[DDL] Dingdong (Cayman) Limited
Q2 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
Robin Leung, Daiwa
Yang Bai, CICC

Presentation

Operator: Good morning and good evening, ladies and gentlemen. Thank you for standing by, and welcome to the Dingdong Ltd. Second Quarter 2024 Earnings Conference Call. (Operator Instructions). Please note 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, and welcome to Dingdong's second 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 second 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'd 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). Hi, everyone, and thank you for joining Dingdong's Q2 2024 earnings call. As of Q2 2024, Dingdong has achieved profitability for 7 consecutive quarters based on non-GAAP standards.

Additionally, after Q1 of this year, the company has again achieved GAAP profitability. Notably, we have resumed growth since Q1 of this year. Both profits and revenue have shown positive year-over-year growth for 2 consecutive quarters. These achievements are mainly attributed to Dingdong's world-leading fresh grocery supply chain capabilities, which facilitate our continued growth in scale and profits.

In my speech, I'll review our Q2 performance, discuss Dingdong's growth drivers, and provide an outlook for future development and performance. Let's take a brief look at our Q2 performance. Dingdong achieved a GMV of 6.22 billion RMB, a 16.8% increase year-over-year. Based on non-GAAP standards, net profit was 103 million RMB, nearly 13x more than the prior year, and net profit margin was 1.8%, up by 1.6 percentage points year-over-year. Meanwhile, in June, we saw remarkable growth, with the same stores' GMV increasing by 21.6% year-over-year, and all regions experienced positive year-over-year growth in scale.

The hard-earned growth can be attributed to the consistent increase in transacting users and ARPU. In Q2, we recorded 7.3 million transacting users monthly, up 11.7% year-over-year. Additionally, the average daily number of transacting users approached 900,000, up 17% year-over-year. With a 4.3% year-over-year increase in DAU, the company also benefited from ongoing enhancements in service capabilities and supply chain operation improvements. Consequently, the conversion rate of DAU to daily transacting users increased by 4.3 percentage points compared to the same period last year.

User loyalty and wallet share on Dingdong increased during the same period. Our users' monthly ARPU increased 6% year-over-year. Specifically, members' monthly ARPU rose 7.8% year-over-year, surpassing 500 RMB.

Looking at it from a business standpoint, over the course of this year, we've further enhanced the assortment of products in our advantageous dining table category. This has enabled us to better cater to the purchasing needs of diverse consumer groups, providing them with a one-stop-shop solution to acquire all the necessary ingredients for a complete meal.

We have also expanded the SKUs available for the leisure scene to include fruits, dairy, alcohol, beverages, leisure products, and baked goods, and the strategy achieved initial success in Q2. For example, in the leisure products category, both the number of average purchases per user and frequency of monthly purchases have increased rapidly, leading to a 24% year-over-year increase in monthly ARPU in this category.

This year, we have resumed expanding our station network in Jiangsu, Zhejiang, and Shanghai, continuously increasing our station network penetration in these regions. We aim to open approximately 80 new frontline stations in these regions this year, with nearly 40 already completed in the first half of the year. These new frontline stations are quickly ramping up, and each station now manages an average of 800 orders daily.

As I've just outlined our Q2 performance, I would now like to introduce several future growth drivers. Volume from our Jiangsu, Zhejiang, and Shanghai business are expected to keep growing. In the first half of this year, Shanghai achieved a GMV year-over-year growth of 9.5%, Zhejiang 22.7%, and Jiangsu 22.6%. The increase in scale was driven by the rise in the penetration rate and the number of orders per user. Due to the large populations, high residential density, and strong purchasing power in these regions, Dingdong still has significant potential for growth. We are very confident that we will maintain speedy growth in these regions for a long time to come.

The expansion in the Jiangsu, Zhejiang, and Shanghai regions has helped improve our supply chain and user operation capabilities. This will benefit our operations in South China and North China, which are expected to continue growing in scale and gradually become profitable.

