

Q3 2020 Earnings Call

Company Participants

- David Liu, Vice President-Strategy
- Jianchong Zhu, General Counsel
- Lei Chen, Chief Executive Officer & Director
- Tony Ma Jing, Vice President of Finance

Other Participants

- Alicia Yap, Analyst
- Eddy Wang, Analyst
- Joyce Ju, Analyst
- Natalie Wu, Analyst
- Piyush Mubayi, Analyst
- Thomas Chong, Analyst

Presentation

Operator

Thank you, Mr.Zhu, you may go ahead now.

Jianchong Zhu {BIO 20098709 <GO>}

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 CEO, Chen Lei, will make some general remarks on our performance for the third quarter of 2020, and our strategic focus going forward. Our VP of Strategy, David Liu will then elaborate further on our specific strategic initiatives; our VP of Finance, Tony Ma, will then take us through our financial results for the third quarter ended September 30, 2020.

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

Now, it is my pleasure to introduce our Chief Executive Officer, Chen Lei. Lei, please go ahead.

Lei Chen {BIO 18939623 <GO>}

Hello, everyone. Thank you for joining us on our third quarter results announcement. Pinduoduo turned five years old last month, reached another milestone only incredible driven. This year we continue to deliver strong user growth and built trusted engagement with consumers. We are facilitating more sales every day with the support of our users, merchants and business partners. For the 12-months ended September 30, 2020, Pinduoduo's revenue yield of 731 million active buyers and generated nearly RMB1.5 GMV.

During our fifth anniversary campaign, early October, the peak daily order volumes surpassed 100 million, driven by increased demand for agricultural products. Strong consumer activities continue into Q4. We attribute this growth to our continued focus on user experience, ease of better engagement metrics as we offered more selection, more compelling value, and more function and interactive features. In Q3 we observed increase in the frequency of visits, the number of categories visited and average daily time spent; this contributed to our average annual spending per user increasing from RMB1,857 in Q2 to RMB1,993 in Q3, despite a net add of another 48 million active buyers. During our growth and scale today it still feels like we just started yesterday.

We recognized that Pinduoduo's achievement today benefited from the growth and evolution of China's Internet, the development of the retail industry and increased consumption power. We always believe that it is the consumers who make enterprises, not all the way along [ph]; this is why from the beginning, we have built our platform within principles of people first and benefit all in mind. Over the past five years, we witnessed the growing support for a new interactive mobile commerce experience that we championed. Our mobile platform has become a mainstream online shopping app, over the ranks first evaluated app store. This is because as China's Internet space turned more vibrant, consumers have become more sophisticated and want to enjoy the benefit of being served by more than one platform. We are constantly looking out for more options but better value and differentiated experiences. Our message is clear and straightforward; continue to serve customers and leave their trending preferences. This relentless focus on serving consumer has been able to attract more than 700 million users in record time.

We also continue to be guided by the principle of being more open, we are committed to be an open and fair platform for our service providers and mergers. We are pleased to see increasing number of enterprises choosing to work with Pinduoduo. In the past five years, more brand has joined hand with Pinduoduo to offer customized design and a value for money SKUs for our users. At the same time not only brands have used our platform to gain to rare consumer exposures. Some of them had even allowed their own brands leverage on the consumer insight which we get from Pinduoduo. Lastly, and most importantly, Pinduoduo has also become China's largest online platform for agricultural products but enabling direct savings from farms to dining table.

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Bloomberg Transcript

We are mindful that we've scaled with complete responsibility to improve transparency and to inform our stakeholders of our progress in managing environmental, social and governance matters. We recently issued our first ESG report. Our core social responsibility efforts are guided by the goal of promoting digital inclusions, by bringing more people into a digital economy we believe local communities get benefit from new jobs and new market opportunities, and share in a new world of greater productivity and convenience. As we look forward to the next point of our journey, we remain steadfast in our vision of offering consumers a greater selection of value for money products through a fun and interactive discovery experience. We continue to observe closely how consumer behaviors are evolving and evaluate how technology could help.

We are committed to adapting to trends and pushing for innovation. We are prepared to invest capital and resources in our platform's supply chain and ecosystems to realize this vision. There remains a lot we can do, particularly with agriculture products. Post-pandemic we have noticed that consumer habits of grocery to shopping in a wet market or supermarket are shifting. Many of our users have shifted to online channels for their daily staples. We saw surge in orders for agricultural products in the first half of the year, not just for food and other root vegetables that can be easily transported, also for leafy vegetables and delicate foods. We started to up our sale if more could be done for our users, especially given our familiarity with the sector and China's largest online agriculture platform.

