

## ***Changlin LIANG, The First Crab Eater in Kathy's Eyes, Rang the Bell At New York Stock Exchange - DDL Does Not Want to Be A “Small-sized Beauty”***

On the evening of Jun. 29, Beijing Time, Changlin LIANG, in a buzz cut as usual, was celebrating his and Dingdong Fresh's Great Day with a lovely smile in the Company's T-shirt with Iron Army printed on the sleeves.



Kathy XU, Founder of Capital Today and early investor in Dingdong Fresh, was standing on the left of Changlin. In her eyes, Changlin was the first Crab Eater. “The founders in the fresh grocery e-commerce sector had all been fruit vendors while he was selling vegetables and meat. Don’t neglect such a tiny difference. Fruit and vegetables & meat involve different people and scenarios.”

This day, Dingdong Fresh, a frontend warehouses based fresh grocery e-commerce platform became officially listed at New York Stock Exchange as the second fresh grocery e-commerce platform operator listed in the US this June.

On the IPO day, the opening price of Dingdong Fresh was USD28.00, up by 19% from the USD23.50 issue price, with its growth rate narrowed thereafter, and closed at USD23.52, only slightly up by 0.09%. Its market cap currently amounts to USD5.543 billion.

Despite the moderate market performance, Dingdong Fresh's whole staff were likely to get relieved.

Before its IPO, Dingdong Fresh had modified its amount of financing and planned to issue 3.702 million ADS in the IPO at a range of USD23.5-25.5 per share for a total sum of at most USD94.40 million. This was significantly down to a quarter of the sum previously planned, which was probably due to the post-IPO sluggish of MF.US. Dingdong Fresh had sought to issue 14 million ADS at the same price before for a total target sum of as much as USD357 million.

Dingdong Fresh has maintained a rapid growth rate over the recent years. According to its Prospectus, Dingdong Fresh's total revenue had grown up to RMB11,335.8 million (or USD1,730.2 million) in 2020 from RMB3,880.1 million in 2019, up by 192.2% YoY. Its total revenue was RMB3,802.1 million in 1Q21 compared to RMB2,603.8 million in 1Q20.

“Dingdong Fresh doesn't want to be a “small-sized beauty”, so profitability is not its primary concern in the current time. Next, the Company will expand further to pursue for a larger size,” said Changlin in the interview by National Business Daily and other domestic media institutions before the bell-ringing ceremony.

Among the predecessors going ahead under the internet logic, however, there are both successful ones like Amazon and JD.com and those that have failed after arduous battles in the of fresh grocery e-commerce sector such as Dailuobo.com.

Obviously, the IPO is critical for Dingdong Fresh, but Changlin LIANG has not necessarily let go a sign of relief after becoming the founder of a listed company.

As a member of the Iron Army, Changlin LIANG ran for 19 years on the way of business startup.

Born in the 1970s, Changlin LIANG used to serve in the army for a dozen of years, the

experience of which has greatly impacted his style of behaviors today.

Changlin has started up business consecutively and Dingdong Fresh is his third try.

He came to Shanghai in 2002 and noticed by chance at a BBS that downloaded movies could be burnt into DVD. “I thought it was good. It was dial-up access to the internet in 2002 and the bandwidth was too narrow to transmit videos. So I made the first video synthesizer in the globe, and then the video splitter.”

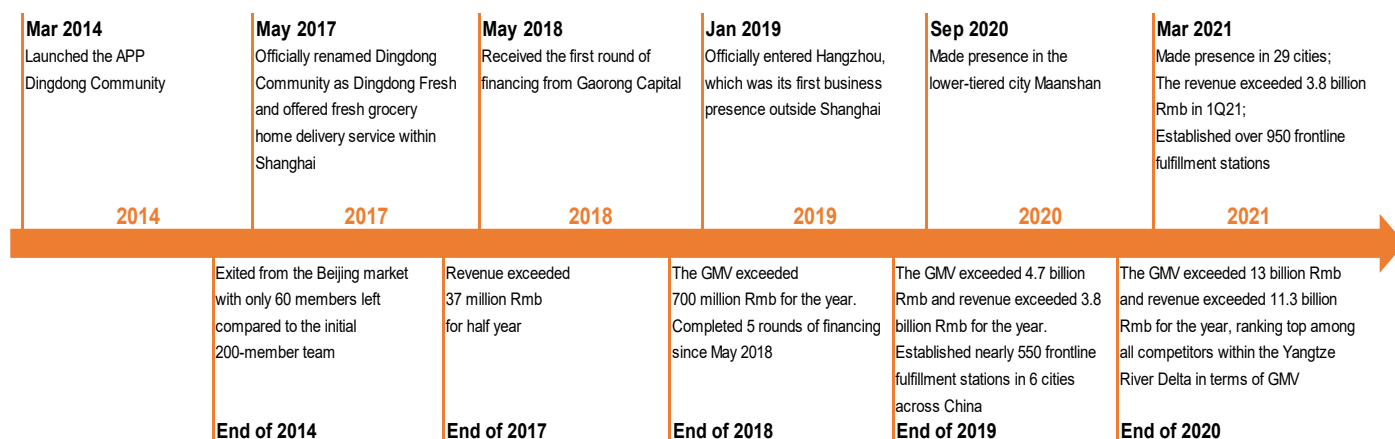
Changlin made a fortune from the video synthesizer in 2003, after which he immediately started up his second business. He found some post-80s had become parents at that time and that generation of mothers cared so much about baby setting. So he decided to make a platform for maternal and infant supplies, resulting in the birth of iyaya.com and mmbang.com. In 2014, the Shanghai Yibaimi Internet Technology Co., Ltd. was founded and launched Dingdong Community, a mmbang.com-based community project.

