Q1 2020 Earnings Call

Company Participants

- David Liu, Vice President, Strategy
- Nick Xu, Investor Relations
- Zheng Huang, Chairman of the Board of Directors and Chief Executive Officer

Other Participants

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

Presentation

Operator

Ladies and gentlemen, welcome to Pinduoduo First Quarter 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the management's prepared remarks, there will be a Q&A session. Today's conference call is being recorded.

I would now like to turn the conference over to your first speaker today, Mr. Nick Xu. Please go ahead, sir.

Nick Xu {BIO 21771417 <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, as well as through the global newswire services. On today's call, our CEO, Colin Huang, will make some general remarks on our performance for the first quarter of 2020, on the COVID-19 implication on our industry, our business and our team. Our VP of Strategy, David Liu, will then elaborate further on the strategic initiatives, as well as take us through our financial results for the first quarter ended March 31st, 2020.

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 the current market operating conditions and relate to events that involve known and 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 that 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 for the events or otherwise, except as required under the applicable laws.

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

Zheng Huang {BIO 20683053 <GO>}

Thank you, Nick. Hello, everyone, and thank you for joining our first quarter 2020 results announcement. It is hard to believe that we're nearly halfway through the year. While COVID-19 has put a much of the world on a holding pattern since February, it has also resulted in a period of intense activity for many industries and the companies, seeking to cope with such a unprecedented phenomenon. COVID-19 has unleashed powerful forces that are changing the way we live, work and play. It has compressed the years of the behavioral change and accelerated adoption of online commerce at an unprecedented pace.

Now, more than ever, people are relying on online platforms to meet not just their discretionary one, but for their critical need. For a while e-commerce has crossed an important threshold and have become more integral to people's lives. This change also requires a lot of trust on the part of consumers, something that platforms must continue to work hard to earn as a company, we made a deliberate decision to step up our support of our users and merchant community to help tide them over these challenging times.

In the near-term these initiatives might have been higher bandwidth costs, more cost to help offset the price increases for medical and household essentials or even more free traffic support for our mostly trusted merchants. But we make these decisions deliberately, because they are consistent with our corporate culture (inaudible) or doing the right things.

These consciousness -- our conscious investments have building invaluable trust with our users. People remember when we are there for them in their time of need. The pandemic also unleashed another powerful force that after need for better ways to interact and socialize online. This need for the right digital tools has never been more important with the fusing of the physical and the virtual worlds, because people must now find the ways to do online what they used to do offline, whether it is going to office, shopping at a retail mall, sharing popcorn at movies or having hard parts together.

We have positioned ourselves to ride the convergence of these powerful forces. We design our platform to maximize social interaction by tapping our innate desire to connect and share. Our mission has never been more relevant or salient in these challenging times, which is to provide a fun and engaging environment for people to shop together and get the best value for their money. We know we are on the right track, because we crossed 600 million annual active users -- annual active buyers for the first time this past quarter. And our user engagement metrics continue to improve.

On how COVID-19 has changed the retail industry. So how has COVID-19 changed the retail industry and the e-commerce, what do these change mean for the company like Pinduoduo. Let me highlight three specific change. First, livestreaming. With COVID-19, we realized that the boundaries between virtual and the physical worlds have blurred to an unprecedented degree. We launched our livestreaming service in November last year and we have found it to be an effective tool in lowering the barriers to helping consumers overcome their aversion to buying certain product categories online.

These categories include high-end jewelries such as pearls and jade, premium seafood like Argentine shrimp or live lobster or even farming equipments. We see livestreaming not only as a channel to sell products, but more importantly a value for merchants to share their personal experiences and interact with the users. Livestreaming is a great way to showcase certain offline experience that otherwise unavailable to many of our users. For example, we organized the livestreaming towards to seven major museums worldwide, while featuring select items from their representative gift shops.

Through the livestreaming, producers build trust with potential consumers by showcasing their work for how they pick food from their farms to how the pack the catch of the day or even how they make delicious meatballs by hand. Livestreaming opens a window into the lives of producers and unfolds the story of the product in a way that a simple listing cannot. Livestreaming also helps consumers to better appreciate and differentiate the products by having the merchant demonstrate the product and answer the questions just like if one were shopping in the mall.

The second change is faster online-offline integration. We still see significant opportunity in combining the scale of our online traffic with offline retail experiences. In early-May, we joined forces with the Shanghai government and the local enterprises to successfully organize the May 5 shopping festival. In five days we have to drive over RMB3.2 billion of online sales in the Shanghai area through 100 shopping malls, more than 78 million users enjoy the livestreaming content produced by 1,136 PDD livestreaming rooms in collaboration with CCTV.

