Dingdong (Cayman) Limited
Q4 2021 Earnings Conference Call
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Thomas Chong, Jefferies
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Presentation

Operator: Good morning, and good evening, ladies and gentlemen. Thank you for standing by, and welcome to the Dingdong Fourth Quarter 2021 Earnings Conference Call. [Operator Instructions] During today's call, management will give their prepared remarks in Chinese or English directly. When management speaks Chinese, a third-party interpreter will provide simultaneous translation in English on the English line.

I'll now turn the conference over to the first speaker today, Karen Ji, Investor Relation, Vice President of the company. Please go ahead, ma'am.

Karen Ji: Thank you, operator. Hello, everyone, and welcome to Dingdong's Fourth Quarter 2021 Earnings Call. With us today are Mr. Changlin Liang, our Founder and CEO; and Ms. Le Yu, our CSO. You can refer to our fourth quarter 2021 financial results and presentation materials on our IR website at ir.100.me. You can also access a replay of this call on our IR website when it becomes available a few hours after its conclusion.

Before we start, please note that this call may contain forward-looking statement made pursuant to the Safe Harbor provision for the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and observations that involve known and unknown risks, uncertainties and other factors not under the company's control, which may cause actual results, performance or achievements of the company to be materially different from the results, performance or expectations implied by these forward-looking statements.

All forward-looking statements are expressly qualified in their entirety by the cautionary statement, risk factors, and the details of the company's filings with the SEC. The company undertakes no duty to revise or update any forward-looking statements for selected events or circumstances after the date of this conference call.

Please also note that all the numbers stated in the following management's prepared remarks are in RMB terms, adopting the [indiscernible] base compensation expense. During this call, we will be discussing certain non-GAAP financial measures as defined by SEC Regulation G, such as non-GAAP net loss margin and non-GAAP operating expenses. A reconciliation of these non-GAAP financial measures to the most directly comparable GAAP measures are in this press release material, which is posted on the company's website.

Now I will turn the call over to our first speaker today, Founder and CEO of Dingdong, Mr. Liang.

Changlin Liang: (Speaking foreign language)

(Translated). Hi, everyone, friends. Today is actually the Lantern Festival of China. Happy Lantern's Festival, everyone. Thank you so much for joining our Q4 earnings conference call.

Over the past 2 months, our stock price performance has been much challenged. We are grateful that many investors, analysts and media that know us and trust us continue to support us. But we also understand that there might be questions and doubts, is Dingdong a worthy investment? Will Dingdong be profitable?

In fact, Q4 was our best quarter since inception, making year-over-year revenue growth of over 70% and significant efficiency optimization. In December, the overall non-GAAP net loss margin narrowed to less than 13%, and Shanghai was fully profitable. At the end of Q4, we had RMB 5.2 billion in cash reserves. We are on the fast track of quality development. And we have sufficient cash to last us before full profitability in the near future.

Today, I would like to explain the current state of operations, the future and our philosophy in the following 5 aspects: the Q4 2021 results; Dingdong's path to profitability; product capabilities as the primary driver; infrastructure development; and our plans for 2022. I hope that this call can clear up any doubts in your mind.

First, let me briefly talk about the Q4 results. We achieved total revenue of RMB 5.48 billion, up 72% year-over-year. In addition, our efficiency has been significantly optimized for 7 consecutive months, with a net loss margin of less than 13% in December 2021 and the number was 37.2% back in Q2 at the time of the IPO.

Shanghai became fully profitable in December. It is the first city we enter and has continued innovating and iterating, constructing precedents and experiences for our nationwide operation. We have found a path to profitability in the city and expect the whole Yangtze River Delta to be next. And the whole company will follow suit soon.

Private labels and in-house R&D and processing are also taking off. In Q4, private label sales accounted for 10.2% of GMV. And our self-developed and self-processed products accounted for 6.5% of the total GMV. Our preprepared meals sales also contributed to 14.9% of the total GMV as consumers began to embrace this new category.

