[DDL] Dingdong (Cayman) Limited
Q4 2023 Earnings Conference Call
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Executives:
Nicky Zheng, Director of Investor Relations
Changlin Liang, Founder and CEO
Song Wang, CFO

Analysts:
Jiajing Chen, CICC
Thomas Chong, Jefferies

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to the Dingdong Ltd. Fourth Quarter 2023 Earnings Conference Call. (Operator Instructions). Please note that this event is being recorded.

I would now like to turn the conference over to the first speaker today, Nicky Zheng, Director of Investor Relations. Please go ahead.

Nicky Zheng: Thank you. Hello, everyone, and welcome to Dingdong's fourth quarter 2023 earnings call. With me today are Mr. Changlin Liang, our founder and CEO, and Mr. Song Wang, our CFO.

You can refer to our fourth quarter 2023 financial results 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.

For today's call, management will go through their prepared remarks, which will be followed by a question-and-answer session.

Before we continue, I would like to refer you to our safe harbor statement in our earnings press release, which also applies to this call, as we will be making forward-looking statements. Please note that all numbers stated in the following management's prepared remarks are in RMB terms. And we will discuss non-GAAP measures today, which are more thoroughly explained and reconciled to the most comparable measures reported in our earnings release and filings with the SEC.

I will now turn the call to our first speaker today, the founder and CEO of Dingdong, Mr. Liang.

Changlin Liang: (Speaking foreign language).

(Translated). Hello, everyone, and welcome to the Dingdong's fourth quarter 2023 earnings call. First, let me give you a brief overview of Dingdong's performance in Q4 and for the full year 2023. As we consistently implemented our development strategy of efficiency first, with due consideration of scale, we not only achieved non-GAAP profitability for the fifth consecutive quarter, but also marked our first full year of non-GAAP profitability.

In Q4, we generated revenue of 4.99 billion RMB, with a gross merchandise volume, or GMV, of 5.53 billion RMB. Our gross profit margin increased to 30.6% sequentially, with a net operating cash inflow of 120 million RMB. Our non-GAAP net profit margin was 0.3%. For the full year, our revenue was 19.97 billion RMB, with a GMV of 21.97 billion RMB. Our gross profit margin was 30.7%, and our non-GAAP net profit margin was 0.2%.

GMV declined on a year-over-year basis in the fourth quarter, primarily due to the high base effect during the same period of 2022 when continuing pandemic restrictions drove a surge in order volumes. It was also partly caused by the suspension of operations in some cities and stations in 2023.

Nevertheless, we have continued to optimize our commodity structure and enhance our product development capabilities to mitigate the impact of declining consumer prices for certain commodities, such as pork and vegetables, throughout 2023. As a result, the Average Order Value, or AOV, remained stable at 72.1 RMB in Q4. Despite declining year-over-year, the AOV was still 23% higher than in the same period of 2021.

During the fourth quarter, Dingdong's users placed over four orders per month, a year-over-year increase of 4.5%. Notably, users who were onboarded in 2017 increased their purchasing frequency sequentially and year-over-year to 5.8x per month.

Additionally, Q4 saw a 1.9% sequential increase in the number of members who placed orders per month. Members' contributions to the order volume and GMV also increased. We thank our loyal users for their trust in Dingdong's products and services. We are committed to innovating our offerings to better serve new and existing users.

We made significant progress at the operational level during 2023, despite the decline in online consumption post-pandemic and the operational adjustments we undertook. Our full year GMV declined slightly year-over-year to 21.97 billion, but grew substantially from 2021. Specifically, when compared to 2021, total GMV in our core East China market grew at a staggering CAGR of 10% and 13.5% on a same-store basis.

The AOV also increased from 58.6 RMB in 2021 to 72.1 RMB in 2023. Additionally, the average monthly order frequency increased from 3.7 orders per month in 2021 to 4 orders per month in 2023.

Dingdong has made remarkable progress in building its product development capabilities. In Q4, our private-label products accounted for more than 20% of total GMV for the first time, hitting 21.1%, a significant year-over-year increase of 3.1 percentage points. Moreover, the user penetration rate of our private-label products also increased by 1.6 percentage points year-over-year, reaching an outstanding 73.6%.

Notably, for non-fresh-grocery categories, including prepared meals, the GMV contribution from our private-label products has skyrocketed to 34.3%, a striking year-over-year increase of 7.7 percentage points.