Users were able to enjoy consumer services for in-store salespeople. Pinduoduo also sold over 600 cars in the first 2 hours of the festival in a partnership with Shanghai based SAIC Group. We partnered with Guomei to expedite the integration of the online and offline sales experience, home appliances and the consumer electronics product categories where delivery installation and after-sales services are important part of the purchase consideration. Guomei's nationwide retail network would play a crucial role in a part of the sales process and we're working together to redesign the shopping experience.

The third change relates to helping exporters pivot to the domestic consumer market. Due to the worldwide spread of the Coronavirus, China's export was down 11.4% in the first quarter 2020 and outlook remains uncertain. We have been working closely with local governments in China to direct export-oriented production capacity towards domestic consumption demand. COVID-19 has forced these high-quality manufacturers to focus on domestic market opportunities earlier than they might have otherwise. This plays well into our C2M vision, and we look forward to working with them to offer more value for money products tailored for our users.

On COVID-19 impact. In the first quarter of 2020, China's GDP fell by 6.8 from a year ago. Total retail sales of consumer goods were down 19%, at the same time, the worldwide pandemic started to weigh on China's exports. Consumers relied on e-commerce for the bulk of their purchases during the crisis. Since our March-end earnings call, travel restrictions for most areas of China have been lifted and the physical outlets have been reopened, the domestic economy has started to recover. We observed that the online retail sales of physical goods increased by 5.9% during the first quarter, the pace of our online buying picked up in March when logistics networks and the supply chain resumed to full capacity.

For Pinduoduo, this past quarter was among the most challenging in our brief history, but we continue to solidly execute our user-centric strategy. For the last 12 months ended March 31st, 2020, we recorded GMV growth of 108% to RMB1,157 billion and served 628 million annual active buyers, up 62% from a year ago and 43 million from last quarter. Our first quarter revenue grow 44% to RMB6.5 billion and it will continue to invest in sales and the marketing to engage and support our users when they were mostly in need.

This past quarter was also one of the most rewarding for us, because we were able to make significant contributions to the society. We also saw the next generation of leaders emerging as they stepped up to serve our users, which I will explain on later.

During the peak of the outbreak in China, our team towed [ph] to ensure that the daily needs of our users are matching the timely fashion within the safety of their homes. We then devoted our energies to support the recovery and online migration of many offline business as the impact of COVID-19 subsidized. As a platform serving over 600 million users, COVID-19 reminded us of how important PDD has become to our ecosystem of users, merchants and business partners.

In order to help the small and medium sized business owners on our platform, we proactively reduced advertising fees charged to merchants, provided incentives for those fulfilling orders during outbreak and directed free traffic to medical supplies and household items that our users needed the most while under quarantine. In addition, we subsidized medical products such as mask and disinfectant to help counter price spikes due to the supply-demand imbalance. We also defrayed part of the logistics costs. These initiatives resulted in a lower revenue as a percentage of our GMV and a higher cost of goods sold during the first quarter, but it was the right thing to do I believe.

During this trying period, we remain focused on building trust with our users, trust and the sense of community has become more critical in such uncertain times. For example, we stepped up our commitment in livestreaming and made it accessible to all our merchants, another feature we build trust as a community squad shopping feature that we introduced to have lockdown consumers in local communities to buy daily necessities and fruit from nearby groceries and supermarkets.

As a result, we have observed a positive impact in our user engagement metrics, although the first quarter is typically the slowest for e-commerce, MAU to active annual buyers ratio increased from 65.4% in the first quarter of 2019 to 77.6% in the first quarter in 2020. This ratio reflects improvement in our user satisfaction and as more users are finding products on our platform of their interest, meet their expectations and propel [ph] them to place orders.

On our team and internal initiatives, this past quarter, we overcame some of the greatest challenges since our Company's inception. As the Founder and CEO, I was touched to see our team put serving our 600 million plus user community as their top priority. This commitment reflects the value of our employees, the corporate culture (inaudible) that we seek to build. As I said on our March conference call, we saw many young people emerge through this trying period as new leaders of our business. They have stand up, and their aspiration and innovation are pushing us all forward in our quest to realize Pinduoduo's vision.

During COVID-19, these young leaders made practical business decisions and executed them soundly, exceeding the expectations of our substantial user base. This is why, we as a company were able to accelerate the recovery of our business and grow our average daily order volume to over 50 million in March. They are ready to take on more responsibilities for running the business.