The more we learned about industry, the more we realized how much more we could do. The current logistic network is optimized to deliver steady manufactured goods but not agricultural products. Today, Pinduoduo leverage existing logistic networks to transfer certain produce such as apples and potatoes across China within two to three days. Some merchants have even found ways to transport eggs with minimal damage. As a result, we had made it possible for consumers across China to enjoying some agricultural produce in good time and at good prices. However, in July and August, where more users started to buy leafy vegetables on our platform, our company rate increased significantly. Many packages sustained some damage from heat and poor handling. It was unless that that we could not only meet our users expectations, we realized that we were only at the very beginning of our credit to create new value in China's agricultural supply chain.

One of the key factors as a quicker roadblock is building a logistic infrastructure just for agricultural produce. Therefore, we decided to be more hand-held and launch Duo Duo Maicai type channel. We get the localized information of agricultural produce available nearby, identify and source from qualified vendors through the list of products to be offered daily; aggregate daily orders, provide the Maicai [ph] fulfillment services to enable on pickup location and hand the office sales services. It is that in-house pricing and logistic workflow need to be perfectly executed that align to ensure great value to our users. Of course, many aspects of Maicai operations do leverage on the existing ecommerce know-how of Pinduoduo but others require significant development. It is not just about matching demand with the product, but matching demand with the most suitable supply delivered next day at attractive price to our users.

We are committed to drive a new infrastructure field built for agricultural products for all consumers and farmers in China. Our management team believes that Macai is highly

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aligned with our long-term vision for China's agriculture industry. If something less touched our hearts but we started Pinduoduo with agriculture produce, it's now a natural extension of our mobile commerce platform and integral part of our highly engaged ecosystem. For cities, where the function is available, we feature Maicai on our main app. We want to offer our users the option to purchase accurate lateral [ph] SKUs at lower prices and picking locally the next day. At the same time, they can continue to enjoy the fun and interactively clear route to discovers all the category of value for money products. The insight we gained from our main app enabled us to better create products for Maicai, which in turn provides us a better understanding of what customers value in deciding how to buy their daily essentials and staples. As we invest in infrastructures of agriculture produce, we are also dividing technology and deploying talent to tackle the challenge that might bring. We believe that it will pay-off for a long-term value of Pinduoduo.

As we mentioned last quarter, Pinduoduo is interested in partnership at investment opportunities in the whole value chain and infrastructure of agriculture goods. We are committed to help farmers earn more and consumers save more. We will continue to leverage insight we have gathered from the past five years to make agricultural value chain more efficient and to benefit all.

And now, let me ask David to share some details of our recent initiatives.

David Liu {BIO 21976168 <GO>}

Thank you, Lei. Pinduoduo has been one of the world's largest online communities in the past five years by focusing on bringing consumers more savings and more fun. As user behaviors evolve, we have also adapted to meet and exceed their expectations.

Five years ago we started our team purchase model which led users pin and stay together as they browse. Two years ago, we started our new brand initiative which enabled capable manufacturers to launch their own brands with products tailored to our user's preferences. And now we are pushing ahead on an even bigger user need, fresh affordable agriculture products. We never choose to do what is the easiest but what is right. We have made important progress on our new brands initiative this past quarter. We launched the new brand initiative as part of our C2M effort to help capable merchants and manufacturers gaining valuable insights of their target customers, design and manufactured tailor-made products for our users, and leverage our interactive channels to sell with more accurate prediction of the price and quantity they can potentially achieve. It is a new road into reverse and just in-time manufacturing which can potentially solve inventory and supply chain inefficiencies that have been troubling retail sector for decades.

Seeing the results, we started helping these capable and proven merchants and manufacturers to establish their own brands and started teaching them not just about the new channel we have created at Pinduoduo, but marketing tools and tips tailored to the increasing number of users we have accumulated. Even though brand-making takes time, we hope that with our help these new brands could become national or even global brands one day. China has been the world's factory over the past 20 years, it has largely been following the conventional workflow of receiving orders, making product,

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contacting quality control and shipping them out to brands globally. Manufacturers do not have full insights of how brands plan their production and sales cycle, which means their revenue and potential are always capped by brands. COVID has forced many of these capable manufacturers to turn back to the domestic market. We see a great market opportunity that these manufacturers could become important brands in the next 10 years.

