



BLUE ORCA CAPITAL

“One percent of bad apples in the barrel probably won’t affect anything, but five percent of bad apples will destroy the whole barrel.”

- **Colin Huang, Pinduoduo CEO and Founder**

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COMPANY: Pinduoduo Inc. | NASDAQ: PDD
INDUSTRY: E-commerce

PRICE (AS OF CLOSE
11/13/18)

\$17.15

MARKET CAP:
\$19 billion

65 DAY AVG
VOLUME:
6MM shares

BLUE ORCA
VALUATION
\$7.10 per share

Pinduoduo Inc. (NASDAQ: PDD) (“PDD” or the “Company”) purports to be China’s third-leading e-commerce platform behind Alibaba (NYSE: BABA) and JD.com (NASDAQ: JD). PDD’s meteoric rise has been near miraculous. Backed by famous venture capital firms and an investment by Tencent, in three years PDD supposedly went from a concept on a whiteboard to a USD 19 billion market capitalization. Market commentators have [anointed](#) it the fastest growing e-commerce company in the world.

Do not believe the hype. In this report, we review and analyze multiple independent data points which indicate, in our opinion, that PDD inflates its reported revenues and GMV and understates its staffing costs and net losses. Damningly, PDD’s own website stated that the Company’s true headcount was 4.3x times greater than reported in its SEC filings. This evidence is corroborated by recruiting websites which show that an undisclosed related party controlled by the chairman is hiring on behalf of PDD. In our opinion, this indicates that PDD likely uses this secret related party to shoulder staffing costs which should be included in the Company’s consolidated financials.

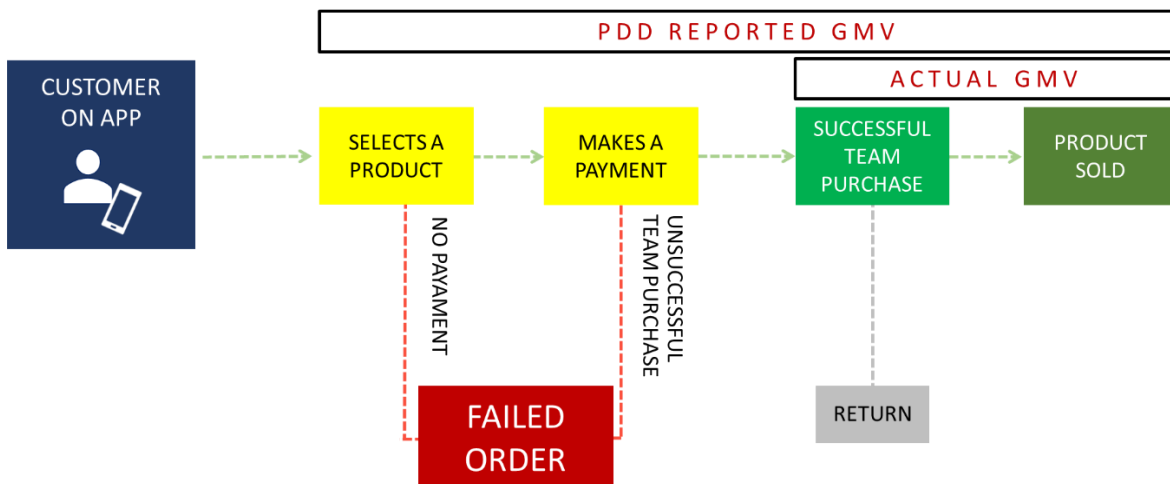
We believe, based on the evidence presented in this report, that PDD’s business is worth considerably less than it claims. If we value PDD on the same price-to-sales multiple as Alibaba’s but adjust to what we believe are actual revenues, we value PDD at \$7.10 per share, a 59% downside from its last traded price. And this is likely conservative, as we are valuing PDD’s gimmicky fad on the same multiple as China’s leading e-commerce business. Many investors may conclude, as we have, that PDD is simply uninvestable.

- 1) **SAIC Filings Indicate that PDD Overstates Revenues.** In its prospectus, PDD claimed that only two VIE subsidiaries contributed 100% of the Company’s consolidated FY 2017 revenues. Yet in their SAIC filings, which include basic financial statements submitted by law to the Chinese government, these same two VIE subsidiaries reported only RMB 1.2 billion in total revenues. After accounting for inter-company transactions, such SAIC filings indicate that PDD’s two VIEs generated **RMB 706 million or 36% less than the revenues reported by PDD in its SEC filings**. We have been reviewing SAIC filings of Chinese companies for almost a decade. Such filings, in our opinion, are generally indicative that a company has misrepresented its financial performance when SAIC filings differ materially from financials submitted to U.S. investors.
 - a. **SAIC Filings Also Indicate that PDD Underreports Net Losses.** Revenue recognition rules are similar under Chinese and U.S. GAAP and thus, in our opinion, cannot explain the discrepancy between SAIC filings and PDD’s SEC financials. Furthermore, any revenue recognition discrepancies should wash out when comparing profitability across filings. PDD reported that the net losses in the PRC were only RMB 417 million in 2017. But if we add up the net losses of PDD’s two VIE entities and their parent company, a wholly foreign-owned enterprise, SAIC filings indicate that PDD’s net losses in the PRC were RMB 689 million in 2017. **In our opinion, such SAIC filings show that PDD’s 2017 net losses in the PRC were 65% greater than disclosed to U.S. investors.**