Dingdong Community tried a number of business segments including breakfast delivery, laundry and home cleaning, but failed to find any successful business models.

Changlin didn’t accept the failure. He decided to make another startup in May 2017 by renaming Dingdong Community as Dingdong Fresh and focusing on household grocery purchase business, dedicating itself to satisfying customers’ rigid demand for daily meals.

“When I met Mr. LIANG for the first time in October 2018, I asked him why he had decided to engage himself in the fresh grocery e-commerce business given so many others have failed in fresh grocery business. He said he had tried almost all the community demands while operating Dingdong Community and found none was welcome except the grocery purchase errand. Therefore, he did nothing but focused on selling grocery, “VC Queen Kathy XU recalled the four-hour conversation between them before she invested in Dingdong Fresh.

Figure 1: Dingdong Life's history of evolution



Source: TF Securities Research

According to public information, Dingdong Fresh was founded in May 2017 and is Shanghai-based. It offers services in a model of origin purchase + Frontend warehouse + 29 minutes delivery to home. During early days, Dingdong Fresh took a prudential attitude. It was founded and made its initial presence in Shanghai in May 2017 and didn't go outside Shanghai until 2019. In January 2019, it entered Hangzhou.

In the two years and a half thereafter, Dingdong Fresh has accelerated the expansion. As of Mar. 31, 2021, Dingdong Fresh had established more than 950 frontend warehouses in 29 cities across China. National Business Daily noticed as of May 31<sup>st</sup>, Dingdong Fresh had furthered its expansion by covering 31 cities including Xiamen with more than 1,000 frontend warehouses.

Advantages and disadvantages are both visible for such a rapid expansion.

According to the Prospectus, Dingdong Fresh's GMV increased from RMB741.7 million in 2018 to RMB4,709.7 million in 2019 and RMB13,032 million in 2020, at a CAGR of 319.2%. Its average number of monthly trading user increased from approximately 400,000 in 2018 to 2.6 million in 2019 and 4.6 million in 2020.

Dingdong Fresh's net loss was RMB1,873 million and RMB3,177 million in 2019 and 2020, respectively, and was RMB1,385 million in 1Q21.

Changlin has deeply influenced the Company's tactics and style in Dingdong Fresh's

expansion process. Regarding tactics, Dingdong Fresh is deemed a tough fighter with strong firepower and quick responses. After competing with Missfresh in Beijing and Shanghai, Dingdong Fresh expanded to Chongqing on May 20 and to Xiamen on May 31, apparently targeting at Pupu Online Supermarket, a Fujian-based player in the same sector.

Dingdong Fresh's in-house staff always deem themselves as an Iron Army.

In this business startup, Changlin LIANG and his Iron Army have managed to realize IPO for Dingdong Fresh in four years. So far Dingdong Fresh has completed 10 rounds of financing in total where in Series D a sum of up to USD1.03 billion was raised.

From repurchase rate to gross margin

Starting rapid expansion from Dingdong Fresh, Changlin has pointed out once and again that Dingdong's key to success lies in repurchase rate.

Dingdong Fresh held a press conference in Shanghai in January 2020, at which Changlin regarded repurchase rate as their primary focus and made public their core mission in 2020 was "an average of 6.5 orders placed by each user per month". He disclosed Dingdong Fresh's average number of orders placed by each user per month was 4 at that time, and 5.5 with regard to old users.

He believed that a single frontend warehouse of Dingdong Fresh would mature when its repurchase rate reaches a certain level.

Changlin once publicly stated that under favorable operation circumstances, each of the frontend warehouse that has operated over one year with around 1000 daily orders and an AC of RMB65+ would be likely to witness a 3% or higher operating margin per order (after fulfillment expense).

