

DDL Earnings Call Transcript

Date: 2025-11-12

Quarter: 3

Operator: Good morning, and good evening, ladies and gentlemen. Thank you for standing by, and welcome to the Dingdong Limited Third Quarter 2025 Earnings Conference Call. 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, sir.

Nicky Zheng: Thank you. Hello, everyone, and welcome to Dingdong Third Quarter 2025 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 2025 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.

Liang Changlin: Hello, everyone. Thank you for participating in Dingdong's Q3 2025 Earnings Call. As of Q3 2025, Dingdong has maintained profitability under non-GAAP standards for 12 consecutive quarters and under GAAP standards for 7 consecutive quarters. Despite a higher baseline compared to the same period last year, revenue has achieved year-over-year growth, which marks the seventh straight quarter. This sustained expansion and steady achievement of profit targets fully demonstrating our strategic resilience and execution excellence amid the current complex market and competitive landscape, providing strong momentum for advancing our long-term strategy. Next, I'll review the key highlights of Q3 operations and share our insights and outlook for the business. In Q3 2025, Dingdong reported a GMV of RMB 7.27 billion and a revenue of RMB 6.66 billion, both increasing slightly year-on-year. This marked Dingdong's highest ever quarterly GMV and revenue. Non-GAAP net profit was RMB 0.1 billion with a profit margin of 1.5%, while GAAP net profit was RMB 0.08 billion with a margin of 1.2%. Building on the strong growth seen in Q3 2024, we continue to sustain our growth momentum and stay profitable. This year, the company has made notable progress with its good product system. A series of good products has effectively enhanced user [retention] and repurchase rates while also significantly supporting overall GMV growth. For instance, in September, SKUs classified as good products comprised 37.2% generating 44.7% of total GMV, a rapid jump from January. When the 4G strategy was launched and the share of good products SKUs was 14.1% and their GMV contribution was 16.4%. The growing number of these good products has attracted more users to place orders on Dingdong. In Q3, the monthly order conversion rate increased by 1.6 percentage points year-over-year and the number of monthly ordering users grew by 4.1%. Additionally, good products have further strengthened user [mind share]. The average monthly order frequency reached a record 4.6x in Q3, up 4.9% year-over-year with member placing an average of 7.7 orders per month, a 1.3% year-on-year increase. From a regional perspective, the GMV in Jiangsu, [Chongqing] and [indiscernible] continued its steady upward trend this quarter, increasing by 1.4%