- 2) **PDD Understates Employee Headcount and Staffing Costs.** We believe there is significant evidence to indicate that PDD's business is not nearly as efficient as the Company claims and that PDD's actual headcount (and by extension staffing costs) are substantially higher than disclosed in its SEC filings.
- a. **PDD's Own Website Contradicts Disclosed Headcount.** In its prospectus, PDD stated that it had a total of only 1,159 employees as of December 31, 2017. However, the Wayback Machine showed that on PDD's own website, PDD claimed that it had more than 5,000 employees in December 2017 and January 2018. **Based on the disclosed headcount on PDD's own website**, we estimate that PDD's actual staffing costs in 2017 were RMB 716 million, RMB 489 million more than implied by PDD in its SEC financials. In turn, we think this corroborates SAIC filings and supports our investment thesis that PDD incurred far higher losses than disclosed in its SEC filings.
- b. **PDD's Reported GMV-Per-Employee is an Inexplicable Outlier.** PDD reported RMB 167 million of GMV per employee in 2017. If PDD is to be believed, it generates the highest GMV-per-employee of its e-commerce peers and is far more efficient on an GMV-per-employee basis than even Alibaba (RMB 120 million per employee) and JD.com (39 million per employee). This seems unlikely. Either PDD has hacked the business and operates far more efficiently than leading Chinese e-commerce peers despite their advantages of scale and operating experience, or PDD's disclosed numbers are not accurate. We believe it is the latter. If instead we use the headcount disclosed on PDD's website (instead of its SEC filings) in the calculation, PDD's GMV-per-employee is RMB 53 million, right in line with the industry average for e-commerce companies (RMB 45 million). In our view, this is an additional data point indicating that PDD significantly underreports its headcount and staffing costs to U.S. investors.
- 3) **Undisclosed Related Party is Secretly Staffing for PDD.** In 2009, PDD's founder and chairman, Colin (Zheng) Huang founded an e-commerce service company, Dongguan Leqee Network Technology Company Limited ("Leqee"). **PDD never even mentions Leqee in its prospectus.** Yet there is evidence for continuing transactions between Leqee and PDD throughout the track record period and up to October 2018. Leqee advertised on its own website that it was recruiting on campus for open positions at PDD in 2017. In addition, we found multiple job postings from Leqee advertising for positions at PDD, including for jobs with titles such as PDD event coordinator and PDD public relations manager. We also found job postings by PDD advertising for positions at Leqee's offices. This includes advertisements for positions at PDD in Hangzhou, a city in which Leqee has offices but PDD never discloses any office locations. At the very least, we think such evidence indicates continuing undisclosed related party transactions between PDD and Leqee. Ultimately, we suspect that Leqee is secretly shouldering some of PDD's staffing costs; costs which we believe should appear on PDD's SEC financials and would increase PDD's reported losses and undermine PDD's reported operating efficiency. PDD is not the business it pretends to be. And its undisclosed dealings with Leqee, in our view, should subvert any notion that PDD is fairly and accurately representing its business and financial performance to U.S. investors.
- 4) **PDD Inflates Reported GMV.** E-commerce businesses, for better or worse, are valued not only on revenue and profitability (or lack thereof) but also on popularity metrics, principally the gross value of merchandise sold on the platform (GMV). In our opinion, multiple data points suggest that PDD's reported GMV is significantly inflated, presumably to make its business look more attractive to investors.
- a. **PDD's Double Contingency Architecture Promotes GMV Overstatement.** PDD defines GMV to include all unsold items and unsettled orders. While this definition is standard across e-commerce companies, PDD's unique architecture makes its reported GMV problematic. PDD's application does not have a "shopping cart" function. Once a customer confirms a product selection, an "order" is automatically generated. Customers have 24 hours to pay for the "order" or it is cancelled. This is the **first contingency (shopping cart)**. The **second contingency** is that even if a customer enters payment information for a team order, the transaction will be cancelled after 24 hours if no one joins the customer's team. PDD's supposed edge is social e-commerce, but even if the team purchase falls through and the transaction is cancelled, we believe that PDD still records the "order" to GMV.

In practice, we believe PDD's reported GMV includes billions of orders that were either failed team purchases or were simply left in a de facto shopping cart. We believe that PDD's reported GMV figures are therefore highly misleading and are not comparable to the GMV reported by its e-commerce peers. This unique architecture also explains, in our opinion, the material discrepancies between PDD's reported GMV and the actual GMV implied by its disclosed payment processing fees and revenues.

PDD REPORTED GMV COMPONENTS



Source: Blue Orca Analysis of PDD's Disclosures and Application

*Customers can also purchase products individually, which we believe represent a small portion of total orders.

- b. Disclosed Payment Processing Costs Imply GMV 43% Less than Reported.** PDD states on its website that it does not charge commissions on transactions but admits that it collects a 0.6% transaction fee on behalf of third-party payment processors WeChat Pay and Alipay. PDD reported that such payment processing costs were RMB 541 million and RMB 164 million in 2017 and Q1 2018, respectively. If every transaction on PDD's e-commerce platform generates 0.6% in transaction fee costs, then logically, such costs should be 0.6% of PDD's reported GMV. But the math does not add up. Rather, using PDD's disclosed transaction costs as an input, we calculate that PDD's actual GMV was RMB 117 billion in 2017 and 1Q 2018, **43% less than PDD's reported RMB 207 billion in GMV over those five quarters.**
- c. Disclosed Commission Fee Revenues Imply GMV 34% Less than Reported.** PDD also discloses revenues from payment processing fees, which the Company claims are 0.6% of the value of the merchandise sold. This revenue should be close to the payment processing costs, but accounts for both returns and transactions cancelled after payment.

Based on the disclosed commission fee revenues, the implied GMV should include all paid orders placed on PDD's platform, regardless of whether the orders are delivered or returned. For the 18 months ending June 2018, PDD's reported commission fee revenues of RMB 1.1 billion imply that PDD's actual GMV (including returns) was only RMB 191 billion over that period, **34% less than reported to U.S. investors.** In our opinion, this is another data point indicating that PDD simply exaggerated GMV to feed its hype machine.

- d. Payables to Merchants and Cash Cycle Imply GMV 47% Less than Reported.** The merchant cash cycle is the period of time from when a customer pays for an order to the day when the merchant receives the cash from the sale. During this time PDD is holding the merchant's cash, and thus must record a liability "payables to merchants." If PDD's reported GMV and its disclosed balance of merchant payables are true, **it should take an average of 10 days from the time a customer pays for an order until the time a merchant receives the cash.** But in practice, merchants report that the process takes much longer. Based

on our due diligence, we estimate that the actual merchant cash cycle is at least 18.5 days (from payment, to shipping, to receipt, through withdrawal of the cash from the merchant's PDD account). Because the actual cash cycle is much longer in practice than implied by PDD's reported figures, we think the most likely explanation for this discrepancy is that PDD's real GMV is much lower than reported.