Additionally, we have seen sizable growth in some tier-3 and tier-4 cities, such as in Yangzhou, and Huzhou, with an impressive year-over-year growth rate of over 50% in the second quarter. Given the high number of tier-3 and tier-4 cities in China, this progress will establish a robust foundation for our supply chain and operational strategies in additional regions in the future.

An overflow in our supply chain capacity facilitates rapid growth in food R&D, production, and processing, creating more value for us. Our R&D, manufacturing, and processing of meat, grain, bean products, and prepared meals are of top quality in the Chinese consumer market, and we distribute these products to users through the Dingdong app and various retail channels.

Moreover, our products are increasingly being sold to consumers through hotel and catering channels such as Huazhu, Jinjiang Inn, and Atour. By leveraging our reputation and channel logistics advantages, we aim to extend our reach to more business customers in the future, fulfilling our mission of making top-quality ingredients readily accessible to everyone.

One of the ways we create value is by expanding into international markets. Over the past 7 years, we have utilized our supply chain expertise to deliver food from remote areas of China to affluent regions, including Jiangsu, Zhejiang, and Shanghai. This has not only satisfied the needs of people in these areas for a better quality of life, but has also generated prosperity for those in remote regions and enhanced overall productivity within society.

Considering the global perspective, there exists a significant disparity between food supply and demand. Leveraging our supply chain capabilities, we can work towards facilitating a more efficient movement of food. This is our original entrepreneurial goal: by leveraging our supply chain capabilities and working hard, we aim to generate significant social and commercial value.

Finally, I'd like to give you an update on our performance outlook for the entire year of 2024 and for the third quarter. Considering our improved performance in the second quarter, and also, over the past few quarters, we have raised our internal forecasts for profitability and scale. We anticipate a significant year-over-year increase in net profit and scale for both the year as a whole and the third quarter. And we're confident that we will continue achieving both non-GAAP and GAAP profitability. We have full confidence in the growth of scale and profits this year, and we are even more confident about the future.

This concludes my speech. 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 for the second quarter, please note that all our figures are in RMB. In the second quarter of 2024, Dingdong generated revenue of 5.6 billion RMB, up 15.7% compared to the previous year.

Non-GAAP net profit margin was 1.8%, a 1.6 percentage point increase from the previous year, with a net profit of 103 million RMB, nearly a 13-fold increase from the previous year. This is the seventh consecutive quarter of non-GAAP profitability.

The Company was profitable under the GAAP standards for a second consecutive quarter with net profit margin of 1.2%, up by 2.0 percentage points year-over-year, and net profit of 67.13 million RMB, an increase of 104 million RMB year-over-year.

Operating cash flow showed a net inflow of 0.25 billion RMB, marking the fourth consecutive quarter of net inflow. As of the end of June, free cash flow for the past 12 months amounted to 0.51 billion RMB, the highest level in recent years and reflecting a 0.81 billion RMB increase from the same period last year. By the end of Q2, our actual self-owned funds balance, after deducting the short-term loans, stood at 2.32 billion RMB, a 0.32 billion RMB increase from the end of last year, and a 0.24 billion RMB increase from the end of March.

As we have always emphasized, Dingdong has not only achieved gratifying revenue growth, but has also continued to increase its profitability. In addition, our financial capacity has been continuously improving, while the number of our frontline stations has also been growing. The above financial performance demonstrates that we are fully self-sufficient and maintaining healthy growth.

Let's review the specific financials. GMV was 6.22 billion RMB, up 16.8% year-over-year. Notably, Shanghai, Jiangsu, and Zhejiang saw impressive year-over-year growth rates of 16.5%, 28.5%, and 30.4%, respectively. This growth was attributed to our expanded coverage and penetration in these regions. Additionally, the Beijing region returned to positive growth, with an 8.5% year-over-year increase.

In June, all regions, including Guangzhou and Shenzhen, achieved year-over-year positive growth, with same-store growth rate reaching 21.6% nationwide.

Looking ahead, we anticipate that the growth momentum in June will be sustained during the summer vacation, especially due to the impact of high temperatures. Furthermore, losses in Guangzhou, Shenzhen, and Beijing are gradually narrowing each quarter, indicating the success of the company's regional strategy.

