

Q2 2021 Earnings Call

Company Participants

- Chen Lei, Chief Executive Officer
- Jason Shu, Investor Relations
- Jing Ma, Vice President of Finance

Other Participants

- Eddy Wang, Analyst
- Natalie Wu, Analyst
- Piyush Mubayi, Analyst
- Robin Zhu, Analyst
- Thomas Chong, Analyst

Presentation

Operator

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

I would now like to hand the conference over to your speaker today, Jason Shu. Please go ahead.

Jason Shu {BIO 20677992 <GO>}

All right. Thank you, operator. Hello, everyone, and thank you for joining us today. Pinduoduo earnings release was distributed earlier and is available on the IR website at investor.pinduoduo.com, as well as through GlobeNewswire services. On today's call, our Chairman and the Chief Executive Officer, Chen Lei, we will make some general remarks on our performance for the past quarter and our strategic focus going forward. Our VP of Finance, Tony Ma, will then elaborate further on specific strategic initiatives and take us through our financial results for the second quarter ended June 30, 2021.

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

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

Chen Lei {BIO 18939623 <GO>}

Thank you, Jason. Hello, everyone, and thank you for joining our result announcement for the second quarter of 2021. Thanks to our users' trust, our total revenue for this quarter excluding revenue from merchandise sales was RMB21.1 billion. This represents a year-on-year increase of 73% our annual active buyers reached 849.9 million for the 12 months ending on June 30. Over the quarter, average MAU increased to 738.5 million, representing 87% of our annual active buyers.

Our results this quarter demonstrate our enduring commitment to serve our users as well as their trust in us. We feel fortunate and are grateful for their consistent support and we will continue to do our best to serve them and all our stakeholders. Pinduoduo takes our responsibility to our users and society very seriously. Without them and their support, we will not be where we are today. This is why we are always there with them and for them in their times of need.

After heavy rains struck Henan Province last month. We immediately mobilized our networks, our partners to provide relief. Close to 20,000 total grocery pickup points at Zhengzhou City helped to distribute emergency supplies to residents living in their vicinity.

With Henan's agricultural supplies disrupted by COVID 19 and the rain, we linked up Henan's total grocery network with neighboring networks, including Shandong and Anhui to ensure that residents continue to have the supplies they needed at stable prices. As user demand (inaudible) significantly, we also increased our warehousing by four times and doubled our manpower there. In addition to these efforts, we contributed RMB100 million towards the rescue and relief efforts.

Our support for Henan is in self-spirit as our earlier initiatives to leverage our platform to contribute to society. When COVID-19 disrupted traditional agricultural supply chain last year, we launched our Help the Farmer initiative connecting farmers directly with consumers across the country. Through our various efforts, we have over 1.13 million farmers sell over 2.06 million tons of agricultural produce by the end of 2020. This helped farmers reduce spoilage and losses and the consumers get what they needed.

As consumers turn to online grocery shopping to minimize contact, existing delivery system became overwhelmed resulting in significant backlog. We responded by launching Duo Duo grocery, a next-day self-pickup service and connect local demand and supply. Duo Duo grocery unclogged the backlog providing users more affordable and fresher produce in an efficient manner.

It has since become an important offering to our users helping to create and preserve millions of job along the entire agri-food value chain in the process. It has also proven it

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works as a support network in terms of needs in Zhengzhou. We will continue to improve it to benefit users, farmers, and their communities.

Improving agriculture has been at the front and center of our business from the very beginning. Agriculture touches the daily lives of everyone and has a relatively low digitization rate. With many of our teams being engineer by training, we hope to apply technology to agriculture, so as to make a large positive impact on society and contribute to the national effort to modernize agriculture and vitalize rural communities.

Applying technology to agriculture is the best way for us to achieve our mission, which is to benefit all, to put people first, and to be more open.

We are gratified that Pinduoduo served over 16 million farmers acting as their portal to a digital economy. Farmers are the bedrock of agri-food system. To help them thrive is to help our agri-food system and the society at large to thrive. We have seen first-hand how our agricultural retail and technology have benefited farmers. We are pleased that farmers and our partners recognize it too, which is why we have spread the word and helped a number of farmers on our platform grow so quickly.

