

**[DDL] Dingdong (Cayman) Limited
Q3 2024 Earnings Conference Call
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Executives:

Nicky Zheng, Director of Investor Relations

Changlin Liang, Founder and CEO

Song Wang, CFO

Analysts:

Thomas Chong, Jefferies

Yang Bai, CICC

Xingxin Li, CMS

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to the Dingdong Ltd. Third Quarter 2024 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, sir.

Nicky Zheng: Thank you. Hello, everyone. Welcome to Dingdong's third quarter 2024 earnings call. With me today are Mr. Changlin Liang, our founder and CEO, and Mr. Song Wang, our CFO.

You can refer to our third quarter 2024 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 press 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). Thank you for joining Dingdong earnings call for Q3 2024. I'm pleased to report that we achieved non-GAAP profitability for the eighth consecutive quarter and GAAP profitability for the third consecutive quarter. Revenue also increased on a year-over-year basis for 3 straight quarters. Both GMV and net profit also reached new quarterly highs. The key factors driving this progress include the ongoing optimization of our fresh grocery supply chain and the increased concentration of frontline fulfillment stations in our existing markets. These enhancements enable us to deliver better products and services to new and existing customers. This in turn supports sustainable growth in the scale and profitability of our business.

First, I will present our Q3 2024 performance, followed by an analysis of our operating data, and conclude with a brief outlook on future developments and performance. In Q3 2024, we generated GMV of 7.27 billion RMB, a 28.3% year-over-year increase, with revenue reaching 6.54 billion RMB, an increase of 27.2% year-over-year.

Non-GAAP net profit was 160 million RMB, an increase of over 9 times from the same period last year, with non-GAAP net profit margin coming in at 2.5%, an increase of 2.2 percentage points year-over-year. GAAP net profit was 133 million RMB, an increase of more than 62 times from the same period last year, with a GAAP net profit margin of 2.0%, up 2 percentage points year-over-year. This rapid growth was primarily attributable to the growing scale of our user base, increases in ARPU, and higher user penetration rate in our existing markets.

Average number of active transacting users reached approximately 8.22 million, a 24.5% year-over-year increase. Our wallet share per customer also continued to grow during the quarter with average monthly ARPU increasing 6.4% and average monthly ARPU for members increasing 8.8% year-over-year to 540 RMB.

As our user base rapidly expands, user stickiness is also on the rise. Users placed an average of 4.4 orders per month, reflecting a year-over-year increase of 6.1%. This average was higher among members, with 7.6 orders per month, reflecting a year-over-year increase of 9.8%.

Furthermore, retention rates among new users are strengthening, with a 12-month retention rate of 57.3% for transacting members. These metrics not only indicate that our user base is growing in number, its quality is also improving. High retention rates and frequent repurchases are also key factors driving our business forward.

Geographically, Jiangsu, Zhejiang, and Shanghai continue to be the primary growth drivers. Shanghai's GMV increased by 24.5% year-over-year during the quarter, while Jiangsu and Zhejiang increased by approximately 40% each. In Shanghai, average daily order volume processed per fulfillment station was nearly 1,700 orders, with both Jiangsu and Zhejiang processing more than 1,000 orders.

The growth mentioned above was primarily driven by the following factors. We continue to refine our network of frontline fulfillment stations in Jiangsu, Zhejiang, and Shanghai. By the end of Q3, we successfully hit our target of opening 80 new frontline fulfillment stations in these regions this year, with over 40 opening in the third quarter alone. Average daily order volume for these new stations steadily ramped up to 866 orders during the quarter.

Looking ahead, we are increasing our target for new fulfillment station openings in 2024 to approximately 110. This strategy will enhance our presence in these key areas, improve our fulfillment efficiency and processes, reduce delivery costs, and establish a solid foundation to further expand our scale next year.

Our robust fresh grocery supply chain capabilities in Shanghai have now expanded into Jiangsu and Zhejiang, allowing us to begin offering an expanded array of categories such as leisure products, dairy beverages, and coffee-table top products. We have made significant progress in optimizing our operational capabilities, with a focus on offering quality products and increasing user penetration in Jiangsu, Zhejiang, and Shanghai.

Growth in GMV across 13 cities in these regions increased over 50% year-over-year during the quarter.

