**[DDL] Dingdong (Cayman) Limited**
**Q1 2024 Earnings Conference Call**
**May 13, 2024 at 08:00 AM ET.**

Executives:
Nicky Zheng, Director of Investor Relations
Changlin Liang, Founder and CEO
Song Wang, CFO

Analysts:
Thomas Chong, Jefferies
Robin Leung, Daiwa
Jiajing Chen, CICC

## Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to the Dingdong Ltd. First Quarter 2024 Earnings Conference Call. (Operator Instructions). Please note that this event is being recorded.

I will now 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 first 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 first 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 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). Good morning and good evening, ladies and gentlemen. Welcome to Dingdong's first quarter 2024 earnings conference call.

In the first quarter of 2024, we achieved non-GAAP profitability for the sixth consecutive quarter. Notably, we recorded a substantial increase in our net profit margin and revenue growth in March 2024. This success can be largely attributed to Dingdong's world- leading fresh grocery supply chain capabilities. These capabilities will not only contribute to Dingdong's continued expansion and profitability within the domestic market, but also position the company to make a substantial impact on the overseas market, generating greater and lasting value.

My remarks today will be divided into three sections. First, I will review our Q1 performance. Then, I will introduce Dingdong's capabilities and advantages in the fresh grocery supply chain. Finally, I will provide a brief outlook on our future development and performance.

Let's begin with a quick rundown of our performance in Q1 2024. The company managed to achieve a GMV of 5.53 billion RMB and a non-GAAP net profit of 41.482 million RMB. Both increased year-over-year, though it's worthwhile to note that the performance of Q1 2023 was heavily impacted by the pandemic, which only ended in January and February of last year. Taking that into account, it wouldn't be meaningful to make a direct comparison of those months, so we will only compare the performance of March 2023 with March 2024.

In March 2024, GMV reached 1.97 billion RMB, an increase of 6.5% year-over-year. Non-GAAP net profit was 41.45 million RMB, representing a year-over-year increase of 76.8%. The non-GAAP net profit margin reached 2.3%.

If we look at the figures coming out of the Shanghai, Zhejiang, and Jiangsu regions, we can see that in Shanghai, the order volume per station increased by 10.5% year-over-year, in Zhejiang it increased by 11.6%, and in Jiangsu, by 14.5%.

In Guangzhou, Shenzhen, and Beijing area, the company has been experiencing a rapid reduction in losses.

Our world-leading fresh grocery supply chain capabilities have proven to be instrumental in driving Dingdong's robust growth and profitability. I will now provide a thorough introduction to our strengths in this area.

At Dingdong, we have been studying the fresh grocery industry and its unique features since day one. We have identified two intrinsic factors that set it apart from traditional retail. Firstly, the first principle of traditional retail is achieving scale by offering low prices, which then allows for further reductions in purchase prices. However, fresh groceries, being primarily agricultural products, are limited by supply and demand dynamics, as well as seasonality, and so do not benefit significantly from economies of scale.

Secondly, in traditional retail, increasing scale can help reduce operating costs. However, our frontline fulfillment grid model requires a delivery fee that will not decrease significantly as scale increases. We have realized that the first principle of traditional retailing that has been successful since the Walmart era, is not complementary to the fresh grocery industry.

In our industry, the first principle for success is to continuously enhance end-to-end efficiency. To achieve growth at scale, seek profitability and bolster competitiveness, it is crucial that we focus on consistently improving our supply chain capabilities. With these capabilities, we will be able to serve a larger customer base and meet their evolving needs.

Over the past 7 years, we have strived to improve the quality, efficiency, and stability of our procurement processes. To drive this, we have focused on direct sourcing and order-based farming from production areas. We have also invested in food R&D, as well as production and processing capabilities, to give our products a more competitive edge.

Our self-developed D-GAP standards, WMS, TMS, intelligent forecasting and operation systems, and warehousing automation systems have enabled us to improve the efficiency and flexibility of our agricultural product procurement and central warehouse production and processing. As a result of these efforts, we have successfully established world-leading fresh grocery supply chain capabilities, evident in the following three areas.

First, we ensure a high caliber of product quality through our supply chain capabilities. Dingdong's primary goal is to make high-quality food as accessible to everyone as tap water. We've taken this mission to heart, and have invested in our own production and processing facilities, as well as regional processing centers, to ensure that our supply chain is efficiently organized. To guarantee that the food we provide is of the highest quality, we have implemented a 7+1 quality control system. Our investigations have shown that 29 types of ingredients are prone to quality issues like chemical residues and excessive heavy metals. We've addressed these very concerns by fine-tuning our technological processes and implementing more methodical and safer cultivation practices.