We want to bring even more farmers on board and work with them to improve their lives and livelihood. This is possible only if it also worked for our users and society at large. This is why we are focusing on playing a role in strengthening food security, safety, and technology. And now, let me elaborate.

First, for the security. It's important to secure consumer access to a wide variety of affordable and nutritious food. For this, we need to help our farmers sell better and earn more, so that they can cultivate more efficiently and sustainably. On the supply side, we need to educate new farmers as we have been doing through Duo Duo Academy and in partnership with local governments and agronomic institutes to apply new technology.

On the demand side, we need to create awareness of their produce and aggregate demand to them. While China has a diverse selection of unique agriculture products, consumers often do not know about many of them. We want to change this by promoting their rich offerings nationwide. It is in this spirit that we recently launched our third harvest festival, leveraging our RMB10 billion program and the fresh sale.

This year's addition featured over 1,000 unique quality produce from 400 quality agricultural production regions. Since inception of the RMB10 billion program, our zero commission policy for agricultural produce has attracted over 10,000 quality agri merchants to the program, selling over 20,000 agricultural SKUs. I want to take this opportunity to press that we will maintain our zero commission policy for agricultural products to help farmers build a more resilient, efficient, and profitable business.

Second, food safety. We want to have improve tender across agri consistency Our supply chain itself will continue to help build up the agri focused infrastructure. We are investing to improve demand and supply matching, cultural integration, and smarter route planning. These efforts will also reduce agriculture's environmental footprint by cutting

resource use and emissions from storage and transportation. While still at a very beginning of this infrastructure buildup, however, we are confident of its long-term benefits.

Third, food technology or agri-food technology. We can only create a vibrant and sustainable agri-food system by seeking solutions through the cutting edge of science and working with farmers to apply these solutions. I would like to highlight the work we are doing in precision farming. Earlier this month, we launched the second smart agriculture competition together with China Agricultural University and Zhejiang University.

We challenged teams for a round of word to plant tomatoes. Last year we challenged teams to deliver cost-effective productivity improvements with strawberries. The technology teams performed very well demonstrating the cost-adjusted benefits of adopting precision farming by producing three times more fruit than the experienced farmers.

Two of these teams have since started to commercialize their technology, which will result in real productivity gains for farmers. After last year's successful run, we are stepping up our criteria. On top of cost-effective productivity improvements, teams will need to demonstrate their farming technology to improve the tomato's nutritional profile while exerting less impact on the environment. We welcome all interesting teams with relevant skills to join this competition.

First, agri-tech will make agriculture more attractive to the tech-savvy, Internet-native younger generation. We want to help them apply their tech skills in agriculture. To date, we have directly contributed to over 100,000 new farmers returning and working in their hometowns. We will continue to strengthen our training for new farmers and we are targeting to train another 100,000 of them over the next five years.

While we have made headway in our agricultural improvement initiatives, there is still a lot to be done to support our farmers and apply technology to agriculture to making smarter, more resilient, more sustainable, and benefit all. As China's less-budget online agriculture platform, we launched a dedicated RMB10 billion agriculture initiative today, which seeks to face and address the critical need in agricultural sectors and rural areas.

Commercial values of (Technical Difficulty) are not a goal but rather we strive to facilitate advancement of agritech, remote digital inclusion, and provide agritech ties (Technical Difficulty) with greater motivation and sense of achievement.

Although RMB10 billion agriculture initiative will clearly impact our short-term earnings per share for shareholders, it has already received a (Technical Difficulty) and approval of the Board of Directors and it will be personally overseen by myself. We will (Technical Difficulty) hold a shareholder meeting to seek the support of majority shareholders. This is an important and challenging task, which we will invest in patiently. All of profits from Q2 and any potential profits in the future quarters will first be allocated towards this initiative until the total RMB10 billion commitment is fulfilled.

Thank you. And now as we pass it onto Tony.

Jing Ma {BIO 21842432 <GO>}

Thank you, Lei. Hello, everyone. Let me begin by providing an update on our progress in improving agriculture by applying technology and elaborate on how we will continue to deploy resources to do so, so as to achieve our mission to benefit all and I will then discuss our financials this quarter.

First, our efforts on digital and technological inclusion on farmers and equity merchants. We are firm believers in online agriculture retail and have already connected over 16 million farmers. We are committed to do more for them and bring more farmers onboard and into the digital economy. Many farmers are small-holders and may not be digital natives. We will be directing resources to make it simple and worthwhile for them to embrace tech-enabled agriculture.