The year had -- is very important for PDD. Last year, our GMV crossed RMB1 trillion milestone and has kept growing. We're encouraged by this recognition from our users, but at the same time we feel even greater responsibility of our shareholders. We take this responsibility seriously and will continue to reflect on how we can improve, how can we provide our user with a better experience on PDD, how can we make the discovery on our platform more efficient, more engaging and more fun; how can we offer them more choices and give them more reassurance on quality and value. This year we will focus on not only growth, but also on the number of key initiatives that would form a sound foundation for our future.

These include continuing to improve on corporate governance, upgrading internal systems, improving personnel development and evaluation, streamline internal approval process and motivating more internal idea generation and resource competition. In the past two months, we completed our internal performance review and feedback. As mentioned in our March call, most of our employees received a pay raise in recognition of their dedication and contribution. We have also promoted a number of them. We hope to see more of them grow into new leaders of our Company.

As I mentioned in my letter to shareholders, in this new era, we as a new life form should proceed more humbly and bear more responsibility. This is true for us as a company and for our young people as a new generation of leaders.

Let me now turn over to David to discuss the financial results for the quarter.

David Liu {BIO 21976168 <GO>}

Thank you, Colin; and hello, everyone. Let me first comment on our capital markets activity since the end of the first quarter. First, we subscribed for $200 million of convertible bonds in GOME, a leading retailer home appliances and consumer electronics in China. We entered into a strategic cooperation agreement pursuant to which GOME will migrate all the topline SKUs on to our platform and work together with us to offer more customized branded goods and better offline services. We'll continue to evaluate opportunities that will increase value to our users and to our shareholders.

Secondly, we launched a private placement of $1.1 billion at the end of March after receiving strong reverse inquiries on long-term investors. The placement was closed in early-April. Net proceeds from the placement will only be reflected in our financials for the June quarter. For the avoidance of doubt, our balance sheet and cash flow statements for the quarter ended March 31st, 2020 do not include cash raise from this placement.

Since the placement the Company has received a number of questions on our capital raises, operating cash flow and cash position. Let me take this opportunity to respond.

First, why did we go ahead with the private placement in March? Like any blue-chip companies such as Berkshire Hathaway, Disney, Pfizer and Netflix that raised capital in the past few months, we also expect high global economic uncertainty and capital market volatility to persist, as the world economy struggles to regain its foothold. At the same time, we expect the challenging outlook to give raise to more attractive investment opportunities. The March private replacement further strengthens our net cash position to weather a potential economic downturn and to pursue strategic opportunities without having to compromise the flexibility in our core business. GOME is a good example.

Second question, why have we tapped the capital markets so many times since our IPO? This is a good question. In fact, we had anticipated this possibility at the time of our IPO. As Colin mentioned in his shareholders letter this year, we should be and we are extremely grateful of our precious youth. One feature of being young harbor is that we grow very fast. This works sometimes to our advantage, but sometimes to our disadvantage. When we went public in 2018, in order to complete our listing expeditiously and not distract management from growing the business, we specifically limited the size of our offering in terms of dilution to be the smallest among comparable US listed TMT companies by market cap.

Dilution at the time of our IPO was 8.2% as compared to anywhere between 10% to 20% stake offered by other issuers at IPO. As a result, we were able to complete our IPO on extremely tight timetable as opposed to at least a year for others. We have sold in aggregate 16.2% of our Company on a fully diluted and as converted basis, inclusive of IPO, similar to the normal IPO dilution of other US listed companies. As we operate in a hypercompetitive industry against peers with much more substantial capital resources, we believe continuing to be nimble and optimistic on financing will enable us to optimize our net proceeds while minimizing dilution.

Third question, is PDD raising money again because it's burning cash too quickly? Many people have assumed that our increased sales and marketing expenses imply we are burning cash and subsidizing our users with investors' capital. We would like to point out to our investors, analysts and the public to look closer at our cash flow statements. Even though we may from time to time require a quarter of net operating outflow because of seasonality such as this past quarter, our cash flows from operations on an annual basis have been positive since 2016. Even if we exclude changes in payables to merchant, which our funds held in escrow for merchants, our annual operating cash flows are still positive. This means that the cash generated from our core business is sufficient to fund our operations without using the cash contributed from our financing and investing activities. In addition, our net working capital is negative and changes in our net working operating capital are also negative, reflecting our efficient net working capital management. In summary, our operations have been self-sustaining since the end of 2017. We have not needed to spend any proceeds from our capital raising on our operations, including the coupons and promotion programs.