We are happy to see to that to-date we have worked with more than 1,500 companies, launched more than 4,000 SKUs and generated over 460 million cumulative orders. This quarter, we pledge to provide more marketing support and expand the programs coverage to 5,000 companies. We are targeting to offer 100,000 customized C2M SKUs with aggregate GMV of RMB1 trillion by 2025. To facilitate that, we plan to continue our investments in technology to enable them. We have created a unique prediction model taking into users change in behavior on Pinduoduo platform in different regions of China. We plan to make it more user friendly to our merchants and manufacturers to take advantage of the insights we have and are confidence is gaining. Further, we are exploring more software services to make it easier for merchants to streamline their operations such as raw material analysis, inventory prediction, supply chain tracking, partial industrial automation. You would have already seen the reduction in product cycle for apparels; it is possible to have a style or model designed, manufactured and displayed to consumer in just 15 to 20 days. We hope to offer such capability to our ecosystem partners in the future and extend it to other categories.

Besides C2M effort, we recently launched a new function Duo Duo Maicai. It is another area where we believe will pay-off in the long-term. We view the entire agriculture value chain in three parts: production, transportation and consumption. What we have done in the past five years was to connect farmers directly with our users, i.e. the consumption part. No doubt our efforts have created efficiencies, cut unnecessary intermediaries, and helped farmers earn more and users save more. But we have not addressed other fundamental roadblocks such as the lack of a dedicated logistics infrastructure for agricultural products, farm productivity and food safety. When Pinduoduo started, we operated our own fulfillment network, so we have some experiences in this. But what we need to build now is of a totally different scale; it is an infrastructure build-up leveraging our prior experience who are working closely with warehousing service providers, delivery fleets to meet the demand in next day delivery requirements.

Sometimes we have even -- we have to even step in, design and manage the warehouse workflow ourselves. We also plan to explore more demand driven localized coaching options at reasonable cost in order to deliver a better consumer experience. We are already investing in people, and warehouse, and fleet management systems when needed, we are willing to invest in key players in the warehousing and coaching logistics sectors to accelerate the improvement of the entire agriculture value chain. With more localized supply being fulfilled more efficiently, we can meet users daily consumption needs with better quality produce in shorter time. In addition to logistics infrastructure, we are making bigger R&D investments in product curation, sourcing and demand aggregation to further enhance our understanding of user needs and curation accuracy. We take into account the mode of our consumer engagement from Maicai and it's impact on pricing and convenience. By improving our ability to predict demand, we can work

with the local top distributors of agriculture goods to source directly from upstream farmers, cheaper and faster. Over the past five years, we have already accumulated substantial insights for agricultural goods, which can give us a kick start as we fine tune Maicai.

Another important area we have not done enough is in production. As a technology company, populated even more than half by engineers; we see an important role for technological solutions for food production and have started to explore various investments in agri-tech. We believe there is a huge market opportunity for smart agriculture to address challenges in food supply, food safety and labor shortages. We are well-placed to facilitate the adaption of agri-tech, given the demand visibility we have and our access to a vast community of agricultural producers. We will explore the commercial viability of new agri-tech solution our potential partners have.

For more interest in innovation, we initiated the smart agriculture competition this year, which gathers top minds in AI in agronomy worldwide to develop growing methods that can generate the highest yield while economizing on inputs such as labor. The competition fits four teams of AI growers against four traditional farm machines in growing strawberries. The winner will be determined based on profitability, reliability, scalability and technical merits of the agri-tech solution they have deployed.

Through this competition, we hope to inspire more young farmers and researchers to develop localized smart agriculture solutions. By working with the winner to implement their solution on to an actual farm, we hope to demonstrate that they are agri-tech solutions-suitable for smaller scale Chinese farms where we plan to standardize the solutions for product deployment across China.

We see a bright future for agriculture in China. We generated RMB136 billion of GMV in this category in 2019 and expected to hit RMB250 billion this year. Consumers have come to identify PDD as the go-to platform for agriculture goods. Our aim is to lead the industry in innovation and be a driving force of agriculture infrastructure build-up.

Our efforts in agriculture and the manufacturing sectors seek to create long-term structural changes that will improve our users' experience and contribute to the value creation of the industry. They are not the easiest, but they certainly are the right things to do. We believe that our hard work will pay off in the long run.

Now, let me invite Tony to walk through the details of our third quarter results.

Tony Ma Jing {BIO 19801533 <GO>}

Thank you, David. For the 12 months ended September 30, 2020, our GMV increased 73% to nearly RMB1.5 trillion from RMB840 billion a year ago. As a result of continued growth in our user base and increase of spending per user. Our average monthly active users in the third quarter increased by RMB74.6 million from the previous quarter to RMB643.4 million, or an increase of 50% from a year ago.

Our annual active buyers for the 12 months ended September 30, 2020, grew 36% year-over-year to reach RMB731.3 million. This represents a net add of RMB195 million in the past 12 months. The annual spending per active buyer in the 12-month period ended September 30, 2020 increased 27% to RMB1,993 from RMB1,567 for the same period in 2019.