Our platform helps farmers sell effectively online by making China's rich and the diverse agricultural produce discoverable and accessible to our 850 million agri users, demand will then aggregate. As a foundation, we are committed to keeping our RMB10 billion program completely free for all agricultural produce.

Further to that, we will be focusing on promoting quality agricultural produce. We have seen encouraging results from our third harvest festival last week. This year, pre-sale orders nearly tripled within the same timeframe with our users learning about and trying more special products including vegetables from Shouguang, mitten crab from Hongze Lake, and matsutake mushroom from Shangri-La. We see great potential for Pinduoduo to be the go-to place to discover unique produce and learn and experience China's rich agricultural diversity. We will continue to invest heavily to make this a reality.

We will apply C2M to help them cultivate better and build their brands. Our pioneering C2M model was recently recognized by the Retail Asia Awards for helping many export-oriented OEMs to pivot to the domestic market after COVID-19 disrupted the demand from abroad. Though C2M, they tailored their products to Chinese consumers and build strong brands to sell them. We will be applying C2M to agriculture, while working with farmers to understand their customers better and to tailor their produce and packaging accordingly, thereby increasing demand while reducing waste, environmental footprint, and other types of expense. This will also help users access more fresh produce that are better, fresher, and cheaper.

An early example of our work in this area is tieguanyin tea producers in Anxi. Tieguanyin is a premium Oolong Tea originated from Anxi, Fujian, and tieguanyin from this area is considered to be the best quality tea within this category. Under the Anxi Country Tea Industry, a new brand alias, we partnered with 10 leading tieguanyin producers in Anxi and analyzed the consumers' preference to provide optimization feedback outside packaging and the price of their products.

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In addition, we helped them to establish a new brand image of quality tea is not expensive among consumers. This helped to increase sales significantly. Deepening the human capital pool in agriculture is also key to the long-term success of our efforts and we seek to empower farmers and every merchant to grow and sell better so through Duo Duo Academy and promote new technologies in partnership with local governments and agronomists.

We also help to nurture and showcase agri-tech solutions through our Global Smart Agriculture competition, thereafter encouraging their wider adoption in China. After a successful inaugural event in 2020, we launched the second edition earlier this month. We are very honored that China Agricultural University, Zhejiang University have joined us and provided their strong support. We have also put together a judging panel composed of distinguished experts and growers with background in horticulture, crop modeling, algorithm designs, and policy-making, reflecting the importance of interdisciplinary collaboration to modernize agriculture to benefit all. We hope that this year's competition will fore-light ideas and techniques that can be applied by farmers to improve their farming.

Second, retooling logistics for agriculture. We will be allocating resources to improve agri focus to logistics for affordability and efficiency, and to reduce its carbon footprint. We will make it well-adaptive to online agricultural retail. We have made good strides in this area incorporating our route planning technology to our network solutions. At present, our work has already helped to expand the range of delicate foods and vegetables that can be sold online at affordable prices, with it, our user enjoy more options because more farmers and agri merchants have joined the digital economy.

At the same time, our distribution networks that support these sales have also created many new economic opportunities, catalyzing over 1 million jobs along the way. These improvements have also grained the agriculture supply chain by cutting down carbon emission through more efficient routing and matching of supply and demand as well as reducing food spoilage and waste in the distribution profit.

While we are encouraged to see the benefits that our logistics solutions have brought to many stakeholders and the environment, there is still much to do and accomplish. Nevertheless, we are determined to play our part and are committed to make significant long-term investments in it alongside like-minded partners.

It is our strategic priority to modernize the agri-food system to serve all stakeholders better and become more environmentally sustainable. We are committed to invest any profit and resources into realizing it. Our efforts are still in early days and we will be patient for our investment to show results.

Now, let me talk through the financial highlights of the second quarter of 2021. We continue to see healthy user growth in Q2, and are happy with the progress we are making in improving trust and winning mindshare with our users.

Our annual active buyers for the last 12 months ending June 30, 2021, increased to 849.9 million, up 26.1 million from the prior quarter. Our MAU in Q2 reached 738.5 million. This is up 30% compared to the same quarter in 2020. Our MAU as a percentage of our annual active buyers was 87% in the quarter reflecting continued healthy engagement with our users.