He hasn't focused too much on AC so as to drive up repurchase rate. According to the Prospectus, Dingdong Fresh's AC has increased from RMB41 in 2019 to RMB54 in 1Q21. So far, Dingdong Fresh is left far behind its primary competitor Missfresh in terms of AC. The Prospectus reveals that Missfresh's frontend warehouses instant retail business sees an

AC of RMB94.6.

Furthermore, Changlin has also proposed the Dual Circuit model, and showed the two critical “circuits” to all those present at the bell-ringing ceremony.



Dingdong Fresh’s Dual Circuit Model Source: Company IPO Introduction

According to TF Securities, Dingdong Fresh attempts to offer abundant and quality products and services to promote purchases and enlarge its business size by means of digitalized management. With the rise in order density, sources for data analysis become more abundant which therefore helps improve operational efficiency and thus promotes further enhancement to products and services. This is how the first circuit forms.

In the meantime, the enlargement of scale enables Dingdong Fresh’s closer connection with suppliers. With stronger bargaining power and better management, digitalization and modernization of its supply chain is facilitated, which results in the upgrade of products and services. And that is how the second circuit forms.

Probably for the repurchase rate, Dingdong Fresh has defined its model as a “Tap Water” one (slogan: making fresh groceries as available as running water to every household). Moreover, it has defined its major SKU as “household-consumed grocery” because Changlin believes SKUs like green vegetables and meat are more frequently repurchased.

Probably because there has been nothing more to tell about repurchase rate, the journalist finds Dingdong Fresh has tried to boost its gross margin by way of improving its merchandise power and private label.

According to the Prospectus, Dingdong Fresh's GMV of private label products took up 3.3% of its total GMV in 1Q21.

Recently Dingdong Fresh has told National Business Daily that in the following part of their strategy, Dingdong Fresh is extending its business gradually from fresh grocery to daily necessities and pre-made food.

Lili CUI, Executive Director of E-commerce Institute, Shanghai University of Finance and Economics, has told the journalist that pre-made food boasts higher prices higher gross margins and can consume surplus fresh groceries.

Pre-made food is semi-finished food. A relevant officer of Dingdong Fresh has announced before the semi-finished food division has so far been contributing the best performance in terms of gross margin inside Dingdong Fresh. During the Spring Festival, semi-finished food grew over 400% and accounted for 5% total sales. It is expected semi-finished food will take up 10% in Dingdong Fresh's total sales by the end of this year.

What does scale bring along?

The key to the effectiveness of whichever of the Tap Water model or the Dual Circuit model lies in the successful establishment of its profitability model.

If we look at Changlin's model, Dingdong Fresh once made profits in East China. According to the data provided by Dingdong Fresh, 345 of its frontend warehouses processed more than 400,000 orders per day and the average number of orders processed by each of its frontend warehouses was 1159 in July 2019, not far away from the aforesaid profitability model.

Furthermore, Dingdong Fresh's frontend warehouse in Songjiang processed approximately 1,000 orders per day in February and is processing as many as 1900 orders per day at present,

which has almost doubled.

Tebon Securities points out in its research that according to the UE model, Dingdong Fresh's loss is mainly ascribed to its high fulfillment expenses, which is expected to be lowered by the rise in average number of orders per day/staff efficiency for sorting in the future. In comprehensive consideration, the overall OPM is expected to turn positive as a result of gross margin improvement. Take Dingdong Fresh as an example. Under the scenario of 580 orders per day on average, the overall fulfillment expenses is around 36% of revenue (with an estimated current loss ratio of 28%); and when the average number of orders per day rises to 1600, the fulfillment expenses ratio goes down to 23%. Furthermore, the low efficiency for fresh grocery sorting mainly results from the non-standard nature of the product as well as from the abundance of SKUs on the platform.

Notably, Dingdong Fresh has maintained quite a high gross margin attributable to its SKU design. Specifically, the SKU that takes up the most share in Dingdong Fresh is unexpectedly daily-use chemicals.

Tebon Securities concludes that according to the Prospectus, Dingdong Fresh offers more than 5700 meat and seafood SKUs, taking up 45.6% and more than 6700 daily-use chemical SKUs, taking up 53.6%. According to 36kr's news report, in 1Q20, Missfresh's meat, poultry and eggs took up 20%+, vegetables and bean products took up 20%+, fruit, 10%+, and seafood & aquatic products, 10%+, while other SKUs such as grain & oil, dairy products & bakery, instant food and alcohol, beverage & snacks took up an aggregate share of 20%+.

In other words, it is not necessarily impossible that Dingdong Fresh can make profits if it stops such an extremely rapid expansion and devotes itself to the profitability model under the current size scenario.

In the analysis into the reason for its decision of further expansion, Lili CUI refers to the unsettled competitive landscape in the fresh grocery e-commerce sector which leads to Dingdong Fresh's need for a scale-based advantage. "Under the internet scenario, scale is critical on the demand side."