We remain committed to providing our customers with fresh and high-quality grocery and food products. We are quick to identify and respond to the changing tastes of our users, which has created opportunities for us to launch several popular and highly-successful private-label products. As a result, we have built a unique brand portfolio that has earned the trust and loyalty of our customers.

Over the past 3 years, we have successfully launched private-label products across three major categories: prepared meals, pork, and soy products, and these three categories of our private labels penetrated over 50% of GMV in 2023. Let me share some examples. First is Cai Chang Qing, a private-label product specializing in prepared home-cooked meals. In 2023, GMV totaled approximately [840] million RMB, a significant increase of 43% from 2022.

In the fourth quarter of 2023, the average number of monthly repurchasing users reached 37%, showcasing the brand's popularity among its customers.

Second is Good Craftsman Noodles, which specializes in pastries and recorded GMV of approximately 500 million RMB in 2023, an increase of 19% from 2022, with an average monthly repurchase rate of nearly 40% in the fourth quarter.

Third, our oldest brand, Fresh Everyday Pork, which has a shelf life of only 1 day. In 2023, it drove GMV of approximately 300 million RMB, an increase of 7% from 2022, with an average monthly repurchase rate of 32% in the fourth quarter.

We also launched a specialty black pork brand called Black Diamond Family, which was well-received by customers. GMV in 2023 reached around 230 million RMB, a 68% increase from 2022. In the fourth quarter, its average monthly repurchase rate exceeded 36%.

Finally, our You Dou Zhi brand, launched in late 2021, is dedicated to producing soy products. Over the past 2 years, it has gained significant popularity among consumers, with an annual GMV surpassing 250 million RMB, representing a year-over-year increase of 24%. In the fourth quarter, its average monthly repurchase rate exceeded 41%.

In 2023, we started selling our private-labels and supply-chain products through external to B channels, where they began competing directly with other products. In just 1 year, we generated around 500 million RMB in sales through external channels, which I believe showcases the strength of our brand and supply chain. Moving forward, we aim to continue delivering high-quality and affordable products to consumers in the market.

Our products have received widespread consumer and industry recognition in fresh groceries and food product R&D. We won 13 awards at the 7th PLF Gold Star Awards, including 11 Outstanding Product Awards, 1 Outstanding Team Award, and 1 Outstanding Trader Award. Our award-winning products span across various categories, such as soy products, prepared meals, fruits, dairy beverages, baked goods and more.

At the 3rd Golden Power Awards, Sharp Brand Awards, our prepared meal private-labels Cai Chang Qing and Dingdong Top Dish stood out from a highly-competitive market of over 300 participating brands and approximately 1,300 participating products by securing 3 awards. The awards were based on the evaluations by over 100 judges and 20,000 consumers.

We achieved full year non-GAAP profitability for the first time in 2023, a critical milestone for both Dingdong and the industry.

To start, this reflects how we have successfully navigated a highly challenging macroeconomic and competitive environment in, which many raised doubts about the sector's sustainability. Second, it reflects our outstanding corporate flexibility and adaptability. With the market changing rapidly, these attributes will remain critical to our long-term sustainability.

Third, it makes us the first among many in the sector to achieve profitability. Getting here was a long and difficult journey, but we stuck to our principles and vision. Lastly, having attained profitability, we are looking confidently to the future as we focus on maintaining sustainable long-term growth.

Going forward, we are confident that our GMV will regain growth momentum in 2024, and are confident that we will be able to maintain non-GAAP profitability once again. Even after factoring in the costs and expenses incurred by staying open during the Chinese New Year holiday, we expect to be profitable on a non-GAAP basis during the first quarter of 2024. Maintaining profitability in the current environment highlights the viability of our business model and provides us with additional resources to fuel our future development.

Thank you all for listening. Now, I would like to invite our CFO, Wang Song, to go over the Company's financials.

Song Wang: (Speaking foreign language).

(Translated). Thank you, Mr. Liang, and hello, everyone. Before I review our financial performance, please note that all our figures are in RMB. In 2023, Dingdong generated GMV of 21.97 billion RMB, revenue of 19.97 billion RMB, and a non-GAAP net profit margin of 0.2%, an improvement of 2.6 percentage points when compared to last year. We successfully met our target and achieved full year non-GAAP profitability.

Our efficiency first with due consideration of scale strategy, which we began implementing in Q3 2021, has paid off. After 2 years of hard work, we are proud to have moved from a non-GAAP annual loss margin of 30.4% in 2021 to a non-GAAP annual profit margin of 0.2% in 2023.