Given we already have sufficient cash flow from operations, some investors may want to probe further on why we fund raise from a capital markets at all. This is also a good question. Colin mentioned in his shareholder letter at the time of our IPO that we are committed to become an open and transparent platform from day one, despite being young and far from perfect. As a platform serving 628 million users in China and potentially more in the future, we believe we could provide the public with more transparency, if we are supervised by our users and the market as a public-listed company, just like this quarterly earnings call. It has indeed helped our team to grow faster as a public company in the past two years.

Let me now shift gears and provide some updates on our C2M and agricultural initiatives. Many of our ecosystem partners suffer from COVID-19 and we have been doing our part to help with their recovery. Starting in March, we hosted a series of livestreaming PDD fairs in China's key production centers including Guangdong, Fujian, Zhejiang and Shandong in collaboration with local governments and merchants to promote locally-produced specialties.

As of April 30th, total order number originated from these livestreaming events reached 49 million. We have (inaudible) cooperation agreements with these local governments to continue our support for high quality local manufacturers and merchants whom we believe can be strong partners for our C2M initiatives over the long-term.

Merchants selling agricultural products were also negatively impacted during the outbreak. In addition to the measures and support that we mentioned in our March earnings call, we announced our plan to invest RMB50 billion over the next five years to build up infrastructure to assist farmers to sell online more efficiently. Agricultural products contributed 13.6% of our 2019 GMV. In the first quarter of 2020, total orders of agricultural products reached 1 billion, representing 184% year-on-year increase and SKUs were with more than 100,000 orders also reached 1,030 about 70% of our 2019 full-year number. Within the next three years, we will continue to promote these sales result of agriculture products to traffic support, training, livestreaming and other features we aim to have more than 1 million agriculture product stores with more than RMB1 million sales in the year.

Now, let me take you through our financial results for the quarter ended March 31st, 2020. We continue to see strong growth in our key operating metrics in the first quarter of 2020. Our annual active buyers for the last 12 months ended March 31st reached 628.1 million, representing an increase of 42.9 million from our 2019 annual active buyers. Compared to the first quarter in 2019, our last 12-month active annual buyer base grew by 42%. Despite the first quarter being an off-season for e-commerce, our average annual active -- our average monthly active users in the quarter increased from a preceding fourth quarter peak season of 487.4 million or 68% growth from a year ago.

During the first quarter, China online gross retail sales grew 5.9% year-on-year to reach nearly RMB1.9 trillion. As more people stay home, they relied on e-commerce due to social distancing measures. Pinduoduo saw an increase in purchases of medical supplies and household staples during the peak of the COVID-19 and we observed strong recovery in discretionary consumption in March.

Our last 12 month GMV grew 108% year-on-year to reach RMB1.1572 trillion. The strong GMV growth reflected a sustained growth in our annual spending per active buyer, which was 47% to reach RMB1,842.4. We recognized that our users are increasingly relying on us. Not only is our active buyer base growing, we see them gaining trust in our platform and buying higher value merchandise at higher frequency. We will continue to serve our users by providing them with a consistent and satisfying shopping experience.

Our total revenues in the quarter ended March 31st, 2020 were RMB6.5 billion, up 44% from RMB4.5 billion in the same quarter last year. Our total revenue comprised of online marketing services revenues and transaction services revenue. Online marketing services revenue contributed RMB5.5 billion this quarter, constituting 84% of our total revenue. This was up 39% compared to the same period last year.

Transaction services revenue was RMB1 billion this quarter, constituting 16% of our total revenue, and up 76% compared to the same period last year. This quarter is the first time in our history that our online marketing services revenue increased at a lower rate compared to our transaction services revenue. This was due to a few different factors.

One, as Coronavirus broke during Chinese New Year holiday, small and medium-sized merchants were adversely impacted and hence reduced their advertising spend below their typical low season levels. Two, we supported our merchants in particular small and medium sized enterprises by offering them lower effective advertising rates. And three, we also directed traffic that we could have otherwise monetized to dedicated channels for medical supplies, household staples and other necessities in high demand.

Since March, we have seen pick-up in advertising activity by our merchants, including SMEs with advertising rates returning to normal levels. Although the initiatives during the first quarter had a negative financial impact, we believe that we are doing the right thing and fulfilling our responsibility as the second largest e-commerce platform in China. We are building invaluable trust with our 628 million users and 5.1 million merchants in this time of crisis.

