



Pinduoduo

What it does

Pinduoduo (PDD) is a social e-commerce platform in China. When a user wants to buy a product, they can either place an order directly or invite their friends or family via WeChat to start a shopping 'team' and so enjoy a bulk order discount. This also benefits the farmers and merchants and avoids them having to use expensive middlemen to reach their end consumers. This means greater efficiencies for everyone.

Why we own it

- Gamified features and value-for-money offerings = PDD enjoys high levels of user engagement on a par with social media apps. It sustains mind share across hundreds of millions of users.
- Well-aligned with the State's common prosperity plans. PDD serves millions in lower tier cities in China, giving people in remote provinces access to basic items and food. It is also facilitating China's consumption upgrade. Food security and quality also matter.
- Its mobile-first platform, massive data, and artificial intelligence capabilities can be well leveraged by PDD to optimize the entire supply chain, from buyers to manufacturers.
- PDD has built a successful franchise in consumer retail. It is expanding more into grocery and agriculture.

How it could be worth many times more

- PDD could feasibly double its share of the multi-trillion dollar (and growing) online retail market over the next 5-10 years. A 30% share could imply \$1.5 to \$2 trillion GMV.
- Even if the user base largely plateaus from here, expansion into food and grocery should drive higher order frequency and greater ARPU.
- A long-term take rate of 5% is plausible, particularly as more medium and large merchants join the platform. Net margin reaches c. 20%,

Where we might be wrong

- PDD fails to capture more market share. Or worse, it loses share to others such as Meituan.
- Runs afoul of alignment with the priorities of the Chinese State.

Short 10 questions

Can sales double in the next five years?

1

Yes, by growth in retail sales and online consumption of goods. Targeting those whose spending power is likely to grow quickly.

Ten years and beyond?

2

Improve the efficiency and quality of the supply chain in the manufacturing industry in China, especially in food and grocery.

Competitive advantage?

3

New social based e-commerce model, value-for-money merchandise and the potential to transform the manufacturing industry.

Is the business culture different?

4

Very youthful and imaginative. Ambitious founder Colin Huang describes culture as 'Costco + Disney'.

Customers like you? Contribute to society?

5

Yes. Targeting low tier cities to drive consumption, empower SMEs, create jobs and transform the 'old economy'.

Are returns worthwhile?

6

Yes, mid-teens operating margin and proven profitability.

Will they rise or fall?

7

Margins already rising quickly, potential to further improve with S&M expenses declining. Pace is a matter of how aggressively PDD reinvests in product expansion. 20% net margin long term?

How is capital allocated?

8

Investment in technology, expansion opportunities outside China and building a partnership structure to make it an attractive place to work.

Could it be worth 5x as much?

9

Even if the previous astonishing growth in users and GMV slow, PDD's expansion into grocery should drive ARPU and profitability

What doesn't the market understand?

10

Worries about the Chinese State dominate.

Risk factors

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