Since we're involved in every aspect of the food supply chain, from production to delivery, we can guarantee that our fresh products are consistently of the highest quality. We're proud to say that upholding such proactive measures has paid off, given that we've substantially reduced customer complaints and boosted user loyalty at Dingdong.

Second, through our supply chain capabilities, we have improved end-to-end efficiency and increased gross profit margin. Our current turnover period for fresh groceries is around 5 days, with an end-to-end loss of 1.5%. By utilizing intelligent forecasting and scheduling systems, we have been able to maintain a steady balance between out-of-stock rates and loss rates while ensuring a quality-price ratio. This has resulted in a higher gross profit margin.

Additionally, our credit periods are very short, with a 7+7 payment model utilized for fresh groceries. We are actively focused on enhancing our supply chain capabilities to foster a stronger ecosystem together with our upstream partners.

Third, Our innovative supply chain capabilities broaden the scope of our development potential. Our high-quality products are now available not only on our app, but also through various other channels. Some of our competitors have also begun purchasing our products. Moreover, our cutting-edge digital supply chain system can support traditional retail, trade, agriculture, and a multitude of food industries. It is evident that the development of our supply chain capabilities has and will continue to contribute to our growth potential, creating substantial opportunities for scaling our operations and driving profit growth.

Looking ahead to the remaining months of 2024, and based on the growth we have already observed, we forecast a tangible, sustained improvement in our performance. We think that the strategic advantages of our supply chain capabilities will only become more apparent, and will play a crucial role in boosting our profits and scale. With this in mind, we have raised our expectations for both net profit and scale, and are anticipating considerable year-over-year growth for Q2 and this year. We are looking to achieve both non-GAAP and GAAP profits in Q2 and for the entire year of 2024.

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 the first quarter of 2024, Dingdong achieved a revenue of 5.02 billion RMB, marking a year-over-year increase of 0.5%.

The company's non-GAAP net profit margin rose to 0.8%, with a year-over-year increase of 0.7 percentage points, while its non-GAAP net profit surged 6.8x year-over-year. Dingdong also accomplished GAAP profitability in the same period, posting a net profit margin of 0.2%, up by 1.3 percentage points year-over-year, with a net profit growth of 64.666 million RMB.

Besides that, the company's operating cash flow net inflow was 95 million RMB, marking its third consecutive quarter of net operating cash inflow. After deducting short-term borrowings at the end of Q1, Dingdong's actual self-owned fund balance reached 2.09 billion RMB, a net increase for the third consecutive quarter. These results show that the company has entered a new stage of growth after consolidating its competitive advantages, with simultaneous growth in revenue and profit, and a continuous net inflow of operating cash flow.

We have been focusing on improving our product development capabilities, quality control, and end-to-end supply chain capabilities for the cold chain of fresh groceries. Our aim is to provide consumers with fresh groceries of the highest quality. We have also been fine-tuning our product structure, notably in categories like fruits, dairy drinks, convenience goods, and bakery products. In March, the total sales of these categories increased by approximately 8% year-over-year.

We are also actively working on improving our private-label product development capabilities. In doing so, we will continue to provide users with better-quality products with cost benefits. Our ultimate objective is to engage a wider consumer base and expand our user reach.

In Q1, our GMV reached 5.53 billion RMB, marking a year-over-year increase of 1.4%. After accounting for the impact of store closures in Sichuan, Chongqing, Guangzhou and Shenzhen, we saw a 4.4% year-over-year increase in existing stores. Our revenue also grew to 5.02 billion RMB, a yearly increase of 0.5%. This growth may be mainly attributed to the rise in the number of orders by 3.5% year-over-year.

Emerging from the pandemic's aftermath, our Shanghai market rebounded and achieved a year-over-year growth of 2.7% in Q1 GMV, and almost 10% year-over-year growth in March. Furthermore, growth in Jiangsu and Zhejiang continued to lead, with GMV achieving year-over-year growth of 16.6% and 14.8%, respectively.

This year, we plan to expand our coverage and increase the density of our frontline fulfillment stations in Shanghai, Zhejiang, and Jiangsu regions. As of the end of Q1, we have added 15 new frontline stations in Jiangsu and Zhejiang. The average daily order volume of these new stations has quickly ramped up to more than 650. Additionally, we have significantly reduced regional losses in the Guangzhou, Shenzhen, and Beijing areas. Dingdong has been consistently achieving balanced development across multiple regions.