year-over-year. Shanghai as the strategic core markets maintained stable operations, leveraging its high penetration rate to support the region's overall growth. Meanwhile, Jiangsu and [Chongqing], which are still in the phase of rapid market penetration, sustained strong growth with GMV rising 3.6% year-over-year. Of the 19 cities in the region, excluding the recently expanded cities of Chongqing and [Chuzhou], 9 cities delivered growth of over 10% with Guangzhou performing exceptionally well with growth exceeding 60%, reflecting significant consumption potential. These results clearly indicate that the market demand in Jiangsu and Zhejiang is still largely untapped. The existing mature cities, operational capacity and the expansion potential in new cities together present substantial opportunities for future growth. In Q3, building on our ongoing implementation of the 4G strategy of good users, good products, good services, good mindset, we introduced a new development framework called One Big, One Small, One World to guide the company's next stage of growth. One Big emphasizes our high-volume top-selling product strategy. Building on the initial successes of our good product strategy and approach, we are now dedicated to developing a top-selling product system. We believe that a deep understanding of products arises not only from economies of scale, but also from the structural opportunities discovered through refined operations, which is precisely the long-term significance of our top-selling product strategy. Unlike bestsellers, small but beautiful products prioritize user value and unique experiences over scale. Conversely, high-volume top-selling products prioritize market fundamentals such as sourcing raw materials, category resilience and scalability. At Dingdong, we set clear standards for creating blockbuster products. They must possess core competitiveness, ideally with universal appeal for potential for wide consumer appeal. By systematically analyzing production resources, efficiently managing supply chains and brand building, these products are well positioned for operational success and growth. Additionally, blockbuster products should align with existing channels, meet genuine consumer needs and have low loss rates, coupled with high market scalability. During the 100-day summer campaign from June 21 to September 30, over 100 top-selling products were developed, laying a strong foundation for our high-volume top-selling product strategy. The One small in one Big, One small, One World refers to establishing frontline fulfillment stations in smaller cities and expanding into those markets. Our warehousing network is already dense in key areas like Shanghai, [Suzhou and Hangzhou]. Building on this, we plan to focus on -- our expansion on smaller and medium-sized cities in the Jiangsu Zhejiang and Shanghai regions, such as [indiscernible] and [indiscernible], which we launched this quarter. These cities tend to experience a decline in traditional retail, yet their consumers demonstrate strong purchasing power, especially in discretionary spending in food categories. As living standards rise and consumption habits evolve, local residents increasingly value product quality and health, creating a significant opportunity for high-quality fresh groceries. In exploring markets in small- and medium-sized cities, we have developed a systematic approach to market expansion, continuously refining it through real-world operations. Compared with mature cities, we have made specific adjustments to our city entry strategies, user acquisition methods, product configurations and performance metrics. Our core focus is on dining and coffee table leisure scenarios in small cities, aiming to offer consumers high-quality, reliable and affordable products. This strategic direction has proven to be a key breakthrough for us in today's highly competitive market environment. By the third quarter, we had opened 40 new frontline fulfillment stations this year, including 17 in the third quarter. successfully expanding into small city markets such as [Chongming Island] in Shanghai, [indiscernible] in [Nantong], [indiscernible] in [Chuzhou]. By exploring and developing small city markets in Jiangsu, [Dongguan] and Shanghai, we have found a clear strategic path to breakthrough and sustainable growth in an increasingly competitive environment. Finally, the One World in One Big, One Small, One World strategy refers to the expansion into international markets. By leveraging our robust domestically developed fresh grocery supply chain, we are confident in our ability to grow overseas. We have formed partnerships with top-tier partners like FairPrice in Singapore, DFI in Hong Kong, [indiscernible] and Hong Kong [CV Mall]. We're also pleased to see the large number of fresh groceries and packaged foods developed by Dingdong have been widely embraced by overseas consumers. Now let me share with you our outlook for Q4 2025. Industry-wide competition in the instant retail sector is intensifying with both platforms and off-line merchants increasing their investments to gain market share. This has led to a rise in overall market competition. Nevertheless, building on the One Big, One Small, One World framework introduced in Q3 and leveraging our strength in supply

chain, product development and IT systems bolstered by sustained profitability and solid cash reserves, Dingdong is confident in forging a unique quality focused, efficient and resilient growth path through intense competition and in maintaining last year's [scale] and non-GAAP profitability in Q4. That concludes my remarks. Thank you. Now I invite our CFO, Wang Song, to discuss the company's financial status.