In terms of P&L, our total revenues in the quarter ended June 30, 2021, were RMB23 billion, up 89% from RMB12.2 billion in the same quarter last year. Excluding revenues from our 1P trials, our total revenues grew by 73% to RMB21.1 billion in Q2 2021. The main driver of this growth was our online marketing service. Online marketing services revenue was RMB18.1 billion this quarter, up 64% compared to the same period last year, due primarily to continued increase in merchant activities.

We have seen merchants spending more and exploring new ways to engage with users and our users browsing more and discovering more items of interest. We can attribute these at least in part to improvements in the advertising products and analytical tools we offer to our merchants, which have helped them to meet and exceed their ROI targets. We are pleased to see the growing endorsement by our merchants and our users.

Our transaction service revenues this quarter amounted to RMB3 billion, which is up 164% compared with the same period last year. The increase in our transaction service revenue was due to two primary factors: number one, the increase in our GMV in Q2; and number two, the service revenues that we recognized in connection with Duo Duo Grocery for which we provide fulfillment and other related services.

We also record RMB2 billion in merchandise sales for our 1P trials in Q2 2021 as compared to RMB5.1 billion in the preceding quarter. As we have stated from the outset, our 1P business is meant to temporarily meet user demand of specific products which our merchants are unable to fulfill, therefore, this number may fluctuate from quarter-to-quarter. Our strategy on 1P remains unchanged and it will remain a very small part of our business.

Now, moving on to cost and expenses. Our total cost of revenues increased from RMB2.7 billion in Q2 2020 to RMB7.9 billion this quarter. The increase was mainly due to the costs and expenses attributable to 1P merchandise sales, higher cost of payment processing fees, cloud service fees, and delivery and storage fees.

Total operating expenses this quarter were RMB13.2 billion as compared to RMB11.2 billion in the same quarter of 2020. Our total non-GAAP basis, operating expenses were RMB12 billion as compared to RMB10.3 billion in the same quarter a year ago. Our non-GAAP sales and marketing expenses this quarter increased 13% to RMB10 billion from RMB8.9 billion in the same quarter of 2020. This was mainly due to an increase in promotion and coupon expenses as we continue to invest in user engagement and mindshare.

June is traditionally a festival month for online retail. At Pinduoduo, we do not emphasize on shopping festivals but wish to deliver value for money merchandise across odd categories to our consumers every day. At the same time, we have detailed internal ROI

guidelines on spending and are committed to make investments that meet such ROI guidelines. As a result, we see moderated growth in sales and marketing expenses in this quarter consistent with historical Q2 spending.

Looking forward, we are committed to make a meaningful investment into categories that we think could help strengthen consumer mindshare and benefit all in long-term. On this front, we will continue to make it free for agriculture products and fresh produce to be featured in our RMB10 billion program.

On a non-GAAP basis, our sales and marketing expenses as a percentage of our revenue excluding 1P trials this quarter was 47% as compared to 81% and 73% for the same quarter in 2019 and in 2020. The reduction in sales and marketing expenses as a percentage of revenue is a reflection of our economies of scale and the consistent efforts to stick to our high standards of ROI guidelines. However, as we continue to invest into our user mindshare and in light of the upcoming festival season, we expect the sales and marketing expenses to increase, hence impact the bottom line.

On a non-GAAP basis, our general and administrative expenses were RMB214 million, an increase of 57% from RMB137 million in the same quarter of 2020. Our non-GAAP research and development expenses were RMB1.8 billion, an increase of 39% from RMB1.3 billion in the same quarter of 2020. The increase was primarily due to an increase in the headcount, the recruitment of more experienced R&D personnel, and an increase in R&D-related cloud service expenses.

To sum up, operating profit for this quarter was RMB2 billion on a GAAP basis compared with operating loss of RMB1.6 billion in the same quarter of 2020. Non-GAAP operating profit was RMB3.2 billion compared with operating loss of RMB725.1 million in the same quarter of 2020. Our non-GAAP operating profit as a percentage of our revenue improved from minus 6% in Q2 2020 to 14% in Q2 2021.