The increase in annual spending per active buyer was moderated by a significant number of new users added who contributed less than 12 months of purchases to our GMV. Our strategy of investing in user engagement contributed to increase in user activities in Q3 and higher average spending per active buyer.

During the third quarter, China continue its recovery from the pandemic. Consumer behaviors continued to normalize resulting in pickup in offline retail activities. Compared to the year-over-year increase of 22% observed during the high seasonality of Q2, according to MDS data, the value of physical goods sold online in the third quarter grow slower in Q3 at 17% versus a year ago. Pinduoduo's GMV growth continued to exceed the industry and so in contrast that pick up on GMV growth rate in Q3.

For the nine months ended September 30, 2020 total parcel shipment volume in China continue to grow rapidly at 27.9% from the same period last year. In comparison, the value of physical goods sold online only grew 15.1% during the same period. This is just the average value per parcel is decreasing, which is consistent with the strong demand that we have observed in Q2 and Q3 for lower ticket value items like household and strategies and agriculture products on our platform.

We continued our promotions and support to our users in this category, because we have what many of our consumers needed. This high-frequency category have helped us to accelerate trust building and engagement with our users, which translated to better response and conversion for other promotion activities that we conducted on the platform.

Our total revenue in the September quarter were RMB14.2 billion, representing an increase of 89% from RMB7.5 billion in the same quarter last year. The increase was driven primarily by the strong momentum in online marketing services. Our revenues from online marketing services and others was RMB12.9 billion, up 92% from a year ago.

Our transaction services revenue increased to 66% to RMB1.3 billion. We continue to see strong merchant advertising activities in Q3, which we attribute attractive merchant ROI due to higher user engagement on our platform and more compelling advertising products. We implied a monetization rate defined as total revenues divided by GMV for the last 12 months ended the September 30, 2020 was the 3.0%, which is the same as the comparable period last year and up from 2.9% for the 12-month period ended in Q2 2020.

Now moving on to cost. Our total cost of revenues this quarter increased to 78% from RMB1.8 billion in the same period last year to RMB3.3 billion this quarter, translating to a gross margin of 77%. Total cost of revenues increased, mainly due to the increases in

bandwidth and server costs, staff costs and other expenses directly attributable to the online marketplace services and other revenues.

Our total operating expenses this quarter were RMB12.2 billion as compared to RMB8.5 billion in the same quarter of 2019. Our sales and marketing expenses this quarter increased to 46% to RMB10.1 billion from RMB6.9 billion in the same quarter of 2019. On a non-GAAP basis, our sales and marketing as a percentage of our revenue was 69% as compared to 89% for the same quarter last year.

Our priority this year is to improve user engagement and gain more mind share with consumers. We continue in our sales and marketing investment in Q3 toward this priority wherever we saw opportunities that meet our internal ROI values users who have been on our platform longer tends to shop more frequently on our platform; purchases across more categories and spend above our annual average spending per user; we attribute the increase in average annual spending per user in Q3 to our efforts in prior quarter to invest and build engagement with our rapidly expanding buyer base; and our investments in our users this quarter would continue to position us well for the long term.

General and administrative expenses were RMB368.6 million as compared to RMB436.6 million in the same quarter of 2019. The G&A expenses in Q3 2019 included a certain one-off expense related to our initiatives to alleviate rural poverty. We did not incur such expenses this quarter. On a non-GAAP basis, our G&A expenses as a percentage of our revenue was 1% in Q3.

Research and development expenses were RMB1.8 billion, an increase of 60% from RMB1.1 billion in the same quarter of 2019. The increase was primarily due to an increase in headcount and the continuous recruitment of talented engineers and an increase in RMB related cloud service expenses. On a non-GAAP basis, our R&D expenses as a percentage of our revenue was 10% in Q3.

Technology is fundamental to our operation, and we plan to increase our spending or engineering talents and technological capability going forward. Some of our key R&D initiatives include developing our demand forecasting system for agriculture database for C2M manufacturers and logistics planning system.

As a result, operating loss for the quarter, narrowed to RMB1.3 billion on a GAAP basis, compared with operating loss of RMB2.8 billion in the same quarter of 2019. Non-GAAP operating loss for the quarter was RMB339.8 million compared with RMB2.1 billion in the same quarter of 2019.

For the quarter ended September 30, 2020, we record a net non-operating income of RMB475.6 million compared with RMB465.2 million in the same quarter in 2019. The increase primarily reflects the net impact of higher interest income offset by lot on fair market value change from long-term investment and the interest expenses from amortization of our outstanding convertible bonds. We have excluded the fair market value change and the convertible bonds amortization in addition to the share-based compensation in our presentation of non-GAAP metrics.