The past period has been marked by sporadic outbreaks of the COVID pandemic in certain Chinese cities. In addition, many of the fresh produce-sourcing regions have been stricken by harsh weather conditions, including low temperatures, rain and snow storms. All has happened around the Chinese New Year. However, we stepped up during these difficult times and became one of the most fundamental forces in stabilizing the grocery price and supply essential for people's livelihood. The municipal government of Shenzhen, Tianjin, Hangzhou, Ningbo and Tangshan have expressed their appreciation and gratitude to us for our commitment and execution.

Mainstream media, such as People's Daily, Xinhua News, CCTV, and Jiefang Daily have all reported our work and achievements. Before the Chinese New Year, Mr. Gong Zheng, the Mayor of Shanghai, visited our frontline fulfillment stations and praised us for our full chain digital management and quality control of food. He also encouraged us to fulfill people's longing for a quality life.

The second aspect I would like to address is can Dingdong be profitable. As I mentioned earlier, we achieved profitability in Shanghai in December with an AOV of over RMB 66 and a gross margin of over 28% per order. As a percentage of GMV, the regional processing center costs were 6% for the processing and transportation to frontline fulfillment stations. The frontline station costs were 15% G&A, and marketing expenses were 7%. As a result, Shanghai became slightly profitable. Going forward, our AOV will increase as our product capabilities continue to grow. In addition, as both our user repurchase rate and order density increase, diluting the fixed cost of the frontline stations and regional centers, fulfillment efficiency will significantly enhance. Therefore, Shanghai is expected to achieve a net margin of 3% to 5%.

Shanghai is our first city and testing ground for innovation and iteration. Of course, other Chinese cities do not share all of Shanghai's consumption habit. Still, the trend of consumption upgrade for the young consumers is universal, so is the longing for convenience and variety. In addition, we are popular in second- and third-tier cities with a supply shortage of quality goods, low labor costs and housing prices and robust spending power. Therefore, the Yangtze River Delta will follow Shanghai's footsteps and become profitable soon, followed by a full profitability nationwide.

One of the critical concerns for our profitability is the home delivery model, leading to high fulfillment costs, which is a misconception. In fact, in Shanghai, for example, the frontline fulfillment costs accounted for roughly to 15% of the GMV, which is below the fulfillment costs of most business models in the fresh grocery market, including online e-commerce and off-line players according to public data. Therefore, our Frontline Fulfillment Grid Model is highly cost-effective.

Others are worried about the lack of exposure of the frontline fulfillment station and hence, no traffic. But the essence of shopping is quality goods. Quality wins over consumers and the users repurchase rate and word-of-mouth are what matters. So we are never worried about lacking traffic. We would only be concerned if we could not develop better or differentiated products. The Frontline Fulfillment Grid Model eliminates the dependence on off-line traffic and the need to renovate or create trendy vibes offline. It is straight through the essence of shopping by delivering quality goods straight to your doorstep.

There are also concerns that our model might require continuous cash burn because it caused us significant losses early on. Indeed, there was an upfront investment and ramp-up period from building regional processing centers, Frontline Fulfillment stations and supply chain. And we, in particular, invested aggressively in infrastructure. But these are fixed costs that can be gradually diluted as the business matures and our scale expands. As time has proven, the solid infrastructure brings greater returns and set the foundation for long-term stable development.

In addition to being profitable, the Frontline Fulfillment model has several other strengths. First, Frontline Fulfillment station model keeps perishables, fresh and maintain their quality. The centralized purchasing and processing in the regional centers control the quality strictly, while our Frontline Fulfillment stations focus on storage capabilities and take freshness to new heights. So even if you place an order at 10:00 p.m., we still guarantee a timely home delivery of fresh fish and shrimp, which is something that off-line grocery players and traditional e-commerce fail to do.

Second, we cut out the middle links, improve supply chain efficiency and reduce loss and waste. Our loss rate is up only about 2%, whereas traditional grocery players normally have an over 10% loss rate at the retail end.

Third, we improve social efficiency and save energy. Our riders in Shanghai delivered over 85 orders daily, saving 85 families from grocery trips, which significantly reduces social cost. In addition, the Frontline Fulfillment model offers more excellent social value in maintaining the supply of people's livelihood, especially in harsh weathers, placing the pandemic or during the New Year holidays. More importantly, instant and fast delivery enabled by this model aligns with the young consumers' trend of digitalization, immediate satisfaction, home delivery and impulsive shopping. The older generations tend to be less sensitive to the changing world, yet you cannot escape the trend of the time. After all, the future of the world belongs to the young.