Moving on to cost. Our cost of revenues increased 110% from RMB873.3 million in the same period last year to RMB1.8 billion this quarter. This translate to a gross margin of 72%. Total cost of revenue increased mainly due to higher cost for cloud services, call centers and merchant support services, particularly as we rolled out our livestreaming features to all the merchants.

Total operating expenses this quarter were RMB9.1 billion as compared to RMB5.8 billion in the same quarter 2019. Our sales and marketing expenses this quarter increased 49% to RMB7.3 billion from RMB4.9 billion in the same quarter of 2019. On a non-GAAP basis, our sales and marketing as a percentage of revenue was 108% as compared to 103% for the same quarter last year. The increase of our sales and marketing expenses is mainly to help users weather through the pandemic.

Given the reduced advertising activities by our merchant during the first quarter, particularly in February, we could have pared back our sales and marketing budget for the quarter and focused on minimizing loss. Instead, our management team made a deliberate decision to further invest in our ecosystem and reallocate our spending in ways that would benefit our users and merchants most in this time of crisis, because we consider this the right approach for our long-term success.

When COVID-19 started to spread at the end of January, we acted quickly and stabilized prices of medical supplies, and other critical products via targeted subsidies. In addition to assist merchants selling agricultural products to create their inventories, we provided support and hosted several promotions to boost their sales on our platform. With the economy in China still recovering and the global situation is still evolving, we will continue to invest in building deeper trust and long-term relationship with our users and seller community.

2020 will continue to be an important year of investments for us. Given we have already surpassed 600 million active buyers, we want to reiterate that it is not the new users whom we are investing our sales and marketing on, but all of our users, particularly the existing ones. This is because the existing users come to trust us more. As they come to trust us more, they will share their experiences with their friends and families and their social contacts, and from time to time invite them to purchase together. Therefore, we continue to invest in their trust, mindshare engagement with us. In the next few quarters, we expect our sales and marketing expenses to remain fairly dynamic and we will continue to invest when we see opportunities that meet our ROI requirements.

General and administrative expenses were RMB338.3 million, an increase of 43% from $236.1 million in the same quarter of 2019, primarily due to an increase in headcount. On a non-GAAP basis, our G&A expenses as a percentage of revenue was 2%.

Research and development expenses were RMB1.5 billion, an increase of 121% from RMB667.1 million in the same quarter of 2019. 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. We plan to further invest in our R&D in 2020. On a non-GAAP basis, R&D expenses as a percentage of revenue was 17%.

To sum up, operating loss for the quarter was RMB3.6 billion on a non-GAAP basis compared with operating loss of RMB1.6 billion in the same quarter of 2019. Operating loss on a GAAP basis was RMB4.4 billion compared to RMB2.1 billion in the same quarter of 2019.

Net loss attributable to our ordinary shareholders was RMB4.1 billion on a GAAP basis as compared to net loss of RMB1.9 billion in the same quarter of 2019. Basic and diluted net loss per ADS were RMB3.54 on a GAAP basis compared to RMB1.64 in the same quarter of 2019. Non-GAAP net loss attributable to ordinary shareholders was RMB3.2 billion compared to RMB1.4 billion in the same quarter last year. Non-GAAP basic and diluted net loss per ADS were RMB2.73 compared to RMB1.2 in the same quarter of 2019.

That completes our profit and loss statement for the quarter. Net cash flow used in operating activities was RMB567.1 million, down from RMB1.5 billion used in the same quarter of 2019, primarily due to an increase in online marketing services revenues. As of March 31st, 2020, the Company had RMB32.4 billion in cash, cash equivalents and restricted cash. Excluding restricted cash, we had RMB5.5 billion in cash and cash equivalents. In addition, we had RMB37 billion in short-term investments. Our short-term investments include time deposits, money market funds and other securities that can be monetized radically. As such, investors in evaluating our cash reserve should consider our short-term investment together with our cash and cash equivalents. As of the end of March, we had RMB42.6 billion of cash reserve excluding net proceeds of $1.1 billion from our recent private placement.