To sum up, the net loss attributable to ordinary shareholders was RMB784.7 million on a GAAP basis, as compared to net loss of RMB2.3 billion in the same quarter of 2019. Basic and diluted net loss per ADS were RMB0.66 on a GAAP basis compared with RMB2.0 in the same quarter of 2019.

On a non-GAAP basis, we record a net income attributable to ordinary shareholders of RMB466.4 million, compared with non-GAAP net loss of RMB1.66 billion in the same quarter last year. Non-GAAP basic and diluted net income per ADS were RMB0.39 and RMB0.33 respectively this quarter, as compared with non-GAAP net loss of RMB1.44 in the same quarter of 2019.

And Duo Duo, Maicai is still a young initiative and its contribution to our result in Q3 is immaterial. We operate Maicai [ph] under a 3P model, we recognized transaction service revenues for facilitating the sales and incurred logistic cost under cost of goods sold and the incremental sales and marketing expenses. That completes the profit and loss statement for this quarter.

Our net cash flow generated by operating activities in this quarter was RMB8.3 billion as compared to RMB2.6 billion in the same quarter of 2019, primarily due to an increase in online marketing services revenues. Our operating cash flow has been positive on an annual basis since 2017.

As of September 30, 2020, the company's cash reserve comprising of cash, cash equivalent and short-term investments was RMB45.6 billion as compared to RMB41.1 billion at the end of December 2019. We allocated most of our cash reserve to high liquid short-term investments to receive better cash yield and to maintain flexibility to withdraw and deploy capital strategically as necessary.

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

Questions And Answers

Operator

Thank you, ladies and gentlemen we'll now begin the question-and-answer session. (Operator Instructions) First question comes from the line of Thomas Chong of Jefferies. Please go ahead.

Q - Thomas Chong {BIO 21155199 <GO>}

Hi, thanks Management for taking my questions. Can you comment about our strategy in community group purchase and how we see the competitive landscape going forward? And how big is the addressable market? Thank you.

A - Lei Chen {BIO 18939623 <GO>}

Hi, thank you for your question. So first, I want to clarify a misconception now many people have. Duo Duo Maicai is not really community group buy business. Yes, it is location place and our customers pick up their purchase for the prices close to them, but I believe and we are different from prior community buying models we have been seeing in the past seven years. I cannot comment on a difference, because we don't know what others are thinking or doing, but we can speak for our sales. So for us, Maicai, I think is a natural extension of our current business given our know-how of the agriculture sectors and its ecosystem players. And we are doing Maicai because we see -- we saw this new emerging customer need, that our current infrastructure in the platform cannot meet. And we sensed a strong need for our users who are now -- ever since the first half year of this year, actually, they want to buy fresh grocery more conveniently and more frequently. And our existing offering of agricultural produce, I think I cannot meet [ph] users at this is new preferences. This is about fresh and the next-day consumption needs. So that is as I say, we are now running Maicai as a standalone business. It created offering with our existing platform. Users actually can choose different services and service offered can be next-day pickup or door-to-door delivery with three to five days to give them time [ph]. But we think this is a very important need from our customers. So we are committed to invest in the infrastructure to make this happen, to make the whole package, deliver the consumer need from farm and to their home faster and cheaper.

And in terms of the landscape; I think we need to think about is in two-fold. First is for Maicai standalone, and I do believe that a significant portion of offer to consumers in the future will complete their grocery shopping totally online. And just like this change for the buying daily grocery online, I think it's very similar talk to what we saw five to seven years ago with apparel category. And I think no one today have imagined then -- no one have imagined then that to give a number of consumers who are using online shopping to choose, to try out, purchase and return coats; that is it's value we are seeing today. So in terms of grocery shopping, I think a similar thing will happen. Our thought is about this synergy between Maicai and our main e-commerce platform. Basically as Maicai is -- has a high purchase frequency; so our user will have higher engagement with our platform. So they can pick other full spectrum of -- category of products from our e-commerce platform.

Q - Thomas Chong {BIO 21155199 <GO>}

Thank you.

A - Lei Chen {BIO 18939623 <GO>}

Operator, next question.

Operator

Thank you. Next question is from the line of Joyce Ju of Bank of America. Please go ahead.

Q - Joyce Ju {BIO 20718580 <GO>}

Management, congrats on the very strong results this quarter and thanks for taking my questions. I would like to take this opportunity to get more color on your strategic new

initiatives Duo Duo Maicai. As we all know like you mentioned in the opening remark, you guys actually chose the 3P marketplace model to conduct this business, but we all know like in this business front probably, we have seen 1P models, 3P model -- could you elaborate a little bit more in why the platform decide to do so? And is there any special advantage or key advantage we have seen like why we particularly chose this model and how we are differentiated compared to other major players on your entrance in this market?