- 5) **Aggressive Revenue Recognition.** PDD explicitly tells merchants that it collects no commissions, and that the transaction fees (0.6%) are collected on behalf of third-party payment services such as WeChat Pay and Alipay. Indeed, PDD reported RMB 531 million of transaction fee revenues but RMB 541 million of transaction fee costs in 2017, indicating that this commission fee revenue was zero margin. We believe that prevailing GAAP accounting rules prohibit a company from recognizing revenues collected on behalf of third parties. These are pass-through revenues which should be reported on a net, not a gross basis. This is material because it demonstrates PDD's aggressive approach to accounting rules. It is also material because firms like PDD trade on a multiple of sales. Even if it is pass-through revenue, PDD can inflate its stock price by recording a higher top line.

VALUATION

PDD claims to have gone from scratch to China's third largest e-commerce business in three years. The Wall St. hype machine, in full force, touts it as the world's fastest growing internet company. This hype has pushed PDD's stock to nosebleed prices befitting its faddish business model.

As a basis of comparison, PDD trades at 21.7x LTM Q2 2018 sales, twice the multiple of industry giant Alibaba (8.8x) and forty-four times the price-to-sales multiple of more established Chinese e-commerce businesses like JD.com (0.5x). Most of JD.com's revenues are from direct sales, not merchant services, so the comparison is not perfect. But it is illustrative. On an estimated 2018 price-to-sales ratio, PDD's stock still looks very expensive (11.5x) compared to Alibaba (7.5x) and other Chinese e-commerce players.

	Stock price (USD)	Market Cap (USD M)	P/S		P/GMV		P/E	
			LTM	2018E	LTM	2018E	LTM	2018E
Alibaba	146.98	380,999	8.8 x	7.5 x	0.5 x	0.5 x	45.1 x	28.4 x
JD.com	22.39	32,114	0.5 x	0.5 x	0.1 x	0.1 x	No Earnings	76.0 x
Vipshop	5.24	3,468	0.3 x	0.3 x	0.2 x	0.2 x	10.1 x	9.5 x
Secoo	9.43	477	0.7 x	0.6 x	0.5 x	N/A	21.5 x	96.1 x
Median			0.6 x	0.5 x	0.4 x	0.2 x	21.5 x	52.2 x
Average			2.6 x	2.2 x	0.3 x	0.3 x	25.5 x	52.5 x
Pinduoduo	17.15	18,999	21.7 x	11.5 x	0.5 x	0.3 x	No Earnings	No Earnings

Source: FactSet, Bloomberg, GMV figures from public filings and Goldman Sachs research report

*Ratios are calculated using the prices closed on Nov 13, 2018

We believe, based on the evidence presented in this report, that PDD's business is worth far less than it claims.

Because they are chronically unprofitable, investors value growing e-commerce businesses on a multiple of sales. We believe that SAIC filings provide compelling evidence that PDD's 2017 sales were 36%-40% less than reported. As a result, we believe that any valuation of PDD on a multiple of sales should adjust sales figures accordingly to reflect its SAIC filings. On an adjusted sales figure, using Alibaba's price-to-sales ratio (7.5x), we value PDD's shares at \$7.10, a 59% downside from its current price.

Valuation: P/S Multiple

\$	2018E
Revenue (USD M)	1,649
# of shares (M)	1,108
Sales per share	1.49
Current trading price	17.15
P/S multiple	11.5 x
Revenue Overstated %	-36%
Adjusted Sales per share	0.95
Alibaba P/S multiple	7.5 x
Blue Orca Valuation	7.10
Downside %	-59%

Source: PDD Public Filings, FactSet, Bloomberg, Blue Orca Calculation

Some analysts value PDD on 2020 earnings, based on the fantasy that PDD's loss making business will magically become profitable by that time. We think such prognostications fail to account for evidence highlighted in this report suggesting that PDD understates its headcount and by extension its staffing costs. Which is in turn supported by evidence that Leqee, an undisclosed related party, is secretly bearing some of PDD's staffing costs. In our view, this evidence suggests PDD's cost structure is more onerous than disclosed, reducing the likelihood that its chronically unprofitable business will somehow magically turn a corner by 2020.

PDD is also sometimes valued as a multiple of GMV. Here we believe there is ample evidence to support our investment thesis that the Company's reported GMV is overinclusive and misleading, and that the actual transaction volumes through PDD's e-commerce platform are substantially lower than the headline GMV. We have three data points to suggest GMV is overstated: payment processing costs, commission fee revenues and the merchant cash cycle.

PDD Overstated Its GMV by 34-47%

Implied GMV based on	Overstatement
Payment Processing Costs	-43%
Commission Fee Revenues	-34%
Cash Cycle	-47%
Average	-41%

Source: Blue Orca Calculation

The three metrics imply that PDD's actual GMV is between 34-47% less than reported. If we take an average (41% less than reported), we can value PDD's shares on a price-to-adjusted GMV basis. In this calculation, we generously use the Company's current price-to-GMV multiple (0.29x). After a 20% corporate governance discount, which we believe is appropriate given the complete absence of transparency as to PDD's GMV composition, we value PDD's shares at \$8.05 per share on an adjusted GMV-basis.

Valuation: P/GMV Multiple

\$	2018E
GMV (RMB M)	442,000
# of shares (M)	1,108
GMV per share (RMB)	398.99
GMV per share	59.88
Current trading price	17.15
P/GMV multiple	0.29 x
GMV Overstated %	-41%
Adjusted GMV per share	35.12
Adjusted share price	10.06
P/GMV multiple	0.29 x
Corporate Governance Discount	20%
Adjusted P/GMV multiple	0.23 x
Blue Orca Valuation	8.05
Downside %	-53.1%

Source: PDD Public Filings, Goldman Sachs research report on September 13, 2018, FactSet, Blue Orca Calculation

We think our valuation is conservative, as our price/adjusted sales calculation uses generous multiples attributed to industry leading e-commerce businesses. But companies misrepresenting their financial performance, inflating important usage and popularity metrics, and engaging in undisclosed related party transactions do not deserve to trade at such generous multiples. So although we value PDD's shares at \$7.10 on a price-to-adjusted sales, and \$8.05 on a price-to-adjusted GMV, we expect some investors may conclude, as we have, that PDD is simply uninvestable.



BETTER WAY TO SELL TISSUE PAPER?

PDD attributes its rise to the unique social and interactive characteristics of its e-commerce platform. PDD's application offers retail products through its app with a twist: instead of merely purchasing products for themselves, consumers can receive a discount if they can successfully entice friends, family and other members of their social network to join them in their purchase. The value proposition is to enhance online shopping with elements of social interaction, bargain hunting and gaming.