Gross profit margin was 30.6%, 0.1 percentage points lower than last year. Going deeper into each aspect of the supply chain, including procurement, production, processing, warehousing, fulfillment, and distribution, increases our gross profit margin. We are committed to maintaining price competitiveness while providing consumers with high-value products.

Our fulfillment expense rate improved by 1.1% year-over-year to 22.8%, thanks to an increased order volume which boosted operational efficiency. The average daily order volume at the frontline fulfillment station rose by 16% year-over-year. In addition, we optimized the layout of the regional processing centers in the second half of last year, a development which will undoubtedly continue to improve operational efficiency this year.

Our marketing expense rate increased by 0.4 percentage points year-over-year and reached 2.2%. Because of our strong financial performance and sufficient cash reserves, we have decided to increase our marketing investments on the user side. We aim to expand our user base in key areas and drive growth at scale.

Our administrative expense and R&D expense rate remained at similar levels as the previous year. As always, we remain committed to research and development in the fields of food, agricultural technology, and technical data algorithms.

Non-GAAP net profit margin was 0.8%, with a profit of 41.48 million RMB. This marks our sixth consecutive quarter of non-GAAP profits. We also had a GAAP net profit margin of 0.2% this quarter.

In the first quarter, our company achieved a net operating cash inflow of 95 million RMB, despite incurring costs and expenses, by staying open during the Chinese New Year holiday. This is the third consecutive quarter during which we've maintained a net operating cash inflow. As of the end of Q1, we had 4.51 billion RMB in cash and cash equivalents, short-term restricted cash, and short-term investments.

We have been working diligently to optimize our capital usage and financing structure. And our actual self-owned fund balance, after deducting the balance of our short-term borrowings, is RMB 2.09 billion. Our financial performance is improving, with simultaneous growth in revenue and profit, and we have sufficient financial reserves. With all of this in mind, we are confident that we will achieve this year's growth and profit targets.

Finally, I would like to share an update on our recent performance. During the Labor Day holiday, our GMV increased by 17% year-over-year. When we exclude the impact of Sichuan and Chongqing, the GMV increased by 20%. By region, GMV in Shanghai, Zhejiang, and Jiangsu regions increased by 24% year-over-year, and GMV in Beijing also increased by 5%. These results are remarkable considering that during the holiday, Jiangsu, Zhejiang, and Shanghai saw a year-over-year increase in outbound tourists.

In addition, as of yesterday, during the 8 days of this year's May 5th Shopping Festival and Mother's Day, our GMV increased by 20% year-over-year, and our order volume increased by 21% year-over-year. When we exclude Sichuan and Chongqing, GMV increased by 24% year-over-year, and our order volume increased by 26% year-over-year. among which the GMV of convenience goods increased by approximately 35% year-over-year, and the GMV of aquatic products increased by nearly 30% year-over-year.

On Mother's Day, GMV increased by 26% year-over-year, and order volume increased by 24%. And again, when excluding Sichuan and Chongqing, GMV increased by 30%, and order volume increased by 29%. Among them, the flowers that we mainly push on festivals have increased by about 45% in GMV, and the fruits have increased by about 40% in GMV.

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

**Questions and Answers**

Operator: We will now begin the question-and-answer session. (Operator Instructions). Thomas Chong with Jeffries.

Thomas Chong: (Speaking foreign language). Let me translate myself. A few days ago on May 8, Dingdong celebrated its 7th anniversary. Congratulations to Dingdong on its successful development over the past 8 years, achieving growth in both scale and profit. Mr. Liang, I'm curious to know, as you reflect on the past 7 years, what have been some of the biggest lessons and accomplishments for you and your team?

Changlin Liang: (Speaking foreign language).

(Translated). Thank you for acknowledging Dingdong's 7th anniversary. As we look back on the past 7 years, we humbly admit that we have not achieved any significant accomplishments. However, we would like to share with you some principles that we have always adhered to. It's important to stick to doing what's right, even when it's challenging. For instance, it's easy to grow our business by offering low prices, but it's tough to build and strengthen your supply chain. It's also easy to attract new users through the marketing campaigns, but it's difficult to keep them engaged and loyal. Simply copying industry practices is easy, but it's hard to analyze and then adapt to changes in the market.