Net income attributable to ordinary shareholders was RMB2.4 billion as compared to a net loss of RMB899.3 million in the same quarter last year. Basic earnings per ADS was RMB1.93 and the diluted earning per ADS was RMB1.69 compared with basic and diluted net loss per ADS of RMB0.75 in the same quarter of 2020.

Non-GAAP net income attributable to ordinary shareholders was RMB4.1 billion compared with net loss of RMB77.2 million in the same quarter last year. Non-GAAP diluted earnings per ADS was RMB2.85 compared with non-GAAP diluted net loss per ADS of RMB0.06 in the same quarter of 2020. That completes the profit and loss statement for the second quarter.

Net cash flow provided by the operating activities was RMB7.4 billion compared with RMB5.5 billion in the same quarter of 2020, primarily due to an increase in online marketing services revenues. As of June 30, 2021, the Company had RMB92.2 billion in cash, cash equivalents, and short-term investments. As of the end of July 2021, \$773.7 million of our 0% convertible bonds due in 2024 have been converted into equity.

With that, I conclude my prepared remarks. Operator, we can take questions now.

Questions And Answers

Operator

Thank you. (Operator Instructions) Your first question comes from the line of Eddy Wang from Morgan Stanley. Please ask your question.

Q - Eddy Wang {BIO 19169337 <GO>}

Thank you, management, for taking my question, and congratulations on the strong earnings. So I have two quick questions. Firstly, it's about the consumption. So can you share some of your view on so far what have you witnessed for the consumption in China in the third quarter because I think some of the e-commerce -- leading e-commerce players have indicated that the consumption is a little bit weak, but another leading e-commerce platform yesterday actually indicated a very strong resilient consumption? So I just want to check what, how you have seen on the consumption side, especially for the third quarter to-date situation. This is the first question.

And the second question, actually, is about your profitability. I think if I remember correctly, this is the first time that we have seen very meaningful profitability for PDD on quarterly basis and the non-GAAP net margin is 18%. That's very impressive. So given that our business model has been more and more mature, should we expect that the profitability pattern in this quarter to be more stable going forward and is more expected going forward? Yeah. Thank you.

A - Jing Ma {BIO 21842432 <GO>}

Okay. Thank you, Eddy, for the question. Let me try to answer these two questions. Regarding your first question on the consumption, I think before we go to the third quarter, let's just recap what happened in Q2. I think, in general, with the COVID-19 pandemic under control in Q2, it is natural to see offline retail actually rebound faster. At the same time, in 2020, the second quarter represented a much higher base as online retail grew faster due to the COVID-19 related stay-at-home measures. We are encouraged to see the continued and normalized growth in Q2 this year considering Q2 is usually a busy quarter for e-commerce players.

In the past quarter, we continued to see this healthy improvement in our user engagement and growth on our platform. Our revenue in this quarter grew 89% year-over-year as a whole and if we take out the one key merchandise sales, they increased 73% year-over-year. So I would say, the growth is still very strong. But coming to your question on the third quarter, Q3, I think we are still small compared to some of our peers in this sector. So we might not be a good barometer of the overall market growth. We are more focusing on ourselves.

And speak of our growth, it's fueled by two main drivers, one is the user growth and as well as their mindshare And as we stated in the remarks, our user base has already

reached 850 million and this growth will be inevitably slowed down. So we have shifted the focus really on how to serving our users better and steadily building and getting strengthened of their mindshare with the platform. And we see this still -- much room to further build and strengthen the trust that our users have in us and such a progress will take time.

And coming to your second question on the profitability, our profit in this quarter was mainly attributable to the operating leverage from the sales and marketing expenses as I just stated in the remarks, due to the seasonality. It is a unique quarter as Q2 is typically a low season for us with less sales and marketing spending. And we do not think that this quarter's profitability should be an indicator or a reference for our future investment in user mindshare and as well as the agri-focused infrastructure. We are seeing more investment coming in the coming quarter and as we invest more into agriculture, we do not expect the profitability to continue.

Q - Eddy Wang {BIO 19169337 <GO>}

Thank you.

A - Jing Ma {BIO 21842432 <GO>}

And let me just add one more comment on this, we will keep maintain the zero commission policy on our agriculture produce to help more farmers and agri-merchant and this type of investment will continue. Thank you.

Q - Eddy Wang {BIO 19169337 <GO>}

Thank you, Tony.