In Q4 of 2023, Dingdong achieved revenue of 4.99 billion RMB, a non-GAAP net profit margin of 0.3%, and net operating cash inflow of 120 million RMB. We have achieved non-GAAP profitability for 5 consecutive quarters since Q4 of 2022. Additionally, we once again achieved net operating cash inflow.

At the end of 2023, after deducting the balance of short-term borrowings, our actual self-owned fund balance was 2.01 billion RMB, a net increase for the second consecutive quarter.

Over the past few years, we have achieved great success by prioritizing efficiency while considering the scale of our operations. This success has enabled us to overcome challenging times and establish ourselves firmly in the market. We have ample resources available to resume our growth trajectory.

Next, let's review the financial performance of Q4 in detail. Revenue for the quarter was 4.99 billion RMB, down by 19.5% year-over-year, mainly due to the high base effect created by pandemic restrictions during the same period last year and the suspension of operations in some cities and stations. However, it's important to note that regions, such as Jiangsu and Zhejiang provinces, have performed exceptionally well despite the challenging environment. Both GMV and order volume in these provinces grew by over 8% year-over-year throughout 2023.

In Q4, our gross profit margin was 30.6%, a decrease of 2.3 percentage points from the same period last year. With consumers reducing their spending, we are working to entice them to our platform by offering added benefits while maintaining a reasonable gross profit margin.

Moving forward, we will focus on providing consumers with more value, so they can buy affordable and quality products without any worries. We also plan to explore new food consumption scenarios beyond the dining table. We are leveraging our supply chain and product development capabilities to create private-label and best-selling products while also carefully managing slow-moving commodities to improve supply chain efficiency.

It's important to note that our supply chain loss rate was 1.3% in Q4, an improvement of 0.4 percentage points compared to the same period last year.

Q4 fulfillment expense ratio improved by 0.5 percentage points year-over-year to 23.6%. Throughout 2023, we implemented various optimization measures for our network of regional processing centers, which resulted in a 1 and 1.8 percentage point year-over-year decline in fulfillment expense ratio in Q4 and in full year 2023, respectively.

Additionally, we increased our investment in frontline fulfillment station efficiency to enhance our service capabilities. As a result, we reduced our fulfillment time to rush orders to 36 minutes during the quarter, 2 minutes faster than in Q3. Throughout the year, we maintained rush order fulfillment times within 38 minutes.

In 2024, we plan to reduce costs and increase the efficiency of frontline fulfillment stations through further operational refinements, such as optimizing transportation capacity, iterative upgrades to our fulfillment system, reduction of packaging consumables, and implementation of energy conservation and emissions reduction policies in frontline fulfillment stations.

Selling and marketing expense ratio in Q4 was 2%, up 0.5 percentage points year-over-year. As mentioned, we plan to allocate additional resources towards marketing in 2024 due to our strong financial performance and sufficient cash reserves.

General and administrative expense ratio in Q4 improved to 1.9%, up 0.5 percentage points from the same period last year. Additionally, R&D expense ratio improved to 3.8%, up 0.3 percentage points from the same period last year. As always, we remain committed to investing in food research, agricultural technology, and data algorithms.

In Q4 2023, we achieved a non-GAAP net profit margin of 0.3%, our fifth consecutive quarter of non-GAAP profitability.

We generated a positive operating cash inflow of 120 million RMB in the fourth quarter. As of the end of Q4, the total balance of our cash and cash equivalents, short-term restricted cash, and short-term investments was 5.31 billion RMB. After deducting the balance of short-term borrowings, we have ample cash on our balance sheet with 2.01 billion RMB.

I would like to update you on how we did during the Chinese New Year. On February 24, which was the Lantern Festival, we achieved a GMV of more than 100 million RMB in just 1 day, setting our highest single-day record post-pandemic. Additionally, between the Chinese New Year's Eve and Lantern Festival, on the same-store level, our overall order volume increased by 6% year-over-year and GMV by 5%.

In East China, our order volume increased by 9% year-over-year and GMV by 7%. It's worth noting that this performance is even more impressive considering that during the Chinese New Year, there were significantly more outbound residents from Jiangsu, Zhejiang, and Shanghai.

For 2024, our primary focus will be to maintain our high-quality services and deliver products that offer the best cost-effectiveness and quality ratio to our valued customers. Furthermore, we will take advantage of our comprehensive supply chain and system capabilities to improve our operational efficiency and drive profitability.

This concludes our speech today. Operator, we can now start the question-and-answer session.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). The first question today comes from Jiajing Chen with CICC.