Gross profit margin was 30%, down 1 percentage point year-over-year. The decrease was due to price concessions to provide more value to consumers and maintain our competitiveness. It was partially offset by an increase in gross profit margin resulting from improvements in our entire supply chain, which includes direct sourcing, production and processing, warehousing, fulfillment, and distribution.

Fulfillment cost rate was 22.4%, 1.2 percentage points lower year-over-year. The increase in order volume has led to improved operational efficiency. Our frontline fulfillment stations processed over 1,000 orders daily on average, up 29.4% compared to a year ago, with Shanghai processing over 1,500 orders daily.

We are continually enhancing our service capabilities using algorithms and supply chain operation capabilities. Consequently, the average ASAP order fulfillment time in Q2 was 36 minutes, 2 minutes faster than the previous year, and the 60-minute delivery availability was 97%, an 18-percentage point year-over-year increase.

Sales and marketing cost rate was 2.3%, a 0.4 percentage point increase year-over-year. With strong financial performance and ample cash reserves, we plan to increase our marketing investments to enhance user acquisition, optimize traffic operations, expand our user base in key areas, and drive overall business growth.

Total G&A and R&D expenses were 0.4 percentage points lower than in the same period last year, primarily due to economies of scale. We intend to maintain our investments in R&D for food, agricultural technology, and technical data algorithms.

Non-GAAP net profit margin was 1.8%, resulting in a net profit of 103 million RMB. GAAP net profit margin was 1.2%.

At the end of Q2, our balance of cash and cash equivalents, short-term restricted funds, and short-term investments amounted to 4.16 billion RMB. We are continuously improving the efficiency of capital use and our financing structure. After deducting the balance of short-term loans, the actual balance of our own funds was 2.32 billion RMB.

In the second quarter, we achieved outstanding financial performance in line with our guidance. Considering our recent operating financial performance and balance sheet strength, we are confident that we will meet our performance expectations for the third quarter and the whole year.

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 Jefferies.

Thomas Chong: (Speaking foreign language). So according to recent reports, Hema has restarted recruitment and construction of frontline fulfillment stations. And also, JD is also deploying frontline fulfillment stations, and also Meituan is extending the station to more cities. So what are your thoughts on those developments? And also, how do you foresee the future competition?

Changlin Liang: (Speaking foreign language).

(Translated). Thank you for your question. In the past, doubts and concerns arose about our chances of survival due to changes in the macro environment and competitive landscape. However, our consistent profitability and growing scale demonstrate that we have not only survived, but thrived, even in a slow consumption environment. Previously, there were concerns about challenges in the frontline fulfillment station grid model or even in the fresh grocery e-commerce industry. But I believe our success in this area has encouraged peers to participate and contributed to the growth of a frontline fulfillment grid model and the fresh grocery e-commerce industry.

Now here I want to briefly share our differentiation compared to our peers. There is no right or wrong, good or bad, but only our understanding of our business model. First, there are different interpretations of the fundamental principles within the fresh grocery industry. Many in the industry adhere to the traditional retail approach, which is achieving scale by offering low prices and then leveraging that scale to drive down procurement costs and operating expenses. However, we've realized that the first principle of traditional retailing, which has been successful since the Walmart era, is not applicable to the fresh grocery industry.

Instead, the first principle of 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'll be able to serve a larger customer base and meet their evolving needs.

Second, in the past, as our industry developed, everybody was exploring and pursuing various changes to business models. Some constantly modify their operational methods in search of the best solution. We, on the other hand, focused on adapting our development strategy to accommodate changes in our environment. We always believe that strong supply chain capabilities are essential, and that beyond this, the specific model and structure are not as crucial. Robust supply chain capabilities allow us to quickly and effectively adapt to evolving market conditions.

Our growth strategy is unique. Unlike our competitors who focus on retail or e-commerce, Dingdong is primarily a fresh grocery supply chain business. As our supply chain expands, we'll be able to reach more people in different regions in a more adaptable manner. We'll also be able to cater to a wider range of consumers in a flexible way. We're not constrained by traditions or forms, but focus on the core elements, observe the world, work diligently, and therefore have greater opportunities and room for development.