PDD's so-called "team purchase" model is fairly clever. It turns shoppers into marketers. In order to get the best prices, buyers are encouraged to share product information on social networks and entice others to transact through the platform. The users, in effect, are one of the primary drivers of user growth.

PDD does not charge commissions on transactions, but rather derives almost all of its revenues from "online marketing services." Similar in concept to Google's AdWords, merchants bid for keywords that match a product listing appearing in search results. PDD also provides for advertising placements (banners/links/logos) through an online bidding system.

But PDD's platform also creates tradeoffs. Its bargain-hunting, group-purchase model attracts cheap, low quality goods and lower ticket prices. PDD's growth has been driven by cheap goods, including fruits and vegetables, and its popularity is driven by users in lower-tier cities. Its reported take-rate is low compared to other Chinese platforms like Alibaba and JD.com, and its average ticket size is only RMB 33, 18.2x lower than JD and 3.6x lower than Alibaba.¹

One [analysis](#) of the SKUs for sale on PDD's platform, which scrubbed more than 500,000 pieces of data, reported that the most popular item for sale on PDD's platform was **actually tissue paper**.



Best Selling Item on PDD's Platform

Indeed, shortly after its IPO, PDD's shares sank on accusations from various manufacturers that its platform was a haven for counterfeit products. This prompted a probe from [Chinese regulators](#), which is still ongoing (to our knowledge). Although there are smart investors that are short PDD because its platform is reportedly inundated with counterfeit goods, we will not be discussing it in this report. Consider it simply gravy. Or a cherry on top of an already compelling short investment thesis.

PDD sells cheap goods to China's poorer people in China's poorer cities. And while there is some value in the business, the crux of our investment thesis is that this business is not nearly as lucrative, impressive, fast-growing nor as scalable as PDD would have investors believe.

¹ Goldman Sachs Sell Side Report, September 13, 2018.

SAIC FILINGS INDICATE THAT PDD OVERSTATED REVENUES AND UNDERSTATED NET LOSSES

Publicly available filings from the State Administration for Industry and Commerce (“SAIC”) indicate, in our opinion, that PDD’s 2017 revenues were 36-40% less than reported to investors in its IPO prospectus. SAIC filings also indicate that PDD’s 2017 net losses in China were 65% greater than reported in its SEC filings.

PDD’s corporate structure is relatively simple. Beneath an offshore holding company (Walnut HK) and an on-shore PRC wholly foreign-owned enterprise (WFOE), PDD operates its e-commerce business through only two variable interest entities (VIEs).

As of December 31, 2017, the details of the Company’s major subsidiaries, consolidated VIE and the subsidiary of the VIE are as follows:

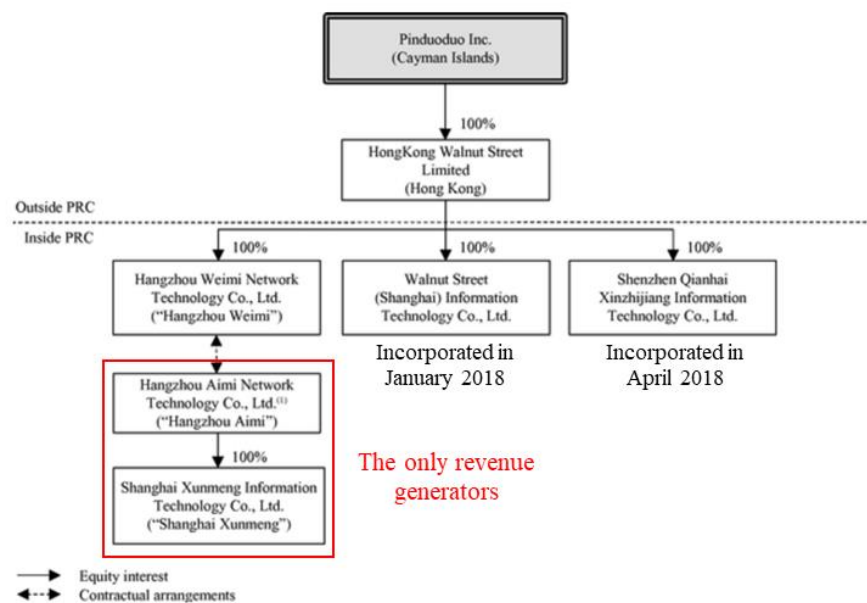
Entity	Date of incorporation	Place of incorporation	Percentage of ownership by the Company		Principal activities
			Direct	Indirect	
Subsidiaries:					
HongKong Walnut Street Limited ("Walnut HK")	April 28, 2015	Hong Kong	100%	—	Holding company
Hangzhou Weimi Network Technology Co., Ltd. ("Hangzhou Weimi" or the "WFOE")	May 28, 2015	PRC	100%	—	Technology research and development
VIE:					
Hangzhou Aimi Network Technology Co., Ltd. ("Hangzhou Aimi" or the "VIE")	April 14, 2015	PRC	—	100%	E-commerce platform
Subsidiary of VIE:					
Shanghai Xunmeng Information Technology Co., Ltd. ("Shanghai Xunmeng")	January 9, 2014	PRC	—	100%	E-commerce platform

In June 2016, the Company obtained 100% equity interest in Shanghai Xunmeng which controlled by the Founder since its establishment. The transaction undertaken by the Company and the Founder to restructure the Group was accounted for as a legal reorganization of entities under common control in a manner similar to a pooling of interest using historical cost. The accompanying consolidated financial statements have been prepared as if the current corporate structure had been in existence throughout the periods presented.

Source: <http://investor.pinduoduo.com/static-files/b20ce4b3-998a-43b7-b7f1-180e4ac55f06>

As of December 31, 2017, PDD only had two such VIEs: Hangzhou Aimi Network Technology Co., Ltd (“Hangzhou Aimi”) and Shanghai Xunmeng Information Technology Co., Ltd. (“Shanghai Xunmeng”).

The following diagram illustrates our corporate structure, including our principal subsidiaries and our VIE and its principal subsidiary, as of the date of this prospectus:



Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918005204/a2236308z424b4.htm>

According to PDD's prospectus, these two VIEs contributed **100%** of the Company's consolidated revenues for 2017.