People wonder if I'm convinced that the frontline fulfillment model is the optimal solution or model for fresh grocery e-commerce because I'm always optimistic about the model. We would never think so. First of all, fresh grocery is a massive market with diverse user needs and allows various business models to coexist. Second, consumers are constantly changing. As a consumer-centric company, we must keep innovating and iterating, so there would never be an optimal solution or any ultimate model.

The third aspect I would like to address is product capabilities, the primary driver. We have 2 firm beliefs, consumption upgrade and product capabilities being our primary growth driver. Many Internet retailers adopt a low pricing strategy and the idea of consumption downgrade has been widespread. However, we maintained strong confidence in the consumption upgrade trend for the younger generation to pursue quality life, especially when it comes to food. Therefore, we are committed to meeting that need.

In addition, in the Internet industry, traffic operation was the core competitiveness in the first half of the game. As a result, several monopolistic traffic platforms were created with marketing activities such as Double 11 that marks the peak of traffic operation. But in the second half of the game, our product capabilities that take us back to the nature of shopping are the primary driver of growth.

Therefore, we have prioritized product capabilities in August 2021 to generate extra profit and attract users with quality products and through word of mouth. In addition, we will grow our business through an increasing repurchase rate.

We improved product capabilities from 4 aspects. One, adjusting product structure. Products are categorized into ordinary, superb and excellent, and we have an increasing proportion of superb and excellent ones in the mix. Two, creating various consumption scenarios. For example, we launched the Mum's Choice page for quality child products. My entrepreneurial venture was an online mother and child community that had served Chinese families for 13 years. We saw a particular pain point at that time. Many families had health and safety concerns over children's food. Therefore, when we started Dingdong, we had one thing in mind. We wanted to make sure that children eat healthily and safely so that mothers can rest assured.

In addition to a dedicated page like Mum's Choice, in 2022, we plan to develop more unique products and create more consumer scenarios based on the needs of different people.

Three, expanding private label products and improving in-house R&D and processing capabilities. Many retailers are basically developing private labels to reduce costs, gain higher profits or attract users with lower prices. However, our primary goal with private labels is to create differentiated products. And we offer the best quality in the categories where we can’t differentiate ourselves. If we can’t achieve either of these, we consider developing lower-priced products. For example, our bakery products are available in barley, clean, labeled and reduced sugar. Our tofu is available in stone grinding and iron pot textures.

Our freshwater perch is raised on a nutritious feed developed by a Ph.D. supervisor from Shanghai Ocean University. The tomatoes with a biweekly repurchase rate of over 40% are our exclusive offering. We also offer daily freshly made noodles and special noodles containing 60% of Alaska cod and 4-color veggie source. Our preprepared meals are available in traditional, marinated and low heat, slow cooked. We also offer premade soups with chicken raised on Cordyceps and Mushroom Culture Grafts. The list goes on and on. So again, we either differentiate ourselves or be the best-in-class.

We're investing more in infrastructure, which is also the fourth aspect I want to talk about. We have always been building robust infrastructure in 5 directions. One, we have about 1,400 Frontline Fulfillment stations with a total area of approximately 500,000 square meters. We lease about 60 regional processing centers with over 400,000 square meters of space. We have been insisting on conducting in-house processing and sorting of fresh groceries for 2 reasons. It allows to improve efficiency with automation and big data, and we can perform a full inspection on all fresh groceries. Many of our regional centers are assembly automated. With our partners, we will continue investing in the R&D of automated equipment and data systems of our frontline stations and regional processing centers.

Two, we have 10 food R&D and processing facilities. Of which, the Songjiang pastry factory received the IFS Certification in 2021, one of the very few factories in China to receive this certification. In December, our self-developed and processed products sales already accounted for 7.2% of the total GMV. Furthermore, last year, we began our partnership with 3 local governments, including Kunshan in Jiangsu. And in 2022, we will start the construction of 3 large-scale, modern, fresh grocery complexes. As we continue enhancing in-house R&D and processing capabilities, we will develop more differentiated and quality food products for consumers.