For many years, our industry competitors have experienced ups and downs, but we have been steadily moving forward. We're not overly concerned about competition and rarely evaluate our peers. Our focus is on our initial purpose, mission and self-development. Thank you.

Operator: Robin Leung with Daiwa.

Robin Leung: (Speaking foreign language). During previous earnings call, management focused on supply chain capability building and ways for the company to generate profit. However, today, the focus seems to have shifted to future growth. So would you share what does the future revenue growth rate look like for Dingdong in the future?

Changlin Liang: (Speaking foreign language).

(Translated). In our previous discussion, we highlighted four key drivers for growth. These factors are linked to the organic expansion of our fresh food supply chain capabilities. We're confident that in the future, these four growth drivers will be able to expand to the same scale as our current business lines or even greater.

Additionally, we have divided Dingdong's initial development into two stages. The first stage covers the 7-year period from our business's establishment in 2017 to the present, representing the transition from zero to one. During this time, we have achieved profitability and have reached an annual revenue scale of more than 20 billion RMB. Looking ahead, the second stage will encompass the next 7 years, representing the transition from 1 to 10, and we aim to achieve an annual revenue scale of 100 billion RMB. Thank you.

Operator: Bai Yang with CICC.

Bai Yang: (Speaking foreign language). I will translate by myself. The management just mentioned that they anticipate opening 80 new frontline stations this year. Will that increase pressure on the company's cash flow?

Changlin Liang: (Speaking foreign language).

(Translated). Thank you for your question. I'll let our CFO, Wang Song, answer it.

Wang Song: (Speaking foreign language).

(Translated). Thank you, Mr. Liang. I will address this question from three perspectives. First, let me provide a brief overview of our plan for the new frontline fulfillment stations. This year, we have initiated the opening of approximately 80 new stations with a focus on the Jiangsu, Zhejiang and Shanghai regions. Our primary goal is to bolster our presence in these areas to support the company's long-term growth. As of the first half of this year, we have already achieved nearly half of our target, and the average daily orders of these newly-opened stations are rapidly increasing to 800.

Second, our capital reserves are very strong. Each year in Q2, we distribute our year-end bonuses of the previous year. Even after distributing the bonuses, we achieved a net inflow of RMB0.25 billion in operating cash flow, the highest in recent years. Our free cash flow in the past 12 months was RMB0.51 billion, also the highest in recent years. As our scale increases and profitability improves, we expect a consistent increase in operating cash flow and free cash flow.

At the end of Q2, the company had RMB2.32 billion in cash on hand after repaying short-term loans, marking growth for 4 consecutive quarters. We estimate that the total CapEx investment for these 80 new stations will be around RMB40 million. Therefore, we have enough self-owned funds to complete their opening without impacting our daily operating funds at all.

Third, thanks to our well-established infrastructure, mature supply chain capabilities and operational expertise in Jiangsu, Zhejiang, and Shanghai. Our newly opened frontline fulfillment stations have significantly improved in terms of scale and unit economics ramp-up. We estimate that the new frontline fulfillment stations in Jiangsu, Zhejiang, and Shanghai can achieve operational breakeven with only 500 orders daily per station. The ramp-up period is about 3 to 6 months.

Our new frontline fulfillment stations processed an average of 800 orders daily in the first half of this year, and most of them are now breaking even at the operational level. As a result of this rapid progress, the new frontline fulfillment stations will not strain the company’s operating cash. Additionally, these new stations will significantly contribute to our expansion and reach in the Jiangsu, Zhejiang, and Shanghai regions.

In summary, we have sufficient capital reserves to support our frontline fulfillment stations opening. The new stations are ramping up very quickly, so there will be no pressure on the cash flow, and they will help us maintain sustained growth. Thank you.

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

Nicky Zheng: Thank you. Thank you again for joining our call today. If you have 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: The conference has now concluded. Thank you for attending today’s presentation. You may now disconnect.