And secondly also, I think a lot of industry experts kind of comment this is a business actually heavily rely on your supply chain. While from our company perspective -- because we typically in a more light business model, we don't really have like the heavy offline investment for infrastructures before. So are we go into spend a lot of money to actually invest for logistics supply chain? How big will be the CapEx related and also on investment front, also I would like to know what's the plan for the south marketing budget investments to acquire new users for this business? Thanks.

A - David Liu {BIO 21976168 <GO>}

Joyce, thank you for that question. It's very comprehensive. Let me point out a few things. So first of all, as Lei have mentioned in his remarks, we see Duo Duo Maicai really is a natural extension of our e-commerce model and our emphasis on agriculture. What we have seen is that as the country emerged from COVID-19, consumers' behaviors are changing and how they are looking to address their needs for daily groceries are evolving. And what we have seen is that users are now increasingly looking to be able to buy more things online. They are trying to identify alternative venue to wet markets and supermarkets and they want the delivery time to be quick. So next day that and also again continue to be great value. So looking at this equation and looking at the use cases that PDD e-commerce platform addresses on a standalone basis, we recognize that there are certain deficiencies. For example, the next-day kind of logistic delivery isn't something that PDD's platform to-date have been optimized for. So, the extension to Duo Duo Maicai for us is very natural. We can't really comment on other players' decision to enter into similar businesses and while they are more like a community purchase or not. But from our perspective, while we see Duo Duo Maicai is really addressing a different way of engaging with consumers fulfilling that different type of usage patterns and needs.

And again, you are right to point out that we do think this will require a much better infrastructure tailored specifically for (Technical Difficulty) agricultural produce, agricultural products. So we are prepared to go heavy in building -- we're accelerating the development of this agriculture infrastructure. Today it's what we have been doing, is investing in people. So we have teams on the ground working with third-party services provider today, but in some incidences we have been getting involved in establishing the SOPs for the warehouses to getting involved in the workflows. We have already invested in warehouse and fleet management systems and we are looking for ways to continue to optimize that, leveraging the energy platform we have from our e-commerce platform. But specifically though, we do think that there will be scenarios where we need to make certain investments in order to facilitate development and infrastructure including potentially a build-out, but more localized coaching operation that is demand-driven and therefore can be most cost-efficient. We are looking to leverage existing services

provided to do this by in some incidences we may need to develop, test cases and do it ourselves.

Let me pause there and let Tony address the question regarding sales and marketing on Duo Duo Maicai.

A - Tony Ma Jing {BIO 19801533 <GO>}

Yes. As David has mentioned and also Lei mentioned in his remark, Duo Duo Maicai to us is a natural extension from our main e-commerce model. So we will budget our sales and marketing investment in Duo Duo Maicai the same way as we invest in our e-commerce platform. And the guiding principle is we focus on the long-term ROI we can generate from the business, not instead of the short-term profitability.

Q - Joyce Ju {BIO 20718580 <GO>}

Got it. May I have quick follow-up as just may we get colors? Like what's the current overlap between suppliers for our main PDD marketplace and Duo Duo Maicai in terms of agricultural fresh produce suppliers.

A - David Liu {BIO 21976168 <GO>}

So, Joyce I'm actually not quite sure we're done [ph] -- question is that meaningful. The reason I say this is we offer Duo Duo Maicai as an integrated part of our e-commerce platform. The merchants who work with us in the Maicai scenario can also be merchants online. So it really depends on their capabilities and whether they can work with a localized scenario in Maicai and of course and they are more than welcome to continue to dispatch nationwide to working with the delivery forces on our platform. In fact, I would say that the credibility we have as China's second largest e-commerce platform by users give us an incredible leverage with merchants and we see a lot of merchants looking to work with us in the localized scenario as well.

Q - Joyce Ju {BIO 20718580 <GO>}

Got it. Thanks a lot.

Operator

Thank you.

A - David Liu {BIO 21976168 <GO>}

Next question please.

Operator

Yes. Next question is from the line of Eddy Wang of Morgan Stanley. Please go ahead.

Q - Eddy Wang {BIO 19169337 <GO>}

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Hi. Thank you, Management, for taking my question and congratulations on the very great results. So, I also have a follow-up question on Duo Duo Maicai as well. So basically, can you share -- we understand that we just start the business in August. But I would appreciate if you can give us more color on how those momentum of the Duo Duo Maicai have been in the past three months? And if you look at these AOV and the ASP user of this business wise, if you compare -- I understand that it's much input integrated into our agriculture product business, but if I compare with AOV compared with the user frequency-wise how -- yes, Duo Duo Maicai in the past three months, compared with the users, the behavior of the agricultural product purchase? Thank you.