A - Jason Shu {BIO 20677992 <GO>}

Operator, we can take the next question, please.

Operator

Certainly. Your next questions come from the line of Natalie Wu from Haitong International. Please ask your question.

Q - Natalie Wu {BIO 19852429 <GO>}

Hi. Good evening, Lei Chen, Tony, and David. Thanks for taking my question and congratulations on another solid quarter. So I have two questions from my side. Firstly, last quarter, we cast on your views regarding the competitive landscape, but given that recently we have noticed that your peer is spending more aggressively and new players like (Technical Difficulty) are also gaining traction in e-commerce, so, just wonder if you can elaborate more on the latest competitive landscape dynamics and how do you think this will affect your strategy?

And secondly, regarding the RMB10 billion investment program into agriculture you just announced, just wondered if the management can share a bit more color on this

program, how will this impact your Company's financial statement looking forward? Thank you.

A - Chen Lei {BIO 18939623 <GO>}

(Foreign Speech) Thanks for your question, Natalie. Let me address your question. I believe, your first question is related to the competitive landscape.

(Foreign Speech) So if we were to look at e-commerce as a whole, this is a fairly large industry. So as you mentioned, we think the rise of players like short video e-commerce is not really surprising given they have huge user base, high usage frequency and they also have very high user content.

(Foreign Speech) So based on our sort of operating observation, we are seeing the competition is becoming more intensified. There are more and more platform companies that are joining e-commerce, that are entering e-commerce and not only specific to the short video sites, but we expect more players to enter this field.

(Foreign Speech) So consumer demands actually are very multidimensional and constantly evolving. Six years ago when we started -- when we first started we chose to build a mobile-only platform that's around our T-model, and this is a model that we feel that was quite distinct from the other players.

(Foreign Speech) So if you were to ask, is this model still the most innovative one that meets consumers' demand, we are also constantly discussing this and I think you may observe this from the decelerating trend of our user growth.

(Foreign Speech) So, as you know that we have been undergoing management transition in the past couple of months and the new management is asking the question about whether our team can adjust with the maximum speed to meet these evolving needs of our users. And also our current model still be relevant maybe five, seven, or even 10 years later and we are working really hard on this, and there will be many challenges and more unforeseeable difficulties.

(Foreign Speech) But I will also like to add that the Chinese market is extremely dynamic and vibrant. In the world's largest consumer and retail market, the emergence of new business models actually do demonstrate the appeal and innovation potential of this market.

(Foreign language) So regardless of the competition I think it's very important for us to stick with our principle of benefit all people first and being more open. At the same time, we should continue to be user-centric and focus on the needs of our consumer and this in the end it will be more important than the competition itself.

(Foreign language) On your second question regarding the RMB10 billion agri initiative, let me first give you some color on this and Tony will follow up with more details.

(Foreign language) So Pinduoduo is China's largest online agriculture platform and we launched a dedicated RMB10 billion agriculture initiative this time.

(Foreign language) So we hope this initiative will seek to faith and address the critical needs in agriculture sector and rural areas and commercial value of profits and not the goal, but rather we strive to facilitate the advancement of agritech, promote digital inclusion, and provide agritech talents and workers with greater motivation and a sense of achievement.

(Foreign language) This initiative will clearly impact the short-term earning per share for shareholders and we have received the support and approval of the Board of Directors. And I personally will be leading this project.

(Foreign language) Next, we will convene the shareholder meeting to seek the support of majority shareholders. This is a very important and challenging task which we will invest in patiently. (Foreign language).

A - Jing Ma {BIO 21842432 <GO>}

Okay. Let me add some color onto this Natalie naturally on your question on the impact on our financial statement. I think, as Lei mentioned in his remarks, basically, the idea is to reinvest the profits of this quarter and any future potential profit into this RMB10 billion agri initiative. And in terms of the areas of interest of this investment, we are identifying like three key pillars, namely, food security, food safety, and agri food technologies. And this investment will certainly have an impact on the bottom line in the medium to long-term perspective, but in terms of which line will be affected in the P&L, it really depends on the nature of the spending. It could be hit on the research and development expenses or intangible assets when the software or technology is capitalized, or it could be sitting in our balance sheet like long-term investment.