Over the past 7 years, we've learned that the right things are always harder to do, and subsequently, we've made it a point to always do what's right, even when it's hard. Over the past 7 years, we have given swift responses to various challenges, including the 3 years comprising the pandemic. During the pandemic, we fulfilled our responsibilities and maintained a reliable supply, while also achieving our own growth despite headwinds. We have adapted to changes in the capital market, shifting from a focus on expansion to prioritizing efficiency, while still keeping scale at top of the mind. As a result, we have attained substantial profits for 6 consecutive quarters and have ample cash flow.

We've also successfully navigated challenging situations like Chinese New Year or severe weather conditions such as typhoons, heavy rains and snow storms. Our ability to deliver rapid responses has ultimately strengthened our supply chain capabilities and is a testament to our adaptability.

As mentioned earlier, our primary goal is to make quality food as accessible as tap water. To achieve this, we focus on creating value for consumers, instead of engaging in zero-sum games or price wars with our peers. We continuously strive to improve the end-to-end efficiency of our supply chain and develop better, more cost-effective food products for the public. Our commitment to creating value for our customers remains steadfast.

It's important to have a long-term perspective. The business of fresh groceries is challenging and time-consuming, and we're only at the beginning of our journey. Still, no matter what obstacles come our way, we're committed to seeing this journey through. Thank you.

Operator: Robin with Daiwa.

Robin Leung: (Speaking foreign language). I recall that Dingdong had physical grocery outlets last year. Can you provide an update on the progress since Q1? Additionally, do you have any insights to share?

Changlin Liang: (Speaking foreign language).

(Translated). We have launched a new service model with these physical fresh grocery outlets to cater to the evolving times and to meet the shopping needs of the elderly in China. We've observed that China is becoming an aging society, and the elderly tend to prefer offline shopping and value cost-effectiveness more. Therefore, we've opened fresh grocery outlets to provide them with healthy and delicious fresh groceries right in their neighborhood. Currently, we have four stores, each covering an area of about 350 square meters.

The daily sales per store are more than RMB 40,000 and the sales are still increasing. These stores serve to expand our consumer groups, meet the needs of a broader range of consumers and reflect our supply chain capabilities. With a robust supply chain, we can expand our reach, serve more customers and fuel growth. Thank you.

Operator: Jiajing Chen with CICC.

Jiajing Chen: (Speaking foreign language). Mr. Liang, congratulations for out-performing results this quarter. Could you please tell us, why have the company's cash balance decreased compared to the last quarter?

Changlin Liang: (Speaking foreign language).

(Translated). Thank you for your question. Our CFO, Wang Song, is better suited to answer your question. I'll defer it to him.

Wang Song: (Speaking foreign language).

(Translated). Thank you, Mr. Liang. We want to update you on our financial status. As of the end of Q1, we had a balance of cash and cash equivalent, short-term restricted cash and short-term investment amounting to 4.51 billion RMB. This is approximately 800 RMB million lower than our balance at the end of the previous quarter.

First and foremost, the decrease in our balance sheet is not due to our operational activities. Instead, we took proactive measures to adjust our balance sheet structure. Despite costs and expenses incurred in the first quarter to stay open during the Chinese New Year, we still achieved a positive operating cash flow and a net inflow of around 100 million RMB. It's worth noting that this is our third consecutive quarter with a net inflow. Moreover, we're thrilled to report that our scale and profits are growing, and we've now become a continuously profit-making and self-generating enterprise.

During the quarter, we took the initiative to optimize our financing structure, improve capital efficiency, and use our own funds to repay some of our short-term borrowings. We worked with banks to repay the notes payable and reversed factoring arrangements, which is supply chain finance loans, resulting in a decrease of 880 million RMB in our net short-term borrowings. After deducting these short-term borrowings, our actual self-owned fund balance increased by approximately 80 million RMB from the end of the previous quarter to a total of 2.09 billion RMB.

We've been actively working towards building a strong relationship with our suppliers by providing them with more support and empowering them. As the original supplier credit period is relatively short in our industry, we've further optimized the credit period since the start of 2024. This has yielded positive results as seen in Q1, where our accounts payable turnover days accelerated by 2.6 days compared to the previous quarter, and by 7.9 days compared to Q1 in 2023.

Additionally, after deducting short-term borrowings and accounts payable, our own funds have increased by 190 million RMB compared to the end of the previous quarter.

In summary, with a series of financial resource integrations, our operating cash recorded a net inflow of approximately 100 million RMB. This, combined with our scale and profit growth, is a clear indication that our financial and capital structures are becoming more stable. As we continue to become financially healthier, we'll have access to more funds to support our growth throughout the year, and the necessary capital expenditures to build new stations in Shanghai, Zhejiang, and Jiangsu regions. Thank you.

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