Three, we currently own 3 model agricultural compasses and have partnered with 118 contract farming bases. We have launched Dingdong's good aquacultural practice standards, or D-GAP by applying international standards to China and are vigorously promoting it among our partner agribusinesses. Through D-GAP and contract farming, we eliminated excessive pesticide and drug residues in 28 vegetables we sourced and maintain a high standard for our grocery quality.

Four, we have invested heavily in quality control of fresh groceries. We are the first to propose the 7 plus 1 quality control standard, a digital management system that strengthens quality control and manages the quality of goods in 7 processes: production environment, farming, harvesting, transportation, regional processing center, Frontline Fulfillment station and home delivery.

In addition, we hired over 500 quality control personnel and invested over RMB 50 [corrected by company after the call] million in inspection and third-party testing in 2021. Such industry-leading efforts and investment earned us a pass rate of around 99.4% when government agencies sampled and inspected over 4,000 batches of our products from Q2 to Q4 of 2021.

Five, we increased investment in R&D of cutting-edge technologies. At our last conference call, we introduced our land-based, antibiotic-free shrimp projects. In addition, we also started developing cooking robots and planting and picking robots. Last year, we began exploring an exciting technology, a nondestructive durian ripeness testing robot. We all know that shopping for durian is like opening a mystery box. The ripeness is always uncertain. 30% to 40% of the cost of durian sales is wasted on unripe durian. Our robot is dedicated to unraveling the mystery and improving the user experience, reducing loss and increasing efficiency.

Five, our plan for 2022. We will improve product capabilities with an adjusted category mix, more consumption scenarios, private labels and in-house R&D and processing capabilities. We'll offer consumers differentiated and quality goods that win them over.

Second, we will drive the user repurchase rate up to grow our business scale. At the same time, we will strive to achieve full profitability in the Yangtze River Delta region by the end of Q2 2022, and approach profitability for the whole company in Q4 2022.

Third, we will increase investment in infrastructure. In summary, 2021 has had its ups and downs, and 2022 is destined to be extraordinary. We do not comment much on stock prices, but we agree with Benjamin Graham. The market with a voting machine in the short run, but a weighing machine in the long run. In this sense, Dingdong is committed to building substance. Specifically, it is substantial to develop product capabilities, win over customers with quality products, develop a supply chain and physical R&D and processing capabilities and invest long term in infrastructure. On the contrary, focusing on traffic operation, price wars, retail platforms or short-term profitability is trivial. Having a couple of champion products or marketing successes is of much less substance than striving for a better life for the consumers and customers in the long run. Substantiality is what matters. It is our core competitiveness and will create long-term value. So let's be patient because time will tell. Thank you.

With that, I'll hand over the call to Ms. Yu, our CSO, to go over the financials.

Le Yu: Thank you, Mr. Liang, and hello, everyone. Before I walk you through our detailed financial results, please note that all numbers stated in the following remarks are in RMB terms, all reporting adopts the non-GAAP measurement, and all comparisons and percentage changes are on a year-over-year basis unless otherwise noted.

We achieved quality growth in 2021, with total revenue up 77.5% year-over-year to 20.12 billion. Our net loss has been significantly optimized in both Q3 and Q4, especially in Q4, since the company started to implement the strategy of "efficiency first, with due consideration to scale" since the end of August 2021. As a result, our net loss has been continuously and substantially optimized for seven months straight since June 2021. The net loss ratio was reduced to 12.9% in December from 39.1% in June, a reduction of 26.2 percentage points. At the current pace, we will achieve profitability shortly.

Now let's look at the Q4 results. In Q4 2021, our revenue reached 5.48 billion, representing year-over-year growth of 72.0%. The conversion rate of GMV to revenue was 91.3%, up 6.6 percentage points year-over-year, driven by the decline in the ratio of coupons to GMV. The decrease in coupons resulted from our significantly improved product capabilities which became massive user traction and gradually replaced coupons as a new growth driver. As a result, both GMV and revenue showed a healthier and stronger growth momentum.