Additionally, even under the impact of frontline fulfillment stations closure at the beginning of the year, GMV for the Beijing and Guangzhou-Shenzhen regions increased by 14.6% and 2.9% year-over-year, respectively. We not only significantly reduced losses in these two regions but also hit our goal of driving sustainable growth at scale.

Our growth is closely linked to our growing array of high-quality products. We are committed to expanding our offerings to strengthen consumer trust and loyalty in our brand. By concentrating on two key scenarios -- dining and coffee tables -- we are gaining deeper insights into user needs, allowing us to cater to the demand for specific high-quality products. This year, we focused on 45 strategic categories with significant opportunities, such as fresh seafood, drinking water, sandwiches, beverages, and ice cream. These initiatives boosted both the frequency of purchases and total number of items per order in Q3, contributing to more than half of the year-over-year increase in total GMV.

This achievement underscores the core value proposition we offer: No compromises on fresh grocery quality. We remain dedicated to our mission of making quality fresh groceries as accessible as tap water for everyone.

Lastly, let's turn to our outlook for Q4 and the full year of 2024. We are increasing our full-year targets based on our current performance. We expect non-GAAP and GAAP net profit and the overall scale of our business to continue growing significantly on a year-over-year basis next quarter and for the year. We are confident in the rapid development potential of our business throughout the remainder of the year and going forward.

This concludes my prepared remarks. Thank you all for listening. I would like to turn the call over to our CFO, Wang Song, to go over our financials.

Song Wang: (Speaking foreign language).

(Translated). Thank you, Mr. Liang, and hello, everyone. Before I review our financial performance for the third quarter, please note that all our figures are in RMB.

In Q3, we generated revenue of 6.54 billion RMB, a year-over-year increase of 27.2%. This significant growth also allowed us to achieve a new historic high in profitability with a non-

GAAP net profit of 160 million, over 9x higher than the same period last year. Non-GAAP net profit margin was 2.5%, an increase of 2.2 percentage points from the same period last year.

GAAP net profit was RMB 133 million, an increase of RMB 131 million year-over-year with net profit margin expanding 2 percentage points from the same period last year to 2%. Operating net cash inflow in Q3 reached 400 million RMB, an increase of 270 million RMB compared to the same period last year. This marks the fifth consecutive quarter of net cash inflow from operating activities.

Our high-quality growth is fueled by our commitment to our original goals and mission, and reflects our continued sustainable development of our business, anchored in our robust supply chain capabilities.

Let's now go into further detail. GMV was 7.27 billion RMB, an increase of 28.3% year-over-year. Notably, we saw GMV grow by over 50% year-over-year in 14 cities nationwide, with Huzhou, Nantong, and Wenzhou in particular growing at rates that surpass 70%.

Gross profit margin was 29.8%, a 0.6 percentage point decrease year-over-year, a result of our proactive operational strategy to pass along the benefits of our increasingly optimized supply chain to consumers as we scale.

Moreover, enhancements made to our supply chain and operational efficiency have accelerated growth in our bottom line. Although we cautiously expanded the breadth of offerings in our supply chain, we managed to optimize overall inventory turnover days to 10.7 days, 1.3 days less than the same period last year.

Our ability to implement intelligent forecasting and operational scheduling systems, along with effective team collaboration, has strengthened our supply chain management capabilities. While maintaining a stable loss rate, we have also reduced the out-of-stock rate of our top products by 1.4 percentage points compared to the same period last year.

Our fulfillment expense rate improved to 21.4%, a 1.8 percentage point decrease compared to the same period last year. With Average Order Value or AOV remaining stable year-over-year, we achieved significant efficiency gains from an increase in average order volume per fulfillment station. Our frontline fulfillment stations processed over 1,100 orders daily in Q3, a year-over-year increase of 27.9%.

Additionally, we enhanced our service capabilities by deploying algorithms and optimizing supply chain operations. As a result, the proportion of orders delivered within 30 minutes in Q3 increased by 3.5 percentage points year-over-year.

Our marketing expense rate was 2.2%, an increase of 0.2 percentage points compared to the same period last year. Alongside our ongoing efforts to optimize user acquisition and improve conversion rates, we continue to carefully manage marketing expenses. This strategy aims to drive user penetration in key regions while supporting overall growth in scale.

As a proportion of total revenue, General & Administrative and R&D expenses decreased by 0.9 percentage points compared to the same period last year. This was primarily attributable to

greater economies of scale. As always, we remain committed to investing in food R&D, agricultural technology, and advanced data algorithms to drive innovation.