Jiajing Chen: (Speaking foreign language). Hello, Mr. Liang and Mr. Wang, I am Jiajing Chen from CICC. Congratulations on achieving 5 consecutive quarters of non-GAAP profitability. Dingdong recently announced that the company plans to repurchase up to $20 million of its shares by January 2025. Could you give us more color on this?

Song Wang: (Speaking foreign language).

(Translated). Thank you for your question. As you mentioned, we recently announced a stock repurchase plan that will last 1 year, with a total limit of US$20 million. We expect to begin buying back shares once the blackout period ends following earnings. Our stock is significantly undervalued at the current price, especially in view of our long-term growth prospects. Given our ample cash reserves, buying back stock is an effective way to allocate capital, especially when the stock is undervalued. This program will be beneficial for both the company and its shareholders.

Based on the company's internal operations, and our confidence in its future, we are convinced that our overall operations are in very good condition. We have ample cash reserves and zero concern about cash flow for the next year. This leaves us in an ideal situation and position to carry out a share buyback with our own cash.

Given current economic and market conditions, this share repurchase program reflects our strong financial position. Our goal is to increase the company's intrinsic value and show that we have confidence in its long-term growth. However, it's important to note that buying back shares is just market activity. The key to enhancing the company's overall value lies in our ability to continuously improve our operational capabilities, ensuring sustainable and long-term development. Thank you.

Operator: Thomas Chong with Jefferies.

Thomas Chong: (Speaking foreign language). I will translate myself. My question is can you provide a summary of the year, and are there any changes in strategies?

Changlin Liang: Thank you for your question. Before we move forward, I'd like to share a saying with you: Hard times create strong men and strong teams. This sums up perfectly our journey through the pandemic. We faced numerous challenges and difficulties, including issues with our systems, personnel, and supply chains. But we didn't let these obstacles get the best of us. Instead, we stood up and persevered, emerging a much stronger company overall.

Now we find ourselves facing a new and challenging environment that will present more obstacles going forward. Given our recent experience, however, I'm confident we'll emerge as an even stronger company on the other end. In our company, we've always believed in the power of persistence and change. We've worked tirelessly to drive the industry forward and have made significant progress in this regard.

But we also recognize the importance of change and made many adjustments over the years. For example, we've built a presence in multiple new cities after 2018, even though it meant incurring losses over the medium term. However, we're proud to say that since July 2021, which is when we adopted the strategy to prioritize efficiency with due consideration to scale, we've been profitable on a non-GAAP basis for 5 consecutive quarters. And this is a testament to our commitment to both persistence and change, and we're excited to see what the future holds.

We've always believed in the power of adapting to the changing times and following evolving consumer trends. In the current environment, it's crucial to stay on top of these changes and make the necessary tweaks to remain relevant and successful. One way to do that is by digging deep. First, we will focus on strengthening our strongest markets, particularly in Jiangsu, Zhejiang, and Shanghai. We can work towards improving our market penetration in these regions to further expand our reach.

In addition, we will utilize our existing strengths in the meals category and leverage the efficiency of our supply chain to expand beyond traditional dining scenarios. This will enable us to break through into new categories to reach new heights. And we will increase the proportion of private-label products in the non-fresh grocery categories, building on the significant progress we already have made. At the same time, we will focus on developing and promoting best-selling products to become the preferred choice for grocery and food shopping for Chinese families.

When it comes to our channel strategy, as I mentioned earlier, we plan to invest more resources in deepening our reach to users in existing regions to achieve our GMV growth targets. Additionally, we will collaborate even more closely with Douyin and Ele.me and seek partnerships with other external channels to expand our market share in these channels.

Our second priority is to focus on the long-term sustainability of our business. To achieve this, we will prioritize driving efficiency while scaling our business and improving our supply chain efficiency further. We have already mapped out a number of actionable measures, and we will take this year to do so.

Additionally, we aim to speed up the operational adjustments and improvements we are making in loss-making areas at a regional level to stem financial losses. This will ensure that we can survive the challenging environment we currently face and position ourselves to grow once things improve.

As we mentioned in previous earnings calls, retailers need to adapt to a complex new post-pandemic environment. What consumers want most in the current environment is certainty, and instant-delivery retail can cater to this by providing reliable service, stable quality assurance, and competitive pricing. Given this climate, we will continue refining our core competencies, including product, service, operational, and organizational capabilities. Thank you.

Operator: (Operator Instructions). As there are no further questions, I'd like to return the call to our management for closing remarks.

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

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.