The gross profit margin for the fourth quarter was 27.7%, an improvement of 12.6 percentage points year-over-year. The most vital driver was the continuous improvement of product capabilities. Specifically, first of all, the company's in-house production and processing capabilities generated extra gross profit. Secondly, the company's long-term investment in the upstream supply chain began to bear fruit. Thirdly, we increased the proportion of high gross-margin categories. For example, the contribution of pre-prepared meals to total GMV reached 14.9% in Q4.

In Q4, the fulfillment expenses were 32.4%, down 5.6 percentage points year-over-year. We have changed our strategy to "efficiency first, with due consideration to scale" from "scale first, with due consideration to efficiency" since the end of August 2021. As a result, we saw rapid and significant efficiency optimization. For example, the fulfillment expenses were optimized by the substantial improvement in the efficiency of front-line staff. Specifically, our riders delivered an average of 74.8 orders daily in Q4, up 16.2% from 64.3 in Q3. In addition, in Shanghai alone, our riders delivered an average of 89.5 orders daily. Compared to Shanghai, there is still significant room for optimization in the overall delivery efficiency nationwide. That is why we expect the overall fulfillment expenses to be further improved as the delivery efficiency in areas outside Shanghai continues to enhance.

The sales and marketing expenses in the fourth quarter were 6.4%, down 1.7 percentage points year-over-year, mainly driven by the decline in customer acquisition costs both online and offline. In Q4, we focused on acquiring valuable users and reducing ineffective new users. As a result, the quality of users was enhanced significantly, and customer acquisition costs were reduced considerably.

The G&A expenses were optimized year-over-year from 3.2% to 2.1%, thanks to the scale effect. Meanwhile, we continued to increase investment in R&D, especially in supply chain systems, agricultural technology, food R&D, and other infrastructure. As a result, the R&D expenses increased year-over-year from 4.0% to 4.7%. However, we are convinced that our long-term investment in infrastructure such as food R&D, agricultural technology, and technological data will build strong core competencies for Dingdong and create long-term value for our investors.

During the Q3 earnings call, we estimated the Q4 net loss rate to reduce by at least 5.3 percentage points sequentially. Today we are pleased to share that our net loss in Q4 was 18.9%, optimized by 13 percentage points from 31.9% in Q3, significantly exceeding the Q3 estimate.

On the Q3 Earnings, we also provided guidance on the Unit Economics for Q4. As the first city Dingdong entered, Shanghai was expected to achieve break-even in Q4 and gradually drive the UE optimization of the entire Yangtze River Delta region. Today, we are also pleased to share that, in Shanghai, we achieved positive UE profit in Q4 and a positive operating profit in December. In the Yangtze River Delta region, we made positive UE profit in Q4 with revenue growth of 46.2% year-over-year. UE optimized faster than the Q3 expectations, which is a solid testament to the profitability of Dingdong's business model.

Net cash outflow from operating activities was 1.8 billion in Q4, with the adjusted net cash outflow being 1.5 billion, excluding the effects of supply chain financing provided during the period. We had 5.2 billion in cash, cash equivalents, restricted cash, and short-term investments by the end of the year. Cash outflow in Q4 was higher than other quarters in 2021 due to the increased infrastructure investment and the improvement of the supply chain ecosystem. However, we are confident that cash outflow will be significantly improved in 2022. In December, our net loss was 220 million, divided by the cash balance; our downside risk was completely manageable. And it is only a static historical calculation. Dynamically speaking, the loss narrowing is more predictable as we have a proven track record of reducing losses quickly and continuously over the past seven months. Therefore, in the current financial position, the company is confident of maintaining a healthy operation before profitability is achieved.

Overall, we achieved solid revenue growth in Q4 and greatly optimized the operation efficiency with net loss narrowed substantially. As we advance, we will be committed to building robust product capabilities, making them our core strengths that drive Dingdong to meet the growing needs of the people for a better life.

Lastly, guidance for Q1 2022. Q1 is typically a slow season for the urban grocery market because of the Chinese New Year, which may lead to a decline in revenue on a sequential basis. In addition, the overtime labor costs incurred during the CNY may impact the fulfillment costs. Despite these factors, we still expect a small dip in the net loss and a substantial improvement of the operating cash outflow in Q1 from Q4 2021.

This concludes our prepared remarks for today. Operator, we are now ready to take questions.