The VIE contributed 72.4% and 100% of the Group's consolidated revenues for the years ended December 31, 2016 and 2017 respectively. As of December 31, 2016 and 2017, the VIE accounted for an aggregate of 71.4% and 92.8%, respectively, of the consolidated total assets, and 94.8% and 98.6%, respectively, of the consolidated total liabilities.

Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918005204/a2236308z424b4.htm>

SAIC filings are submitted by Chinese companies to a division of the PRC government for the purposes of state oversight and regulation. These filings include financials, which are required by law to be accurate. SAIC filings are **not** used to determine a company's taxes (tax filings are submitted to the State Administration of Taxation). This is critical, because investors often mistakenly believe that Chinese companies underreport revenues or profits in SAIC filings to cheat taxes, but this is nonsense as such filings are irrelevant to the determination of a company's tax base. To say nothing of the ludicrous position that a company is worthy of investment if it submits false tax returns to cheat the taxman.

Rather, in our experience, when the financial statements included in SAIC files differ significantly from consolidated financials filed by public companies to a stock exchange, it is generally a reliable indication that management has misrepresented the performance of the business.

In this case, PDD's SAIC profile is simple because it reportedly derived 100% of 2017 revenues from only two VIE entities. According to PDD's SEC filings, these two entities generated a combined RMB 1.95 billion in total revenues in 2017, of which RMB 1.7 billion were external revenues and RMB 207.6 million were inter-company revenues.

1. Organization (Continued)

balances and transactions between the VIE, the subsidiaries of the VIE and other entities within the Group:

	For the years ended December 31,		
	2016	2017	
	RMB	RMB	US\$
Group companies	23,725	207,570	33,091
External	365,416	1,744,076	278,048
Net revenues	389,141	1,951,646	311,139
Net loss	(116,034)	(8,924)	(1,423)

Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918005130/a2236295zf-1a.htm>

Yet in SAIC filings, Shanghai Xunmeng and Hangzhou Aimi reported revenues of only RMB 1.2 billion and RMB 4.6 million, respectively, in 2017. Combined, these two VIEs reported **RMB 706 million or 36% less total revenue than should be the case if PDD's SEC filings were accurate.**

Revenue Comparison: Reported vs. SAIC

RMB'000	2017
VIE SAIC Revenue	
Shanghai Xunmeng	1,241,449
Hangzhou Aimi	4,618
Total VIE SAIC Revenue	1,246,067
Reported VIE Revenue	1,951,646
Difference	(705,579)
Difference %	-36%

Source: SAIC Filings

Shanghai Xunmeng 2017 Financial

2017 Annual Report		2017年度企业年度报告书	
Shanghai Xunmeng	上海寻梦信息技术有限公司	统一社会信用代码/注册号	91310105090037252C
企业通信地址	上海市长宁区娄山关路533号2902-2913室	邮政编码	200050
企业联系电话	021-61263716	电子邮箱	无
企业经营状态	开业		
资产状况信息	资产总额	1226878.88万元	不公示
	所有者权益合计	-11019.81万元	不公示
	Revenue 营业总收入	RMB 1,241 M 124144.91万元	不公示
	其中: 主营业务收入124144.91万元		不公示
	利润总额	-6729.69万元	不公示
	Net Profit 净利润	RMB -67 M -6729.69万元	不公示
	纳税总额	126.7万元	不公示
	负债总额	1237898.69万元	不公示

Source: SAIC Filings of Shanghai Xunmeng

Hangzhou Aimi 2017 Financial

2017 年度报告		2017 Annual Report	
企业基本信息			
统一社会信用代码	9133010632814506XD	企业名称	杭州埃米网络科技有限公司
企业通信地址	浙江省杭州市西湖区古荡街道益乐路 39 号 1 幢 7B13 室	邮政编码:	Hangzhou Aimi 310000
企业联系电话	0571-87967659	企业电子邮箱	
从业人数:		企业经营状态:	开业
是否有网站或网店	否	企业是否有投资信息或购买其它公司股权	有
企业资产状况信息			
资产总额	22700.469828 万元	所有者权益合计	-598.058732 万元
营业总收入 Revenue	461.777341 万元 RMB 4.6 M		RMB 1.6 M
营业总收入中主营业务收入	461.777341 万元	净利润 Net Profit	160.175028 万元
纳税总额	2.862375 万元	负债总额	23298.52856 万元

Source: SAIC Filings of Hangzhou Aimi

If PDD's SEC filings were accurate, these two VIEs (Shanghai Xunmeng and Hangzhou Aimi) should have reported RMB 1.95 billion in total revenues in 2017. Yet SAIC filings for these entities report only RMB 1.2 billion in aggregate revenues, 706 million or 36% less than should be the case.

But even this calculation is arguably too generous to the Company. PDD's other subsidiary is a wholly-owned foreign enterprise ("WFOE") which, by PDD's own admission, does not have a value-added telecommunication services (VATS) license, meaning it cannot operate an e-commerce business and thus cannot generate revenues from external customers. As such, only the Company's two VIE entities can generate any revenue from PDD's e-commerce business.

PDD's prospectus stated that inter-company revenues were only RMB 207.6 million in 2017. Assuming that this disclosure is true, then presumably the SAIC filings from the VIEs include such intercompany revenues. If we subtract the disclosed inter-company revenues, then the SAIC revenues for Shanghai Xunmeng and Hangzhou Aimi are **40% less than the consolidated revenues reported by PDD in its SEC filings.**

Revenue Comparison: Reported vs. SAIC

RMB'000	2017
VIE SAIC Revenue	1,246,067
Inter-company Transactions	(207,570)
VIE SAIC External Revenue	1,038,497
Reported Revenue	1,744,076
Difference	(705,579)
Difference %	-40%

Source: PDD Prospectus, Companies SAIC Filings, Blue Orca Calculation

Depending on how investors choose to account for intercompany transactions, in our opinion, SAIC filings credibly indicate that PDD's 2017 revenues were **36-40% less than reported to US investors in PDD's SEC filings.**

Revenue recognition rules are very similar under US and Chinese GAAP, so we do not believe the discrepancy can be reasonably explained by accounting differences between SEC and SAIC filings. Rather, based on our eight years of experience in analyzing SAIC files, we believe that the most likely explanation is that PDD simply exaggerated its revenues in order to look more appealing to investors in anticipation of its IPO.