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

Questions And Answers

Operator

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

Q - Natalie Wu {BIO 19852429 <GO>}

Hi, management. Thanks for taking my question and congratulations on a very robust quarter. So just wondering what do you think that plays as the major driver behind your GMV growth reacceleration in the first quarter in spite of the COVID-19 impact. And also, in terms of the livestreaming function, how does that help your GMV growth on a platform for -- in terms of the SSSG according to your observation? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you, Natalie, for the question. In terms of GMV growth, we see that as a reflection of our users continued endorsement of our strategy and our platform. And so you have demonstrated through the first quarter we continued to make sales and marketing investments in our users and in our merchants. And as China recover or as the pandemic subsided towards the end of February and heading into March, we have seen strong recovery in consumer demand. So overall, I would say that the consumer demand has not been impacted in COVID-19. And you saw a lot of catch-up as a result of both merchants promoting, increasing the promotion activities on our platform, as well as logistics being back in normal levels. So this is why we believe we were able to, by middle of March start shipping over 50 million DO, orders on a daily basis. And because of that, we see that the consumers spending on our platform are now with higher frequency and also with higher ARPU, resulting in overall increase in our LTM GMV.

In terms of livestreaming, specifically, as you have mentioned, this is a new business initiative for us. We only rolled our livestreaming to all the merchants in January despite the product being online at the end of last year. We see livestreaming as a great way to bring online and offline -- we see livestreaming as a great way to bring online these offline experiences our users may not be privy to in their daily lives. So through livestreamings, we are encouraging merchants to bring platform users into their day-to-day to share with them interesting and entertaining parts of other products. As such, we believe that you have the benefit of lowering barrier -- so lowering consumers aversion to spend in certain categories such as jewelry or live seafood that we are selling on the platform. And we believe that this will -- this is beneficial in creating further engagement and stickiness and repeat the purchases between merchants and users.

Next question.

Operator

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

Q - Eddy Wang {BIO 19169337 <GO>}

Hi, management. Thank you for taking my questions. My question is also about the GMV and the ARPU growth in the first quarter. You mentioned that in March actually you have witnessed your users have increased the discretionary items. Can you elaborate more about what kind of the discretionary items you have witnessed user spending in March and what are the key items categories you would like to expand actually this year for the platform? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you, Eddy. In terms of our GMV distribution by product categories, I would say that in COVID-19 impacts, that's temporary. So overall for the quarter we have now observed our GMV distribution to deviate significantly from where it was before. So apparels and FMCG continue to account for the most of our GMV for the quarter. We have seen apparels during the height of the epidemic to be more impacted relative to other categories. But in general, we have seen pick-up in activities across the board.

Specific to our platform, we continue to evaluate our consumers' interests and needs and we continue to expand our strategy of deepening the best offerings in the categories (inaudible) increasing our breadth. Specifically, I think, as we have demonstrated through much of 2019, our investments in building trust with our users are paying off in categories such as cosmetics, consumer electronics and these will be categories that we continue to grow, heading into 2020, but we are seeing growth across the board.

Q - Eddy Wang {BIO 19169337 <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>}

Good evening. Thanks management for taking my questions. I'm asking on behalf of Thomas Chong. And my question is about the GMV strategies. We can see that this time the GMV is showing a very good result and do we have any strategies in driving the GMV and user growth in 2020 and especially in second-half? And we also want to ask about any update on the C2M initiative. Thank you.

A - David Liu {BIO 21976168 <GO>}

Sure. In terms of our GMV growth driver, as we have mentioned, the focus for the platform or strategy is really revolves around user engagement. And it is about giving the users what they want and serving them well. So we do see the strong growth in the first quarter in our GMV, despite the low seasonality and the challenges posed by the epidemic, as an endorsement by user of our efforts paying off, meaning that we are seeing users being able to shop with more confidence on our platform and buying things with greater assurance and we intend to continue to invest in our user engagements.

As I mentioned in my own remarks, our social marketing spend are really targeted at all the users on our platform, particularly the existing ones, because these are users who are familiar and recognize the value that we bring to their consumption and these are influences, to put differently, for our platform that will be able to continue to help spread the experiences (inaudible) PDD to others and help us bringing other users and making them also more engaged on our platform.

In terms of C2M, I would note that the C2M is a long-term secular trend and it is not a winner-takes-all game. So this is something that will take considerably more time and effort to drive. And in 2019, we have 106 full-fledged C2M partners and we believe we're on track to hit a 1,000 of these partners by year-end of 2020. The current -- so coming out of COVID-19, as Colin had mentioned, we believe that we are even better -- more better positioned to take benefit, because COVID-19 has forced a lot of export-oriented manufacturers and merchants to rethink a lot harder about their strategy and refocus on the domestic consumption. So by working with the local governance and manufacturers, we have been able to identify a lot of strong potential partners that we believe will accelerate our C2M efforts over the long-term.