Question and Answers

Operator: (Operator Instructions). And our first question today will come from Eddy Wang of Morgan Stanley.

Eddy Wang: (Speaking foreign language).

(Translated). Mr. Liang, Ms. Yu, Karen, I have -- my question is well, actually, we see that since Q3, Dingdong has shifted its strategy to efficiency first with due consideration to scale. And looking from Q4's performance, there was definitely a faster significant efficiency improvement. How did you actually achieve this? And is there any room for improvement in the future?

Changlin Liang: (Speaking foreign language).

(Translated). Thank you for your question. As you can see, we did achieve significant efficiency gains in Q4 2021 and even exceeded our stated goals. These efficiency gains came from a concerted team effort and we made progress in 3 main areas. Firstly, in terms of gross profit, we have developed more quality products with a good quality to price ratio. These products are naturally priced higher and give better gross margin.

Secondly, the increase in the proportion of private label and self-produced and processed products bring us more differentiated and quality goods. In addition, they allow us to get the gross profit brought by the research and development, processing and brand premiums.

Third, changes in customer acquisition and marketing. We spent less on subsidies and increased gross margin with product capabilities as the primary driver.

Fourth, the overall user structure is somewhat adjusted. Users who come for our products generated actually higher AOV than those obtained by subsidies only who also give us a greater gross margin.

The second aspect is the decline in fulfillment costs. First of all, the cities we covered gradually matured, and the investment in early infrastructure was diluted. With the improvement of management capabilities, warehouse and logistic personnel efficiency has increased substantially. In addition, at the whole company level, we advocate energy saving and consumption reduction, which reduces the operation cost and is in line with the development trend of low carbon and environmental protection of the whole society.

So that was about the first part of your question about the reason why we achieved such an impressive result for the past quarter. Coming up, I'm going to respond to the second part of your question, which is whether or not we have room for improvement in the future in terms of efficiency optimization. Definitely, we still have a lot of potential to improve our efficiency from 2 main areas. The first one is product capabilities, which will be enhanced and to enhance our users' average monthly purchase frequency, bringing about growth in scale. After the expansion of scale, the cost of infrastructure will be diluted structure will be diluted and the order will be further improved. On top of that, the proportion of private labels and self-development and processed goods is further increased, allowing us to get the growth product brought by research and development, processing and brand premium. That's all for my answer.

Operator: Our next question comes from Joyce from Bank of America.

Joyce Ju: (Speaking foreign language).

(Translated) Mr. Liang, Ms. Yu, Karen, my question is that management just mentioned that the GMV of prepared food is close to 15%. Indeed, preprepared meals is a category that is very much in line with the current consumption trend of young people and has received a lot of attention from the capital markets. Can you tell us what are the advantages of Dingdong's preprepared meals business? And what are your future prospects? What is your current strategies and your future prospects in general?

Yu Le: (Speaking foreign language).

(Translated). First, thank you for your question. We believe that the biggest threshold of preprepared meals is mainly the sales channel, which is our main core competitiveness. Our main sales channels for preprepared meals in the market are often right now Tiktok and other e-commerce platforms, where traffic costs and transportation costs are high and making money is not easy. Meanwhile, street markets target price-sensitive consumers making it unsuitable for pre-prepared meals. On the other hand, Dingdong has its own sales channels because we started off with a D2C model and the scale has been very impressive. For example, the GMV of Dingdong's preprepared meals in Q4 was more than RMB 900 million, an annualized number of over RMB 3 billion, which is more than 2x to 4x the scale of the 2 preprepared meals company that was listed in A-share last year.

The second point is preprepared meals are different from fresh grocery. There are many SKUs. If the sales volume is not high, the production scale of individual SKUs will be very small, and the production end will lack the scale effect. We found overcapacity in production when we examine the upstream of preprepared meals. Even though the preprepared meals are very popular as a category, with our channels generating stable sales, we can use the upstream capacity with OEM and our own production and processing to achieve scale production.