Non-GAAP net profit margin was 2.5% on the back of 160 million RMB in non-GAAP net profit. Additionally, GAAP net profit margin was 2% with net profit of 130 million RMB.

As of the end of Q3, the balance of cash and cash equivalents, short-term restricted funds, and short-term investments amounted to 4.3 billion RMB. We continue to optimize CapEx efficiency and our financing structure. Excluding short-term loans, our balance of funds was 2.64 billion RMB. Additionally, free cash flow over the past 12 months increased by 270 million RMB as of the end of Q3 to reach 780 million RMB.

This concludes my prepared remarks. Operator, we can now start the question-and-answer session.

Questions and Answers

Operator: Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions). Thomas Chong with Jefferies.

Thomas Chong: (Speaking foreign language). Congratulations on the company's outstanding performance this quarter. I would like to know how this success was achieved. Additionally, I heard about the company's summer campaign in Q3. Beyond the financial results shared, what other operational achievements have been made?

Changlin Liang: Thank you for your question. Our Q3 results were impressive, and were due to a number of operational improvements. First, 80 new frontline fulfillment stations were opened this year, rapidly ramping up order volumes and contributing to growth and profitability. Daily average order volume at these newly-opened fulfillment stations are also increasing. This increasing contribution trend is expected to last at least until the same period next year. In particular, the fulfillment stations opened in new areas such as Tonglu in Hangzhou and Huangyan in Taizhou, have further enhanced our penetration rate into local markets there.

Second, we continue to enhance our product structure and categories. Since the beginning of the year, we have expanded our offerings for the coffee tabletop category, including fruit, dairy, wine, snacks, and baked goods. In Q3, Shanghai saw an increase of over 400 SKUs on the shelves per day per station in these 4 categories compared to the previous year. As we broaden our product variety, average daily transaction volume also has grown. For example, average daily transactions in the snacks category increased 9% year-over-year.

Lastly, we have significantly enhanced our end-to-end efficiency. We improved our forecasting system, which increased the accuracy of inventory management in our frontline fulfillment stations, resulting in lower out-of-stock rates and fewer products near expiration.

Additionally, we enhanced our delivery speed during extreme weather events and holidays, further improving delivery efficiency. We've also optimized the soonest available appointment time, reducing it by 2 minutes compared to the same period last year. These enhancements have contributed to a better user experience, leading to a 5 percentage point increase year-over-year in order conversion rate.

Recent improvements have also contributed to rapid growth in lower-tier cities within Jiangsu and Zhejiang. This quarter, excluding the top three cities, Shanghai, Suzhou, and Hangzhou, GMV in other cities across these regions increased by over 40% year-over-year. Notably, 13 of these cities experienced a growth rate exceeding 50% year-over-year.

I would like to share some additional thoughts on our performance this quarter. We are still in the early growth phase and are focused on providing quality fresh groceries. We firmly believe that development is the only way forward. Continuous progress and consistent success are vital for us to adapt to an ever-changing market and competitive environment. We will not stop here, however, and still have a long way to go.

As I have emphasized internally, we must always set higher goals for ourselves and aspire to great ideals while remaining attentive to the small details. We should cultivate resilience against fragility and entropy, ensuring that we always adopt a start-up mindset. Thank you.

Operator: Yang Bai with CICC.

Yang Bai: (Speaking foreign language). I will translate for myself. The company has established its food research and development, production, and processing within the supply chain from early on. As a result, its supply chain capabilities have started to extend to other sales channels. Could you please introduce the supply chain development of Dingdong's self-developed factories this year?

Changlin Liang: (Speaking foreign language).

(Translated). Thank you for your question. We have always prioritized product quality as our primary driving force. Our goal is to provide users with differentiated, high-quality products. To achieve this, we focus on developing independent production and research and development capabilities, and our factory-direct supply chain is continuously evolving and improving. By gaining deeper insights into consumer demand, we can better focus our ongoing investments into product development and innovation while also enhancing production efficiency.

Currently, we have 12 self-operated factories that specialize in meat cutting and processing, grain and bean products, as well as prepared meals. Taking meat cutting and processing as an example, we began with the most basic product: white pork. Our Daily Fresh Pork brand, which is widely recognized, was built from the ground up and has now become a well-established brand in the market. Currently, we operate 5 factories with capacity to produce 500,000 boxes of white pork daily, positioning us as the factory with the highest overall production capacity in the country.