At the spot of the bell-ringing ceremony, Changlin talked about expansion and profitability.



He said Dingdong Fresh would have made profits in Shanghai if it had wanted. “We are at the point of breakeven. First, we are controlling our gross margin. It is not yet the time for a high gross margin. Second, we maintain a certain percentage of marketing expenses, which would be actually somewhat deductible without any impact upon our general conditions,” said Changlin, who insisted on continuing with scale enlargement at the moment, “I don’t think it’s the business logic in the internet era to talk about profits apart from scale.”

As Changlin stated, in transforming the upstream supply chain, only with a massive scale will there be a higher efficiency and the enlargement of scale will inversely benefit the upstream supply chain.

*Doing fresh grocery business on an internet logic basis, Dingdong Fresh, who doesn’t wanna be a “small-sized beauty”, is still faced with challenges*

In Changlin’s eyes, Dingdong Fresh’s choice complies with the logic of internet companies.

Lili CUI pointed out that according to the internet logic, a company generally has to enlarge the customer base before considering optimizing indicators such as AC and repurchase rate through delicacy management, and meanwhile has to cut in the upstream supply chain inversely pursuant to the economy of scale on the consumption end to obtain a cost advantage.

In the fresh grocery e-commerce sector, however, some players who had followed the logic have failed. In December 2019, Dailuobo.com, who had raised more than RMB700 million went bankrupt with all its cash flow burnt up, before which it had been holding more than 1000 stores and over 3000 employees in 19 cities in Anhui, Jiangsu, Henan and Hubei Provinces. Its Founder Yang LI said the Dailuobo.com only had RMB1 million on book at that time.

Yang LI mentioned in an article on his WeChat official account on Nov. 25, 2019, “we had expected and demanded too much on the growth and had underestimated the money-burning speed of fresh grocery business, which resulted in too fast money consumption.”

In October 2020, Yiguo Fresh, the first fresh grocery e-commerce player in China, entered the bankruptcy reorganization stage, with a number of its subsidiaries including Yunxiang Supply Chain and ExFresh applying for voluntary bankruptcy reorganization. Yiguo Fresh had always focused much on the supply chain building.

Changlin concludes Dingdong Fresh's future efforts in three focuses: one is scale enlargement, not only geographically but also intensively; another is transformation of merchandise supply chain; and the last one is investment in technical development.

Regarding the prospect for the Company's own development, Changlin expressly confessed he had desired for what was far beyond a "small-sized beauty". He even compared Dingdong Fresh with Amazon and JD.com.

*"Look at our growth process or business logic. It is somewhat similar to that of Amazon and JD.com. It is a very big business and is almost impossible to be described as a "small-sized beauty". Even the keeper of a streetside shop would outperform others if you had focused on profitability only, because he is indeed making positive profits. But we are pursuing for something different," said Changlin.*

In fact, there had been much worry in the market about Dingdong Fresh's stock price on the initial day before its IPO. Changlin responded to such worry that it was not so urgent for Dingdong Fresh to take money from the secondary market currently. Dingdong Fresh had raised USD1.03 billion in total in Series D and Series D+ and was holding plenty of cash. The Company may raise more if the market is brisk and the price is appropriately linked with the value and will raise less if the price goes lower than its due value in a sluggish market. He claimed the Company was going listed not for making money.

In spite of that, profitability, or how to keep its cash flow sound, is an inevitable challenge to Dingdong Fresh on the way ahead.

Shuai ZHUANG, Founder of Bailian Consulting, told National Business Daily a fresh food e-commerce player who finally wants to improve its profitability may make continuous efforts in respect of gross margin, AC, number of users and frequency of purchase.

Dingdong Fresh's effort in delicacy management in the recent years is visible.

On one hand, Dingdong Fresh has tried to boost repurchase rate through green card membership. In 1Q21, Dingdong Fresh's average number of trading users per month was 1.5 million, who contributed 47.0% to the total GMV. The average spending per month by each member increased from RMB407 in 2019 to RMB478 in 2020.

Moreover, Dingdong Fresh will establish 50 offline fresh food stores while launching more proprietary brands online. The journalist of National Business Daily found on BossZhipin on May 12 that Dingdong Fresh was recruiting people for the relevant posts in the "fresh food kitchen". The journalist sought confirmation on the news but received no responses from Dingdong Fresh.

Changlin also mentioned in the interview that they would promote unmanned robots in the upstream supply chain to reduce labor cost.

Changlin compared Dingdong Fresh's IPO to a kid's entrance to the elementary school, which is a milestone alike.

"Our CAGR has been as high as 319.2% over the past three years, and there is even exceptionally large space in the future. It is as if a kid should go out to a big school and compare his achievement with others'," said Changlin.

National Business Daily