The third aspect I would like to mention is that the accumulation of big data and proximity to users has always been Dingdong's strength. We can quickly catch subtle changes in user consumption trends. Based on real-time user feedback and data, we can quickly react, develop, iterate and give feedback to the production side, which is an advantage that companies with only the production capability do not have. To sum up, our advantage is that our own sales channel brings stable scale, which brings efficiency at the production end. The data accumulated in our self-developed channels can be quickly fed back to the production for R&D and iteration, forming a positive flywheel effect.

In terms of the prospect for the future, preprepared meals are expected to account for a much larger share of Dingdong's GMV because young consumers have high standards for food but less time in the kitchen and are less skilled for cooking. Preprepared dishes allow this trend and bring more valuable consumers and higher gross margins. That's all for my answer.

Operator: Our next question today will come from Ashley Xu with Credit Suisse.

Ashley Xu: (Speaking foreign language).

(Translated). My question is about the regulatory environment. There have been a series of regulatory policies for Internet companies starting in the second half of 2021. The regulatory policies for ADRs are also changing with a lot of uncertainties and even the risk of delisting. Can you assess the impact on the company and state your coping strategies?

Changlin Liang: (Speaking foreign language).

(Translated).Thank you for your question. I would like to address this question from 4 perspectives. The first one is, unlike any of our peers, we are deep in the supply chain and have invested aggressively in R&D and production and robotics of agriculture and household consumption. Therefore, we are a solid real economy company using Internet technology to develop, which is the direction that the Chinese government encourages.

Second, Dingdong has been deeply involved in upstream, promoting the D-GAP standards at the agricultural end, empowering agriculture through advanced technology and supply chain finance and improving the quality of farm products and agricultural income through contract farming.

Last year, we launched the Green Mountain Clearwater Initiative to help improve the quality and scale of farming products in remote areas in China to sell them to metropolitan areas. This is all in line with the national rural revitalization policy promoted by the Chinese government.

Third, we mentioned earlier that Dingdong is one of the key forces in keeping the people's livelihood in the pandemic and severe weather conditions in 2021. Many local governments have sent letters of appreciation to us. And Xinhua News Agency, People's Daily, CCTV have all praised our commitment multiple times. Before the Chinese New Year, Mr. Gong Zheng, Mayor of Shanghai, visited Dingdong and showed support in Dingdong in making contributions to keep the people's livelihood and support people's pursuit of a happier life.

Regarding the ADR regulations, we are fully compliant with the Chinese government's policies. We also believe in the wisdom and tolerance among great economic powers. We expect China to adhere to its reform and opening up policy. A better world should reflect harmony within diversity. That's all for my answer. Thank you.

Operator: Our next question will come from Thomas Chong from Jefferies.

Thomas Chong: (Speaking foreign language).

(Translated). Now we noticed that the company has RMB 1.5 billion operating cash outflow in Q4 2021, which is higher than previous quarters. Can you please be more specific on why this is the case? Can you disclose the company's current bank borrowings? And also, is there a risk that these bank borrowings cannot be extended? So that's my question.

Yu Le: (Speaking foreign language).

(Translated). Thank you for your question. The operating cash outflow in Q4 2021 was higher than the non-GAAP net loss in the same period by over RMB 700 million, while our accounts payable decreased by over RMB 700 million at the end of Q4 compared to the end of Q3. It's mainly because it is more important to maintain the supply chain ecosystem when pursuing quality growth. At the same time, the operating cash outflow from Q1 to Q3 of 2021 was lower than the adjusted EBITDA in the same period. However, after Q4, if we look at the whole year performance, the difference between operating cash outflow and adjusted EBITDA was just about RMB 100 million. So as we further narrow our net loss, the operating cash outflow in 2022 will be optimized substantially compared to Q4.

As of Q4 2021, the company's bank borrowing balance was less than RMB 700 million. Based on our smooth communication with the banks, there is no risk of not extending our loans. In addition, because of the nature of our business, which involves agriculture, people's livelihoods and the real economy, we are a preferred partner for major banks. What's more, the general easing policy in lending since the beginning of 2022 has provided an additional boost to our loan size. As of February 15, 2022, which is today, we have nearly RMB 500 million granted as our loan credit and not yet withdrawn. In addition, the new credit line that is in the filing process to get approved is over RMB 400 million. In Q1, we will sign strategic cooperation agreements with banks with deep partnerships to create more value for both parties. That's all for my answer. Thank you.