The effect of such an aggregation would be magnified for a Company like PDD because e-commerce companies do not make profits, so they trade on a multiple of revenues.

Furthermore, if different revenue recognition rules explained the discrepancy, we would expect such discrepancies to wash out when comparing profitability across filings. But this is not the case.

1) SAIC Filings Also Indicate that PDD Underreported Net Losses

PDD reported RMB 525 million in aggregate **net losses** in 2017, of which RMB 417 million of net losses were purportedly incurred in the PRC.

The Group's loss before income taxes consisted of:

	For the years ended December 31,		
	2016	2017	2017
	RMB	RMB	US\$
Non-PRC	(12,839)	(108,086)	(17,231)
PRC	(279,138)	(417,029)	(66,482)
	(291,977)	(525,115)	(83,713)

Source: [PDD Prospectus](#)

PDD discloses that Hangzhou Weimi Network Technology ("Hangzhou Weimi") is a WFOE and thus does not possess a value-added telecommunications services (VATS) license. The WFOE is not permitted under Chinese law to engage in e-commerce and thus cannot generate any external revenues. Although we can eliminate it for the purposes of measuring the Company's consolidated revenues, the costs borne by this WFOE and losses generated by this WFOE should be included when comparing PDD's reported net losses in its SEC filings against the losses reported by its PRC subsidiaries in their respective SAIC financials.

The math is simple. PDD reported in its prospectus that net losses in the PRC were only RMB 417 million in 2017.

If we consolidate the losses of the VIE entities and their parent company, wholly foreign-owned enterprise Hangzhou Weimi, SAIC filings indicate that PDD's reported net losses in the PRC were RMB 689 million in 2017, **65% greater than reported in PDD's SEC filings.**

Net Loss Comparison: Reported vs. SAIC

RMB'000	2017
SAIC Net Profit/(Loss)	
Shanghai Xunmeng	(67,297)
Hangzhou Aimi	1,602
Hangzhou Weimi	(622,902)
Total	(688,597)
Reported Net Loss in PRC	(417,029)
Difference	(271,568)
Difference %	-65%

Source: PDD Prospectus, Companies SAIC Filings, Blue Orca Calculation

Hangzhou Weimi SAIC Financial

2017 年度报告		2017 Annual Report	
企业基本信息		Hangzhou Weimi	
统一社会信用代码	9133010032224872XD	企业名称	杭州微米网络科技有限公司
企业通信地址	浙江省杭州市西湖区古荡街道益乐路 39 号 1 幢 7B14	邮政编码:	310000
企业联系电话	86011621	企业电子邮箱	
从业人数:		企业经营状态:	开业
是否有网站或网店	否	企业是否有投资信息或购买其它公司股权	有
企业资产状况信息			
资产总额	37324.717239 万元	所有者权益合计	36206.378161 万元
营业总收入	20375.095337 万元	利润总额	-62320.839766 万元
营业总收入中主营业务收入	20375.095337 万元	Net Profit 净利润	RMB - 622.9 M -62290.224149 万元
纳税总额	253.944136 万元	负债总额	1118.339078 万元

Source: SAIC Filings of Hangzhou Weimi

We believe, based on these SAIC filings, that PDD's 2017 revenues were 36-40% less than reported and that its 2017 PRC losses were 65% more than reported in the Company's SEC filings. In our view, the motivation was simple: to make PDD's historical financial performance look more attractive to investors in anticipation of its IPO and to boost its stock price which trades on a price-to-sales multiple.

PDD UNDERSTATES EMPLOYEE HEADCOUNT AND STAFFING COSTS

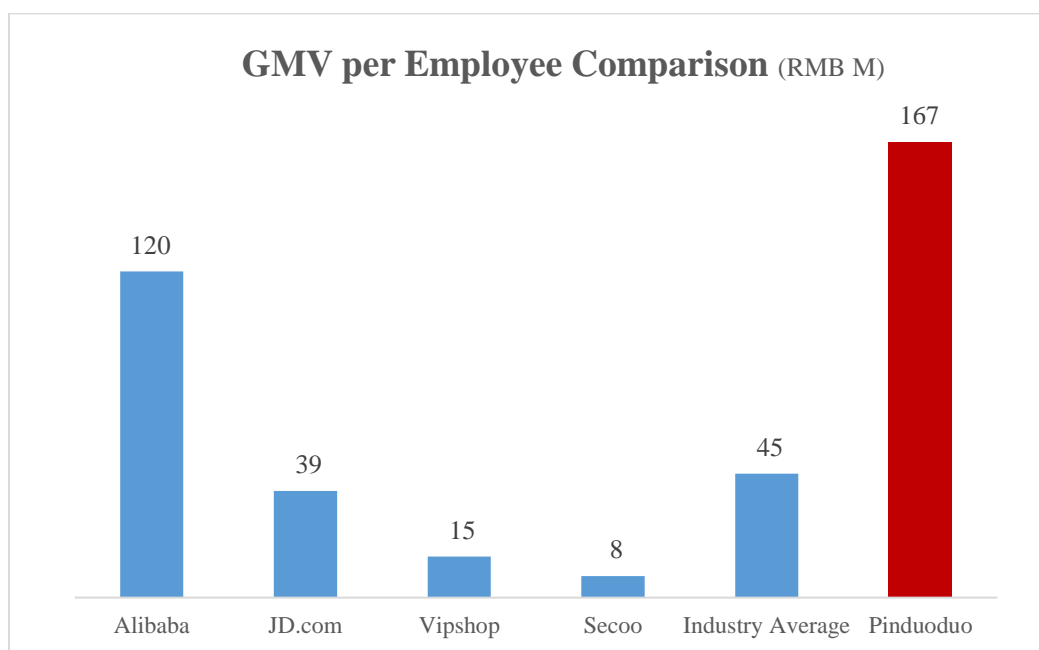
PDD's e-commerce business rose seemingly out of nowhere. PDD supposedly went from zero to RMB 100 billion in GMV in three years. By comparison, it [took](#) 10 years for JD.com and 5 years for Taobao to reach that level. Not only was PDD the fastest company to reach RMB 100 billion in GMV, but it supposedly reached this mark with significant operating efficiency and a lean staffing model.

Yet we believe there is significant evidence to indicate that PDD's business is not nearly as efficient as the Company claims and requires far higher staff levels than the Company admits in its SEC filings.