A - David Liu {BIO 21976168 <GO>}

Sure, Eddy. Thank you for that. As you rightly pointed out, the Duo Duo Maicai is still a very new business for us. So, we are also fine-tuning our operations. So we are not going to be able to comment on the specifics, but you would note that the Maicai function is now available across most of the provinces in China and we featured an entry way for Maicai, main app itself very prominently. So we are seeing good momentum, good user pickup and great adaption. Then, in particular, I would say that the visibility on the main app is also helping to drive our traffic to the Maicai my business itself. You also asked about the AOV. I think it's fair to say that Maicai scenario is cater or it's meant to address the daily grocery needs of the consumers on our platform. So naturally, this lends itself to a higher frequency of purchase in the engagements on the platform and it is also true that the AOV today for those orders are lower relative to the AOV on our platform today. However, it is compensated by a much higher frequency. The way we are looking at the Maicai business so we continue to serve the consumer as well the frequencies will increase and as we build out the infrastructure over time, the AOV will also increase. So we do see a tremendous amount of potential in this business and for now we are just focused providing them the best experiences for their daily grocery needs.

Q - Eddy Wang {BIO 19169337 <GO>}

Okay, thank you. Thank you very much and congratulations on the great results.

A - David Liu {BIO 21976168 <GO>}

Thank you, Eddy.

Operator

Thank you. Next question is from Piyush Mubayi of Goldman Sachs. Please go ahead.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Thank you for taking my questions. Congratulations, Lei, David, on super results. When I look at the active buyer number you obtained of RMB731 million, you are not that far away from the market leader. The question now is what we've seen thus far, what is the next step you would like to pursue? And the second question is, we're trying to better-understand on the community buying side; what is the profitability level? So if you go through on a city-by-city basis, could you just take us through examples of where

profitability could be or how should we be thinking of the cost side of the equation? I'd appreciate that. Thank you.

A - Lei Chen {BIO 18939623 <GO>}

Okay. So let me first answer your first question. We currently have 731 million active customers. It's inevitable that the growth will slow down and that being said, we do see there still room for us to grow in terms of expand our user base. However, the bigger issue we actually hear is, we're still lagging behind all our users Mai [ph] share, therefore, they'll chat with us. That is the one key area we are focusing on now and I think I believe it is also one of the reasons we launch Maicai. I think we wanted Maicai to meet their changing behaviors and preferences and I do believe that this is a very key approach to win their trust. But if we take a look at a little bit further and I do think that we are currently at a very quick point about our integration of online and offline work. And we do see the structural trends as the result of the high mobile internet penetration and this whole process is also expedited further by COVID-19 pandemic. And our young generations, they fall into mobile internet era and to them I think there is no such kind of conception of online, offline. All these things are integrators. If you take a look at of mobile payment, live streaming, they are both good examples of it and things, the technology and online channels like typically provide a bit higher efficiency. And I do believe that most of activities will be focused online and I think in area of e-commerce we will see this shift earlier in other areas and we will potentially see that the majority of retail and purchases will be performed online. And we definitely hope to capture this kind of opportunity, but we do realize that in this new world, this new integrated world, new type of infrastructure is needed. That's why, so -- we are committed to do more infrastructure build-up to help in this equation process. Let's do something which -- I think it will never change, which is I think in order to -- in order to become successful in long run you really need to constantly meet user satisfaction and meet their expectations. To us, it boils down to two factors; one is value for money, the other is expanded quality interactive experience the user will have. So, hopefully that will answer your first question.

A - Tony Ma Jing {BIO 19801533 <GO>}

I will pick up on the second one. Thank you, Lei. To speak of the profitability on Maicai, I mean -- I think Maicai to us is long-term opportunity, which will help us to address the unfulfilled user needs which is today I guess limited by the agriculture infrastructure. So as long as we committed to invest and keep innovating on this initiative, we're trying to reduce the additional layers in the process, so try to cut some of the waste in the process; therefore creating more value for the users. With that, the economic outlook for Maicai will be very different from today. Firstly, monetization model can be built along the evolvement of this journey, which -- and include advertising, but not limited to it. So in the summary, I think it's too early to tell after only two or three months operation, and there is a lot to be determined after we haven't rollout -- cover all the CDC [ph] yet in China, we will keep all the investors informed about our progress.

Q - Piyush Mubayi {BIO 1530844 <GO>}

Thank you very much.

Operator

Thank you. Next question is from the line of Natalie Wu of Haitong International. Please go ahead.