Q - Thomas Chong {BIO 21155199 <GO>}

Thank you so much.

A - David Liu {BIO 21976168 <GO>}

Next question?

Operator

Your next question comes from the line of Han Joon Kim of Macquarie. Please ask your question. Excuse me, Mr. Han Joon Kim, your line is open.

A - Zheng Huang {BIO 20683053 <GO>}

Operator, why don't we move on to the question?

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. Congratulations on the solid result and thanks for taking my question. My question is actually related to the commission revenues we report this quarter. We actually understand this quarter the advertising revenue actually grow slower than commission revenue because of like we actually provide them free traffic through the merchants and also they actually have lower advertising budgets. But just curious like per the calculation, like the transaction revenue, it seems like the commission rate this quarter actually is higher than the second half of last year. So just to make sure, do we actually include some of the other like membership revenue or like -- or other transaction related revenue to this revenue line or it's just because we have higher payment or other transaction-related costs. So we have to also increase the charge on the merchants for this particular revenue as well? Thanks.

A - David Liu {BIO 21976168 <GO>}

Joyce, thanks a lot for the question. So to answer your question, our definition for transaction services revenue is consistent through quarters. So it is the same as what we have -- is on the same basis that we have disclosed in the prior quarter. I would say that we do see increased costs in our business and this is partly reflected in the gross margins, because we are investing a lot more aggressively in cloud infrastructures in order to support livestreaming on our platform.

Q - Joyce Ju {BIO 20718580 <GO>}

But on the commission rate side, we are not really adding (inaudible) payment or as a charge to merchants right?

A - David Liu {BIO 21976168 <GO>}

No.

Q - Joyce Ju {BIO 20718580 <GO>}

Got it. 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. Thank you for taking my questions. I have a question on the level of the support that you provide to merchants. So any qualitative color that you could give us in terms of the (inaudible) in which way and for how long? Is that in the form of more the free traffic support or is it more the payment commission rebates? And then on the matching, or is it the matching for the promotion pricing amount through the sales and marketing? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you, Alicia. As we -- as I have mentioned in my remark, we do believe that, well, I think, well, a couple of things, I suppose. First, the COVID-19 does mean that our many of our merchants have to cut back their sales and marketing -- their own advertising budget in the first quarter and certainly in much of the February this was impacted.

In response to the difficulties that our merchants are making, we do -- we are offering better incentive programs. This takes both in the form of effectively lower rates, as well as free traffic as you have mentioned. So in terms of trying to exterminate the impact, I will encourage, Alicia, you to take a look at our take rate so to speak for online advertising revenue in other quarters and estimate how we have the, I guess, the GMV that we were generating for this quarter, if we were receiving the same type of take rate what that content would be. And I think you will notice that our profitability will be significantly improved.

And in fact, (inaudible) support that we have given to the merchants, I would just add on top of that, we have seen the activities on advertising pickup in March, as well as through the rates returning to more normalized level.

Q - Joyce Ju {BIO 20718580 <GO>}

Okay. Great. Thank you. Congrats on the solid results.

Operator

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

Q - Charlie Chen {BIO 21012902 <GO>}

Hi, management. Thanks for taking my question. So I have a follow-up question on the take rate, which I have elaborate a little bit more. So just to go back to the question, so you are thinking basically the GMV growth basically is robust and you give free traffic (inaudible) subsidize merchants during this difficult situation. So do you think there is a need for you to continue to subsidize them in this recovery periods in the coming quarter and going forward? And if you don't need to give so much subsidies as you did before, do you think that will be negatively impact your GMV going forward? Thank you.

A - David Liu {BIO 21976168 <GO>}

So, as I have mentioned earlier, our take rate so to speak or the revenue that we are generating from our online marketing services since March, we have seen that returning to very much normalized level heading into April and May. And secondly, as I mentioned that by middle of March we were shipping already 50 million parcels on a daily basis. So both the business momentum, I would say for our platform has recovered to fairly normalized level and also in terms of revenue generation, we believe, we are very close to, if not ahead of where we were ahead of COVID-19.

Q - Charlie Chen {BIO 21012902 <GO>}

Thank you.

A - Nick Xu {BIO 21771417 <GO>}

Operator, next question.