Song Wang: Thank you, Mr. Liang. Hello, everyone. Before I present our financial performance, please note that all figures are in RMB. In Q3, 2025, Dingdong reported revenue of [RMB 6.66 billion], marking a 1.9% year-over-year growth and maintaining positive growth for 7 straight quarters. Non-GAAP net profit reached RMB 0.1 billion with a 1.5% net profit margin, while GAAP net profit was RMB 0.08 billion with a 1.2% margin. We had net operating cash inflow of RMB 0.14 billion in Q3, the ninth consecutive quarter of positive cash flow. By the end of Q3, after deducting short-term borrowings, our actual cash owned increased to RMB 3.03 billion. Next, let's review the specific financial results for Q3. Revenue for Q3 reached RMB 6.66 billion, marking a 1.9% year-over-year increase. GMV was RMB 7.27 billion, up 0.1% compared to the previous year. The scale growth maintain -- mainly stemmed from a general rise in order volume, which increased by 2.2% year-over-year in Q3. This quarter, our B2B business continued to grow steadily with revenue expanding by 67.4% year-over-year, and its revenue share rose by 1.9 percentage points year-over-year. Gross profit margin was 28.9%, down 0.9 percentage points year-over-year. The decline in gross profit narrowed on a quarter-over-quarter basis. During the quarter, the company maintained its focus on its good product strategy by refining its product lineup, emphasizing flagship items and increasing the supply of high-quality goods. It continued to enhance its supply chain system by prioritizing high-quality products that meet market demand while systematically phasing out slow-moving goods with low user preference. This high-quality in, low-quality out approach enabled the company to focus core categories, thereby enhancing overall product competitiveness. At the same time, in a highly competitive instant retail environment, the company actively managed gross profit margins, rewarding consumers, improving market access for high-quality products and steadily expanding its user base and market reputation. The fulfillment cost ratio was 21.5%, up by 0.1 percentage points compared to last year. Although the overall fulfillment cost ratio stayed stable year-over-year, we continue to prioritize service improvement. This quarter, our on-time delivery rate reached 97%, up by 1.5 percentage points from the previous year. The product negative review rate was 0.04% and rider negative reviews were at 0.02%, each decreasing by 0.01 percentage points annually. The average fulfillment time for instant orders was 36.3 minutes, down by 1.4 minutes year-over-year. These results highlight our ongoing efforts to optimize services, enhance user experience, build user trust and generate long-term value. The sales and marketing expense ratio was 1.9%, a decrease of 0.3 percentage points year-over-year. Going forward, we'll strengthen our top-selling product strategy, making it a core growth driver and traffic generator. By focusing resources on mind share penetration and efficient conversion, we will continuously enhance the overall return on marketing investment. Combined G&A; and R&D; expenses represented 4.9% of revenue, similar to the same period last year. We'll maintain our focus on R&D; investment in food research, agricultural technology and data algorithms. Additionally, we'll continuously enhance our product development capabilities and strengthen digital integration throughout the entire supply chain. We recorded a non-GAAP net profit margin of 1.5% with a net profit of RMB 0.1 billion. Meanwhile, our GAAP net profit margin was 1.2%, amounting to RMB 0.08 billion this quarter. As of the end of Q3, the total of cash, cash equivalents, short-term restricted funds, short-term investment and long-term wealth management products stood at RMB 3.94 billion. We maintain efforts to improve capital efficiency and optimize our financing structure. After deducting short-term borrowings, our net equity funds hit a record high of RMB 3.03 billion, up RMB [0.08 billion] from the previous quarter. That concludes our presentation for today. Operator, we can now proceed to the Q&A; session.

Operator: And our first question today will come from [Erica Chau] of Jefferies. We can move on to our next question. our next question will come from Yang Bai of CICC.

Yang Bai: The instant retail market remains highly competitive and fresh groceries are at the heart of this battlefield. Industry giants like Alibaba, [Meituan] and Dingdong are all making significant investments. How does Dingdong view the current competitive landscape? What challenges does it bring? And are there new opportunities behind it?