Operator

All right. Operator, we can take the next question. 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. Thanks, management, for taking my questions. I have two questions. The first question is about the online market take rate outlook as well as the measures to support the merchants in coming quarters. And my second question is about the competitive landscape in the online grocery space. Can management share about the recent developments as well as the business trends of Duo Duo Grocery? Thank you.

A - Chen Lei {BIO 18939623 <GO>}

(Foreign language) Thomas, let me address the second question on competitive landscape for total Duo Duo Grocery, first

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(Foreign language) So from the day that we started into grocery we have been saying that the intention behind this business is to meet -- the diversified needs of our users, and it's a natural extension of our business.

(Foreign language) It's also part of our continued efforts in agriculture.

(Foreign language) So you know that this business -- the total grocery business is quite different from what we have been doing for six years in Pinduoduo, Duo Duo Grocery is a heavier operation and our team is also constantly learning through trial and error. And I think we are still in early days.

(Foreign language) So I think it's not really necessary or important for us to pay too much attention on the competition right now, but rather we should focus on user demand and how to better serve them and whether our services are meeting their expectation.

(Foreign language) So let me give you a specific example. So in terms of fulfillment experiences in the business of Duo Duo Grocery, whether talking it off too early or too late at the pick-up points for consumers we will affect the user experiences.

(Foreign language) So how we should serve our users better and to improve in the areas that we are not doing a great job. These are the areas that we as a management are focusing on, on a daily basis rather than paying attention to the competition with others.

A - Jing Ma {BIO 21842432 <GO>}

Yeah. Sure. Thank you, David. Regarding your question on take rate, Thomas, our strategy has always been serving our users. We believe that growth and monetization are a natural result of that. Merchants highlight is already reflected in our revenues as you can see our revenue this quarter continue to grow which is an affirmation of the healthy ROI merchants are seeing as they sell more on our platform. We also keep launching new features that merchants can use to help themselves understand their target users better, and therefore, enhance their ROI.

Specifically, on our RMB10 billion program, we continue to be committed to delivering the best value for money products through this channel. As we mentioned in the prepared remarks, we are raising the bar on the quality of merchants and products to meet our users' needs. That being said, we are committed to keeping the zero commission policy for agriculture and fresh produce. And in fact, we will increase our investments in agriculture products and we will see some of the impact in the near future.

To give you an example, in Q1 this year, the number of agricultural produce SKUs with more than 100,000 orders exceeded RMB2,600, and in the recent launch, the Harvest Festival the pre-sales data of quality agricultural produce showed over 200% growth year-over-year on a single day. We are very encouraged by this and are committed to do more. So coming back to your question on the take rate growth, we do not focus on this on a quarterly basis as we believe monetization is a result of user satisfaction and merchants' ROI and our monetization rate has fluctuated in the past as you know.

Q - Thomas Chong {BIO 21155199 <GO>}

Got it. Thank you.

A - Jason Shu {BIO 20677992 <GO>}

Operator, we can take the next question.

Operator

Thank you. Your next question comes from the line of Robin Zhu from Bernstein. Please ask your question.

Q - Robin Zhu {BIO 17643541 <GO>}

Thank you. Thanks, management. Can I just have two questions, please. The first one on ARPU growth and coco growth among your users, especially, any color on where ARPU is now on the platform excluding the very new users that have joined let's say in the last one year, where that now stands, where you think that that can go?

Second question, we've noticed that the new Personal Information Protection Regulations and some of the platform changes make it more difficult for merchants to grab user information. I just wanted to get your thoughts on how that impacts the merchants' reliance onto this platform, the merchants' demand for advertising tools on your platform, and how you guys plan to address their needs to capture the direct consumer relationships? Thank you.

A - Chen Lei {BIO 18939623 <GO>}

(Foreign Language) Let me address the second part of your question relating data protection.

(Foreign Language) So I think the recently issued laws and regulations around data security and data protection have provided guidelines for all companies dealing with data.

(Foreign Language) We think these guidelines are beneficial to the long-term healthy development of the companies, platforms, and consumers within the entire sector.

(Foreign Language) So in the short to medium term, I do think that we'll see some impact from these changes depending on the different model, whether that's advertising that you mentioned. But in the longer term, we think these measures are beneficial.

(Foreign Language) As you know, we have always been strictly compliant with China's data security standards. As regulators and the industry as a whole continue to raise the bar on data security and data protection, we will also keep holding ourselves to the highest standards. This is to help provide to our users and merchants a safe and efficient shopping environment.