Operator

Yes, your next question comes from the line of Piyush Mubayi of Goldman Sachs. Please ask your question.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Thank you for taking my call. My question is quite simple and that if you look at what's happened in the quarter with COVID-19, yet your GMV grew astonishing 99%. I wonder if you could comment on what the -- what could have happened to your GMV had COVID-19 not happened? And can we use that as a run rate for what could happen for the rest of the year, i.e., are we into an accelerated mode of GMV growth post COVID-19? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thanks, Piyush, for the question. I do believe the investment that we have made in our ecosystem, our partners and our users through this period is positive to our overall business momentum and emerging from the COVID-19 and let's just say take early-March as a starting point, we do see a stronger business momentum in terms of -- both in terms of user behavior, but also more importantly merchants trying to catch up for the time that they have lost in the first quarter. So we are certainly seeing more willingness of merchants to spend and engage with users and that should help to some extent the consumptions. But more importantly, from our perspective, we do think that the users on our platform are now shopping with higher frequency and are making purchases of higher ARPU number -- items.

A - Zheng Huang {BIO 20683053 <GO>}

Yeah, let me add a few words. So for the first quarter, the pandemic definitely has a negative impact on the business even for the GMV, because the deliver capacity during that period of time is shrink significantly. Then in China now, all the businesses sort of reopened, the society is getting back to normal. So I would say the -- while the growth rate and everything should -- is sort of back to the normal stage, but how big impact either negative or positive the pandemic will have on our business, in the short term, I would say it won't be that significant, let's look at next quarter or the quarter after next.

But if you look at this problem -- trying to answer this problem in a two-year or three-year time frame, I would say it will be very interesting and I would say the impact will be huge either negative or positive, because I believe some of the user behaviors both online and offline will be changed significantly and many parts of the supply chain is being shaped and -- or being shaped or changed in a very fundamental way. And it will not be back to the normal stage. It will be a new normal. Whether the new normal is a good or bad, it's hard to say, but it's going to be a new format, it's a new ecosystem. Right now, I think we're sort of in a fairly good position to prosper in the next stage. Yeah, thank you.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Thank you.

A - Nick Xu {BIO 21771417 <GO>}

Operator, let's move to next -- to the final -- next question will be the last question for this conference.

Operator

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

Q - Binnie Wong {BIO 16260213 <GO>}

Hi. Thank you, management, for taking the question, and congrats again for a very solid quarter here. As a question here is that if I look at the like the number this quarter in terms of the revenue versus GMV, the quarterly monetization rate (inaudible) just a function because of our fast growing GMV or is it because of something else that we are -- because it's the pandemic quarter, we want to support our merchants better or is this something else that we should be aware off?

And then following up on this question, I think, you spoke about it last quarter, talking about if you look at the mix in terms of how we lift up the ARPU, right, because of course user base we're catching up with our peers, but then ARPU is still of a gap, right. How are we going to raise our ARPU this year? Thank you so much.

A - David Liu {BIO 21976168 <GO>}

Thank you,Binnie. So, I think your first question was regarding the take rate in general. So during the first quarter, we have seen merchants ability to advertise being impacted by COVID-19, so that's one aspect of it. And because of it and in order to continue support them, we also gave them better effective rates, advertising [ph] rates for the first quarter. So that had a direct impact on our online marketing services take rate for the first quarter. I mean, as I mentioned, we have seen the activities pick-up in March and the rates are returning to normal level.

Second question around the mix and how do we go about increasing the ARPU, I think the key for us is actually to continue to invest in our existing users to make sure that they continue find products that they find interesting and gain growing confidence to be able to shop more frequently and make this really the primary e-commerce destination. So it's about investing in people's mindshare, it's about investing in the engagement and we have seen result in the pickup in the activities and also in ARPU in the first quarter. And we believe that we are on the right trend. So as the frequency increases and as we bring more selection available to our users, we believe the ARPUs will actually catch up.

A - Zheng Huang {BIO 20683053 <GO>}

Yeah. So let me -- regarding ARPU, let me simply put this way. Raising ARPU is not a part of our management team's KPI. But I think it will be a natural result as users engagement increases over time.

Q - Binnie Wong {BIO 16260213 <GO>}

Okay. Thank you. That's very clear.

A - Zheng Huang {BIO 20683053 <GO>}

Yeah.

Q - Binnie Wong {BIO 16260213 <GO>}

Thank you so much and congrats.

A - David Liu {BIO 21976168 <GO>}

Thank you.

Operator

I would now like to hand the conference back to Mr. Nick Xu for the closing remarks.

A - Nick Xu {BIO 21771417 <GO>}

Everybody, thank you for attending tonight's call. If you have any further questions, feel free to reach out to the IR team. Thank you and bye.

Operator

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