Q - Natalie Wu {BIO 19852429 <GO>}

Hi, good evening. Thank you for taking my question and congratulations on very strong quarter. My question is regarding the results that you plan to deploy for the Maicai initiative. So we see that you set aside from our personnel on the roaming side to do the Maicai business across the cities. So how should we understand your certain marketing budget planning for that business? Should we understand the Maicai related is just a marketing budget is purely incremental or should we think that business is together with some insights; so that incremental budget is actually this exercise of choosing that part of the sales and marketing budget (inaudible)? Thank you.

A - Tony Ma Jing {BIO 19801533 <GO>}

Okay, thank you for the question. Like I said previously, we budget our sales and marketing investment in total Maicai the same way as we manage our other sales and marketing investment on the main platform. So we evaluate the sales and marketing investment based on our internal -- our metrics case-by-case, basically, all the activities; it's exactly the same. We don't dedicate it, that's certain pack of budgeting for sales and marketing for Maicai. It's managed through evaluation on our internal ROI metric.

Q - Natalie Wu {BIO 19852429 <GO>}

So that is purely incremental, is that right?

A - David Liu {BIO 21976168 <GO>}

So Natalie, just to add on to what Tony said; we look at individual total marketing spend fairly, and frankly, at a fairly granular level. In fact, as we can go as deeper on the user base, individual user level, right. So we continue to evaluate every dollar spend and it's a little bit -- I think the question itself is a little bit misleading in a sense that we do see users now only specifically for Maicai but they will also continue to be a user on the main platform as well. So, we are looking at the deployments in our investments and the users across these different functions or features, individually, and looking at that we're getting from our investment. So -- and that's -- so it's really more of a bottom-up approach as opposed to say we're beginning the year with a fixed budget and now we're waiting to allocate that budget.

Q - Natalie Wu {BIO 19852429 <GO>}

Got it. Very clear. Thank you.

A - David Liu {BIO 21976168 <GO>}

Operator, why don't we take one last question.

Operator

Sure, go ahead. Our last question is from the line of Alicia Yap of Citigroup. Please go ahead.

Q - Alicia Yap {BIO 15274658 <GO>}

Hi, good evening. Management, thanks for taking my questions. Congratulations on the strong results. I also -- my question is also related to the community grocery shopping. Just looking at intense competitive landscape, what do you -- your PDV's commitment, right, and the success factors of winning this battle? Just wondering how much of the investment in infrastructure, supply chain that we need to do, as well -- will we consider seeking partnerships with other players or leverage the cooperations with the ride-sharing players or even the cloud sourcing partner to support our delivery capability? Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you, Alicia. As I mentioned earlier, we -- Duo Duo Maicai for us -- sorry, the core to delivering those type of experiences starting -- we think the consumers deserve or want is to build out a dedicated infrastructure on a localized level for agriculture products. We don't see this type of infrastructure readily available in the market today, we -- and this is why we are committed to go deeper necessary to build it. Obviously, we will be evaluating what is available and looking to work with partners because we believe being more open -- being an open platform it would certainly be the most efficient to deliver the right type of experiences. So again, we will be informed by how -- what the consumers need, and how we can best fulfill that need; and that meaning -- that we need to invest in certain players to help facilitate or accelerate that deployment. So, we will need to continue to evaluate the way that Maicai business develops. And in any event, we do think these investments will play out or repay out for the long-term to the shareholders.

Q - Alicia Yap {BIO 15274658 <GO>}

Can I just very quickly follow-up, just in case, if you indeed need to build up -- kind of model -- the capital, the structural -- infrastructural investments, will your profitable quarter this year that we have to be more cautious, it could fluctuate from quarter-to-quarter; that may be some time into the future -- it could go back temporarily to a loss-making quarter?

A - Tony Ma Jing {BIO 19801533 <GO>}

Okay. Let me comment on this. As you know, we -- Pinduoduo is still a very young platform. And in today's remarks I think both, Lei and David already mentioned about -- all the number of opportunities we are pursuing. And when we speed up on these investments it's likely to impact on the near-term profitability. This incremental investments; we talk a lot about agriculture infrastructure but there is also talent, technology, and the continuous investment on our sales and marketing to further engage with our increasing user base. So, if -- we won't focus on profitability on a quarterly basis but we are very confident all these investments would generate long-term value for our shareholders.

Q - Alicia Yap {BIO 15274658 <GO>}

Okay, great. Thank you.

A - David Liu {BIO 21976168 <GO>}

Thank you, Alicia.

Operator

Thank you. I would now like to hand the conference back to Mr. Jianchong Zhu for closing remarks. Please go ahead.

A - Jianchong Zhu {BIO 20098709 <GO>}

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

Operator

Thank you, ladies and gentlemen. That concludes the conference for today. And thank you for participating. You may now all disconnect.

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