1) PDD's Reported GMV-Per-Employee is an Inexplicable Outlier

PDD reported RMB 141 billion in GMV in 2017, which means RMB 167 million of GMV-per-employee.²

To put this into context, when compared to other e-commerce peers, PDD's reported operating efficiency is a **wild outlier**. Alibaba reported a GMV-per-employee of RMB 120 million in 2017.³ JD.com was much less efficient, reporting RMB 39 million in GMV-per-employee. Note that for a proper apples-to-apples comparison, we excluded logistics staff of other e-commerce companies from our calculation because, unlike Alibaba or JD.com, PDD does not have its own logistics division.



Source: Companies Public Filings, Blue Orca Calculation

*The fiscal year end of Alibaba is March 31. For simplicity, we ignored the three months difference.

The industry average for GMV-per-employee was RMB 45 million. Yet PDD reported GMV-per-employee of RMB 167 million, meaning that it is supposedly **four times more efficient** than more mature, industry leading e-commerce businesses.

Either PDD has hacked the business and operates far more efficiently than leading Chinese e-commerce peers despite their advantages of scale and operating experience, or PDD's disclosed numbers are not accurate. We think the simpler

² PDD reported that its headcount doubled in 2017, so we took the average of its headcount in 2016 and 2017 when calculating GMV-per-employee.

³ Alibaba made four big acquisitions, Lazada, Youku Tudou, Cainiao and Intime, and expanded its cloud computing and international business. As they are not related to Taobao or Tmall, we did not include such employees in Alibaba's headcount for the purposes of an apples-to-apples calculation.

and more likely explanation is that the Company understates its headcount (and overstates GMV) to make its business appear more efficient and scalable than it really is.

2) PDD's Own Website Contradicts Disclosed Headcount

We found evidence to corroborate our suspicion. In its prospectus, PDD stated that it had a total of **only** 1,159 employees as of December 31, 2017.

Employees

As of December 31, 2017, we had a total of 1,159 employees. We had a total of 455 and 531 employees as of December 31, 2015 and 2016, respectively.

The following table gives breakdowns of our employees as of December 31, 2017 by function:

Function:	As of December 31, 2017
Sales and marketing	208
Product development	545
Platform operation	306
Management and administration	100
Total	1,159

Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918004833/a2235994zf-1.htm>

However, the Wayback Machine (which archives web pages) showed that on **PDD's own website**, PDD claimed that it had more than 5,000 employees in December 2017.

December 2017: PDD's Website Stated It Had More Than 5,000 Employees

公司规模

Pinduoduo Group currently has more than 5000 employees

拼多多所属集团现有员工5000余人, 80%毕业于清华、北大、复旦、交大、浙大等知名985、211高校和若干海外名校等。我们的团队有留学博士、世界计算机竞赛冠军和来自宝洁、世界大型商超品牌等500强企业的经验之士, 以及来自谷歌、微软、雅虎、百度、阿里巴巴、腾讯的技术大牛和产品大神。

Source: <https://web.archive.org/web/20171217224849/http://www.pinduoduo.com:80/about.html>

The web archive also preserved PDD's website from January 2018, at which time PDD again stated that it had over **5,000 employees**.

January 2018: PDD Website Stated It Had More Than 5,000 Employees

Wayback Machine: <http://www.pinduoduo.com:80/about.html> (20 captures, 29 Oct 2016 - 27 Jul 2018)

NOV 2016 JAN 17 2018 FEB 2019

公司规模

Pinduoduo Group currently has more than 5000 employees

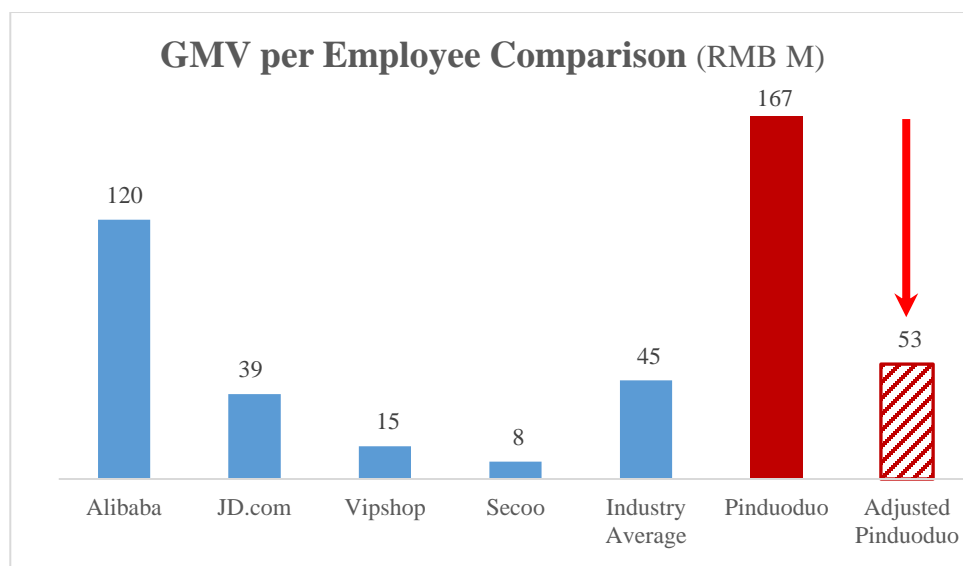
拼多多所属集团现有员工5000余人 80%毕业于清华、北大、复旦、交大、浙大等知名985、211高校和若干海外名校等。我们的团队有留学博士、世界计算机竞赛冠军和来自宝洁、世界大型商超品牌等500强企业的经验之士，以及来自谷歌、微软、雅虎、百度、阿里巴巴、腾讯的技术大牛和产品大神。

Source: <https://web.archive.org/web/20180117155751/http://www.pinduoduo.com:80/about.html>

Using the Wayback Machine, we can clearly see that by its own admission, PDD's actual headcount was 4.3x greater than the headcount disclosed in its prospectus.

Investors should note that as PDD's IPO approached in summer 2018, the Wayback Machine indicates that PDD changed its website to reflect its SEC filings (~2,000 employees). This is notable. It indicates that the Company was hastily covering its tracks in anticipation of scrutiny from the U.S. markets and IPO investors. But the Wayback Machine preserved the incriminating evidence.

