 <GO>}

Thank you for that. So in terms of impact to the merchants on our platform, we would note that because of the prolonged suspension of travel in China, the ability to return to work, the ability to start fulfilling orders and start to manufacture has been impacted for most of the players in China, and this was particularly felt for the small and medium enterprises.

Pinduoduo as a platform has a unique ability to help and support to these SMEs to return to their normal operations. And as I mentioned earlier, we have reserved RMB1 billion plan to fund a subsidy of RMB2 to RMB4 per order for merchants fulfilling orders through this time period. And you should, from a modeling perspective, expect this to be a hit the take rate.

**Q - Joyce Ju** {BIO 20718580 <GO>}

Got it. Thanks.

## Operator

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

**Q - Binnie Wai Yan Wong** {BIO 16260213 <GO>}

Happy evening, management. Thank you for taking my question. So, I think I'll follow on just basically if we see that our customer base, our trailing 12 months active users is already catching up with our close competitors. And in terms of the ARPU, right, any spending per active customer? Of course, we're still at a gap of about maybe, say, one-eighth or maybe one-seventh of it. I mean, how are we seeing that we can go deeper into the customer wallet? Is this because -- I think in terms of category expansions, we are properly also quite rich already. So -- or maybe you think there's certain room to increase the category or there's further room in terms of up selling and how are we achieving that? Thank you so much.

**A - David Liu** {BIO 21976168 <GO>}

Thank you for that question. First of all, I would note that we added almost two times the users as our close competitors in the fourth quarter and that has an impact to our ARPU, which would take time to catch up. So, as the users mature on platform, we do expect to see that their annual spending to increase over time.

And in terms of strategy for us in the near-term, it's going to be continuing to engage the users to increase their interactions and to help build their -- increase -- and continue to build their trust with our platform. Colin, I think you wanted to say something?

**A - Zheng Huang** {BIO 20683053 <GO>}

Yes. My answer will be really short. I think it's just a matter of time. And with that said, please don't overestimate our speed to increase that. But I also think that you shouldn't underestimate our potential to increase that in the long run. So, yeah. So, the answer will be it's just a matter of time, just wait and see.

**A - David Liu** {BIO 21976168 <GO>}

Yeah. Thank you.

## Operator

So, we have reached the end of our presentation. I would now like to hand the conference back to today's presenters for your closing remarks.

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

Thanks, Colin and David, and thanks, everyone, for joining us in the conference call today. If you have any further follow-on questions, please feel free to reach out to the IR team. Thank you, and have a great day.

## Operator

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

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