Operator: Our next question today comes from Robin Leung from Daiwa.

Robin Leung: (Speaking foreign language).

(Translated). Just now the management mentioned that Dingdong has had 10 in-house production and processing factories by the end of 2021, with in-house production and processing contribution of 6.5%. Why did you start in-house production and processing in the first place? And will there be any conflicts between self-developed products and your suppliers?

Changlin Liang: (Speaking foreign language).

(Translated). Thank you for your question. About the reason why we started doing in-house production and processing facilities is because we believe in the potential of product capabilities, which is our primary growth driver. And then to our relationship with our suppliers, I would like to address that from 4 aspects. The first one is food is very essential, forming a massive market with different users and changing needs. The competition will not end up with a winner takes all kind of landscape, but an ecosystem with differences in diversity. The best relationship between Dingdong and its supplier is harmony within diversity.

In addition, Dingdong has always been treating suppliers very well. For a long time, backlogs in the retail channel have often being the last straw of suppliers. In Q4, Dingdong has taken the initiative to shorten the supplier accounting period while proactively innovating and developing supply chain finance with the Bank of Shanghai, Shanghai Agriculture and Commercial Bank and China Merchants Bank to support suppliers to grow better.

Third, in terms of private labels and in-house R&D and production, Dingdong never aims to replace our suppliers. On the contrary, it is committed to developing products that are differentiated from the suppliers' products and of a better quality. China is in the area of consumption upgrade. And the government emphasizes the use of consumption to drive a larger domestic cycle. So this is is a great opportunity for all companies rather than a zero-sum game. Various players can grow together for the growing needs of the people for a better life. That's all for my answer.

Operator: Our next question today will come from Liu Zhangming of Tianfeng Securities.

Zhangming Liu: (Speaking foreign language).

(Translated). Now Dingdong has been in the media a lot lately. Can you comment on some of the media reports? First of all, you mentioned that in 2021, Dingdong passed the government quality inspection with flying colors, and the pass rate is leading in the industry. Can you comment on excessive drug residues in your bream as reported some time ago? The second aspect is that can you also comment on the news that Dingdong has laid off 10,000 people. The third and the last part of my question is that during an interview, Hema expressed a pessimistic view about the Frontline Fulfillment Grid Model. Can you respond to that?

Changlin Liang: (Speaking foreign language).

(Translated). Your first question is about quality control and the pesticide and drug residues incidents with the breams. Agricultural products, especially aquatic products, have always encountered the issue of excessive drug residues or heavy metal from time to time. Dingdong has always regarded quality as the life line and invested a lot of human and financial resources and quality control. As a result, we have always passed various government inspections with flying colors, a passing rate way higher than our peers of the same scale. Breams are more prone to have excessive drug residues than other products. As soon as the incident happened, we immediately took the particular supplier’s product off the shelf. And we learned from the painful experience, and we were determined to solve the problem once and for all. That's why in 2022, we plan to invest an agricultural technology company in Huzhou, Zhejiang province to fundamentally improve aquatic product quality and safety and farm safe and secure marine products with clean natural resources and advanced technology.

Your second question is about layoffs. This is indeed a rumor. The Shanghai Labor Inspection Department also conducted a field investigation at Dingdong and concluded that there were no major fluctuations in our staff turnover compared to previous years. The Cyberspace Administration of Shanghai also assisted us in making an official announcement to clear the air. However, we did learn our lesson through this incident, and we will improve our public relations management and communication with the media and the general public.

Now about your last question, to be frank, we don't pay much attention to what our peers say. We are not worried about traffic, price wars or competition, but only about developing good products and gaining users trust. As the Chinese expression goes, harmony within diversity. We are different with our peers, but we can definitely coexist.

In meeting the growing needs of the people for a better life, we must have a big picture and look further. Life is short. Do something worthwhile. That's also my answer.

Operator: Ladies and gentlemen, that concludes our question-and-answer session. I'd like to hand the conference back to our management for closing remarks.

Karen Ji: Thank you again for joining our call today. If you have any further questions, please feel free to contact us or requests through our IR website. We look forward to speaking with every one in our next earnings call. Have a good day.