This year, we began acquiring and breeding black pigs to produce differentiated, high-quality black pork. After extensive research into breeding bases, we selected the Sichuan-Tibet region

for its ideal conditions. Black pigs thrive in the mountainous environments of this region, often referred to as natural oxygen tanks. These pigs are raised using comprehensive and refined methods, resulting in better taste, and a higher lean-meat ratio, and improved health.

Our strategic partnership with a black pig breeder boasting nearly 30 years of experience, enables us to collaborate closely through order breeding. This partnership ensures consistent quality and supply, with an anticipated volume of 80,000 pigs next year.

We also design products that align with consumer demand and refine product segmentation, processing, and packaging for various pork cuts. In addition to our basic fresh grocery offerings, we partner with Cai Changqing, one of our self-owned brands, to create prepared meals featuring black pork. We also innovatively developed products such as luncheon meat and lard residue.

Notably, lard residue, once considered valueless and destined for disposal, has now transformed into a popular coffee table snack among consumers. In Q3, GMV of Black Diamond Family, our black pork brand, was approximately 60 million RMB, a year-over-year increase of nearly 45%. Additionally, we plan to open four to five black pork physical stores this year, with two already opened as of October, allowing us to better meet consumers' growing demand for a better life across more diverse channels and through improved products.

Lastly, our external sales channels are experiencing significant growth. In Q3, external sales revenue from our three major product categories -- meat, cereals, and prepared meals -- reached nearly 100 million RMB, a 180% year-over-year increase. This substantial growth underscores the strength and potential of our supply chain. Thank you.

Operator: (Operator Instructions). Xingxin Li, with CMS.

Xingxin Li: (Speaking foreign language). I have noticed that the company's cash situation is improving significantly. Can you provide a more detailed introduction to the company's cash situation?

Changlin Liang: (Speaking foreign language). Thank you for your question. I will pass this question on to CFO Wang Song.

Wang Song: (Speaking foreign language).

(Translated). Thank you, Mr. Liang. As you mentioned, the scale and profitability of our business is expanding, which is positively impacting our cash position. I would like to highlight four key aspects to give a brief overview of our overall position of funds.

First, our operating cash flow has consistently improved, with net inflows of 5 consecutive quarters. This trend indicates a strengthening ability to generate self-sustaining cash. In Q3, net inflow reached 400 million RMB, an increase of 270 million RMB from the same period last year and the highest level in the past 2 years. Free cash flow over the past 12 months was 780 million RMB, another recent historical peak.

As previously mentioned, we are increasing our target and plan to open approximately 110 frontline fulfillment stations this year, with CapEx expected to be around 60 million RMB. We have ample cash on hand to expand our fulfillment station network.

Second, we continue to enhance inventory management capabilities and improve the efficiency of our working capital through advanced data algorithms. In Q3, inventory turnover days were decreased to 10.7 days, 1.3 days less than the same period last year. Additionally, we are committed to fostering a robust ecosystem among our upstream and downstream partners.

Given the relatively short payment period for suppliers in the industry, we are working to provide greater support and empowerment to partners by continuously optimizing our payment terms. In Q3, the average payment period for accounts payable was 32.4 days, a decrease of 3.8 days compared to the same period last year.

Third, to improve capital efficiency, we are actively optimizing our financing structure. As of the end of September, our interest-bearing debt balance was 1.66 billion RMB, a decrease of 55.2% from the same period last year. This decrease has significantly lowered our financial expenses. Additionally, net interest income in Q3 increased by more than 13 million RMB compared to the same period last year, an impressive increase of 83.5%.

Lastly, leveraging our optimized financing structure, our actual self-owned funds balance, after deducting the interest-bearing debt, increased for the fifth quarter in a row. As of September 30, 2024 it stood at 2.64 billion RMB, an increase of 320 million RMB sequentially, and the highest level recorded in recent years, demonstrating the strength of our balance sheet.

Coupled with the healthy development of our business and ongoing improvements in capital efficiency and financing structure, we have ample resources to support our future growth. Thank you.

Operator: Thank you. (Operator Instructions). All right. As there are no further questions, I'd like to return the call to our management.

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 and have a good night.

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