Unknown Executive: Thank you for the question. Indeed, competition in instant retail has never been quiet. Fresh groceries are not only the most competitive part of the market, but also the most valuable. We constantly ask ourselves how can we not just survive in competition but grow meaningfully through it. We observed that the mainstream approach in today's market still revolves around price competition using subsidies and discounts to drive short-term traffic and scale. This may work in the near term, but it's not sustainable long term. At Dingdong, our path is to build differentiation proactively guided by 2 major strategic paths. First, on the user side, we firmly execute our 4G strategy. Our philosophy is simple, yet powerful. Good products attract good users. We're not chasing mass traffic, but focusing on building a high-quality user base through differentiated products and experiences. In the short term, this may not create explosive growth, but in the long run, it leads to healthier compounding growth. When the market eventually returns to the fundamentals of value and efficiency, this foundation will become our strongest moat. Second, on the supply chain side, we follow the principle of 1 inch wide, mile deep. We focus deeply on our core areas going all the way to the source from direct sourcing at farms, to in-house R&D; and production and from warehousing and logistics to digital and AI infrastructure, whether it's developing best-selling products, investing in food innovation or strengthening traceability, IT and AI systems, all these efforts aim to build a supply chain capability that is uniquely [Dingdong]. This strength doesn't show overnight, but it becomes the most resilient and hardest to replicate assets in the long run. In summary, we're committed to a long-term path. Beyond short-term battles over price and scale, we focus on long-term battles of efficiency and capability. As the market becomes more rational, those who truly possess supply, product and organizational strength will outlast the cycle and win the future. We believe that our patience, discipline and long-term investment today will become our core competitiveness tomorrow. After the noise is fade, time will ultimately stand on our side. Thank you.

Operator: Our next question today will come from [Erica Chu] of Jefferies.

Erica Chu: Let me translate my question. First of all, congratulations on the company's continued excellent performance this year -- this quarter, especially considering the extremely fierce competition in the instant retail market. Could you elaborate on the aforementioned top selling product strategy, especially -- specifically in conjunction with the top sellers from this year's third quarter summer sales campaign?

Unknown Executive: Thank you for your question. The strong performance of our top-selling products this summer has reinforced our long-term commitment on product-driven growth. Previously, we build products mainly through a channel lens, but now we're shifting from a channel distributor mindset to a product manager mindset, moving from a Dingdong perspective to a full chain perspective. This requires us to think and act as comprehensive product managers, designing every product's full life cycle from its origin to the hands of the consumer. We're no longer just selling products but create products that truly resonate with users. Fresh groceries are naturally nonstandardized, highly perishable and seasonal. To address this, we harness digital and IT technologies to expand our management scope and efficiency, eliminate intermediaries, reduce procurement costs and lower spoilage rate through standardized quality control, thereby improving the overall profitability of our supply chain. Unlike the small but beautiful products that are limited in scale, our top seller approach focuses more on stability, controllability and economies of scale. This consistency is key to earning user trust. a top-selling product that reliably offers a high-quality experience and maintains a stable supply will deepen brand recognition in the minds of our users, resulting in increased repurchase rates and stronger brand loyalty. Our systematic approach to developing top-selling products involves assessing a category like foods across 6 key dimensions: market size; supply chain capabilities; product competitiveness; operational efficiency; channel fit and profitability. We carefully select the

most promising targets and then scale them across the country or even into international markets by leveraging centralized procurement, standardized quality control, tiered processing and large-scale fulfillment, we're able to significantly reduce costs and losses, therefore, enhancing product value. Furthermore, this process has helped us build a comprehensive set of replicable system capabilities covering origin selection, planting, harvesting, processing, warehousing, transportation and end user sales, establishing a standardized supply chain framework. This enables us to better control the upstream supply chain, ensuring Dingdong's products are uniquely differentiated and virtually irreplaceable. The summer campaign results validated our strategy. For example, [indiscernible] generated nearly RMB 15 million in GMV, marking a 22-fold increase year-over-year with notable growth in user repurchase rates and a low-quality complaint rate of just 0.84%. Similarly, the new product, [uawei Li] achieved RMB 9 million in GMV, experiencing significant increases in revenue and repurchase rate. These figures show that distinctive high-quality individual products that resonate with consumers can strengthen brand identity and serve as key drivers of sales growth. Therefore, we believe that the top-selling product strategy is more than just a sales tactic. It's long-term approach to developing capabilities. This strategy enables us to create a sustainable competitive advantage centered on products, emerging brand appeal with the benefits of scale. Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to management for any 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, and have a good night.

Operator: The conference has now concluded. We thank you for attending today's presentation, and you may now disconnect your lines.