(Foreign Language) So we are currently working diligently to master the future policy requirements and we would adjust our other operational protective benefit to data accordingly.

A - Jing Ma {BIO 21842432 <GO>}

Okay. Robin, let me come to your question on the ARPU. First, let me clarify, as we continue to improve our product offering and the user experience, users on our platform tends to trust us more, and therefore, support us more. This is a function of our user gaining greater familiarity and building more trust with our platform. We are also working to increase the breadth and depth of our product selection across all product categories and price points. We believe that as we provide the users with more options and keep meeting their demands, the ARPU will naturally increase.

You put it very right. We have an enormous number of new users coming -- less than 12 months. And this is actually our key task and it's a challenge for us as well to understand the needs of these new users. It takes more time for the new users to get familiar with our platform, to build their mindshare with the platform, and even for users more than two years, three years, their demands are also evolving. So putting the user needs at the heart of our strategy and to fulfill their experience, providing the better service, and therefore, we will continue to invest in the coming quarters when the high season is coming, albeit sales and marketing spending or other investments, albeit our priorities to come and not just the ARPU as a KPI itself is the focus.

Q - Robin Zhu {BIO 17643541 <GO>}

Okay. Thank you.

A - Jason Shu {BIO 20677992 <GO>}

Okay. Operator, we can take last question.

Operator

Thank you. Your last question comes from the line of Piyush Mubayi from Goldman Sachs. Please ask your question.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Thank you, Lei, Tony, for taking my questions. When I look at your RMB10 billion initiative, where you are talking about spending your profits on agriculture modernization as well as the rural revitalization. And I look at that in combination with the fact that your customer growth numbers are now reaching that point where further growth is going to be harder and harder and the visible profitability in the second quarter, are we at that point of time where the business model outside the RMB10 billion initiative is at that stage where the continued profitability is inevitable and it's going to be hard to hide away from, and that 10 billion is going to come from further profits? Or is that RMB10 billion going to be over in about the profitability that the business is likely to generate or between the lines, did I read you right when you said that sales and marketing spend is likely to rise in the third and the fourth quarter, potentially taking away or eating away profitability in the next

couple of quarters? So, I wasn't sure I understood fully, if you could just elaborate to the extent you can, I'd be grateful. Thank you.

A - Jing Ma {BIO 21842432 <GO>}

Thank you, Piyush, for the question. I think in general, it's about the overall agriculture investment you're talking about. The COVID-19 has really challenged the whole current logistic and distribution network and surfaced some of the pressing issues, so this demand for new logistic network that could better support the distribution of fresh produce and agriculture product. And this is a complex system that requires innovation and some trial and error. To give you some color let me give you some questions that we keep asking ourselves in the management when thinking of the improvement in this sector, which obviously is the number one priority -- strategic priority for us for now.

Examples like how can we use technology to reduce the waste and environmental footprint and what type of route planning can cut the food waste and transportation emission, what kind of transportation and storage condition could ensure longer shelf life and better preservation of nutritional value of the agriculture produce and what technology might be needed to realize such conditions.

So this is a huge white space that requires patients and long-term investment. So this -- a lot of areas we are looking at for the moment and we are at the very beginning of it. So I think in Lei's remark we mentioned that the RMB10 billion agri initiative, actually profitability, and any commercial KPIs are not being considered. So we are only at the very beginning of this stage, we are very committed to invest into the future and into this sector for long-term period of time.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Thank you. And could I just ask the scale of grocery in the quarter, or give us a feel for agriculture in terms of importance, either percentage of GMV or any other metric you could share with us that would be great?

A - Jing Ma {BIO 21842432 <GO>}

Thank you, Piyush, for the question. But as you know, at the end of Q4 last year, we adopted the market practice, we stopped disclosing any GMV. So I'm not in a position to share this number.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Okay.

A - Jason Shu {BIO 20677992 <GO>}

Okay. Operator, thank you so much. This concludes the earnings call for this season. Thank you so much for everyone joining. Have a good day.

A - Jing Ma {BIO 21842432 <GO>}

Thank you, all.

Operator

Thank you. This concludes our conference for today. Thank you for participating. You may all disconnect.

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