There is additional reason to believe that PDD's original disclosures on its website were correct. Recall that based on PDD's SEC filings, its GMV-per-employee was a **massive outlier**. Yet if we adjust the calculation to include the headcount reported on PDD's website (5,000 employees as of December 2017), **voila!** PDD's adjusted GMV-per-employee is RMB 53 million, right in line with the industry average of RMB 45 million GMV-per-employee.



Source: Companies Public Filings; Blue Orca Adjustments

*Assuming the number of PDD employee was 2,000 from January to August, 3,000 in September and October, 5,000 in November and December, PDD has on average 2,667 employees in 2017. Therefore, PDD's adjusted GMV-per-employee ratio was RMB 53 million (RMB 141 billion divided by 2,667 employees)

If we use PDD's actual headcount as reported on its website, its GMV-per-employee metric is in line with the industry average (and ceases to be an inexplicable outlier).

Put simply, PDD's own website directly contradicts the Company's SEC disclosures and indicates that PDD underreported its headcount to U.S. investors.

We believe that by underreporting headcount, the Company understated its staffing costs, costs which should have been reflected in its consolidated financials and would have made PDD's business appear a lot worse than it disclosed. By how much? We can estimate the underreported staff costs because two data points give us an average monthly salary per PDD employee.

First, a Chinese employment website aggregated salary information for over 1,600 positions and calculated that the average monthly salary of a PDD employee was RMB 24,740. This website is akin to a Chinese version of Glassdoor.



Source: <https://www.jobui.com/company/11642837/salary/>

*As of Oct 23, 2018

PDD's disclosures give us an almost identical figure. Although PDD did not disclose its average staff cost in its prospectus, we can calculate this figure from the incremental change in PDD's reported headcount and the increase in staff costs in its COGS and operating expenses. First, the Company reported that its headcount increased by 628 employees in 2017.

Employees

As of December 31, 2017, we had a total of 1,159 employees. We had a total of 455 and 531 employees as of December 31, 2015 and 2016, respectively.

Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918005130/a2236295zf-1a.htm>

The Company reported an increase of RMB 626 million in its costs of online marketplace service in 2017, of which RMB 489 million was from payment processing fees and RMB 108 million was from bandwidth and server costs. This leaves RMB 28.7 million attributable to an increase in staff costs in its costs of revenues.

Costs of revenues

Our costs of revenues, which consist of costs of online marketplace services and costs of merchandise sales, increased by 25.1% from RMB577.9 million in 2016 to RMB722.8 million (US\$115.2 million) in 2017. This increase was primarily due to increases in costs of online marketplace services.

Our costs of online marketplace services increased substantially from RMB93.6 million in 2016 to RMB719.8 million (US\$114.8 million) in 2017, primarily due to increases in payment processing fees, bandwidths and server costs and staff costs. The increase in payment processing fees from RMB51.9 million in 2016 to RMB541.3 million in 2017 was primarily attributable to the substantial increase in GMV, which reached RMB141.2 billion in 2017. The increase in bandwidths and server costs from RMB9.4 million in 2016 to RMB117.5 million in 2017 was due to the increase in server capacity to keep pace with the growth of our online marketplace services. The increase in staff costs was primarily due to the increase in headcount for employees dedicated to the operations of our platform.

Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918005130/a2236295zf-1a.htm>

Costs of Revenues: Staff Costs Increased RMB 28.7 Million

RMB M	2016	2017	Increase
Online Marketplace Services	93.6	719.8	626.2
Payment Processing Fees	51.9	541.3	489.4
Bandwidths and Server Costs	9.4	117.5	108.1
Staff Costs	32.3	61.0	28.7

Source: PDD Prospectus, Blue Orca Calculation

Using a similar calculation, we can deduce that the increase in PDD's staff costs accounted as sales and marketing expenses was RMB 29.7 million in 2017.

Sales and Marketing: Staff Costs Increased RMB 29.7 Million

RMB M	2016	2017	Increase
Sales and marketing expenses	169.0	1,344.6	1,175.6
Advertising			874.4
Promotion and coupon			271.5
Implied Staff Costs			29.7

Source: Blue Orca Calculation

PDD directly stated that the increases in staff costs were RMB 18 million and RMB 92 million in general and administrative expenses, and research and development expenses, respectively in 2017. Therefore, the total reported increase in staff costs in these categories, plus the amount included in COGS, was RMB 169 million in 2017.

General and administrative expenses. Our general and administrative expenses increased substantially from RMB14.8 million in 2016 to RMB133.2 million (US\$21.2 million) in 2017. The increase was primarily attributable to an increase of RMB96.9 million in the cost for the repurchase of certain ordinary shares by us from a company controlled by our founder, and an increase of RMB18.1 million in staff costs due to the increase in headcount for our general and administrative personnel.

Research and development expenses. Our research and development expenses increased substantially from RMB29.4 million in 2016 to RMB129.2 million (US\$20.6 million) in 2017, primarily due to an increase in staff costs of RMB92.2 million. The increase in staff costs was primarily attributable to the increase in headcount for our research and development personnel, as we hired additional experienced research and development personnel to execute our technology-related strategies of improving our platform.

Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918005130/a2236295zf-1a.htm>

Basic analysis of PDD's financial statements indicates that its reported staff costs increased RMB 169 million on a reported increase in headcount of 628 in 2017. Therefore, we can calculate that the average employee salary per year was RMB 268,631 or RMB 22,386 per month, which is close to RMB 24,740 reported by the third-party website.

PDD Average Employee Salary

RMB M	2017
Staff costs increase in:	
Costs of Revenues	29
Sales and Marketing	30
General and Administrative	18
Research and Development	92
Total increase in staff costs	169
Reported increase in employee headcounts	628
Average Employee Salary per year (RMB)	268,631
Average Employee Salary per month (RMB)	22,386

Source: PDD Public Filings, Blue Orca Calculation

Based on the historic disclosures on the Company's website captured by the Wayback Machine, PDD claimed that it had more than 3,000 employees in [September](#) and [October](#) 2017, and more than 5,000 employees in [November](#) and [December](#) 2017. Earlier data was not available. However, on its website, the Company stated that before founding PDD, the group already has nearly 2,000 employees.

创始团队

The founding team of Pinduoduo has been involved in the e-commerce field since 2007

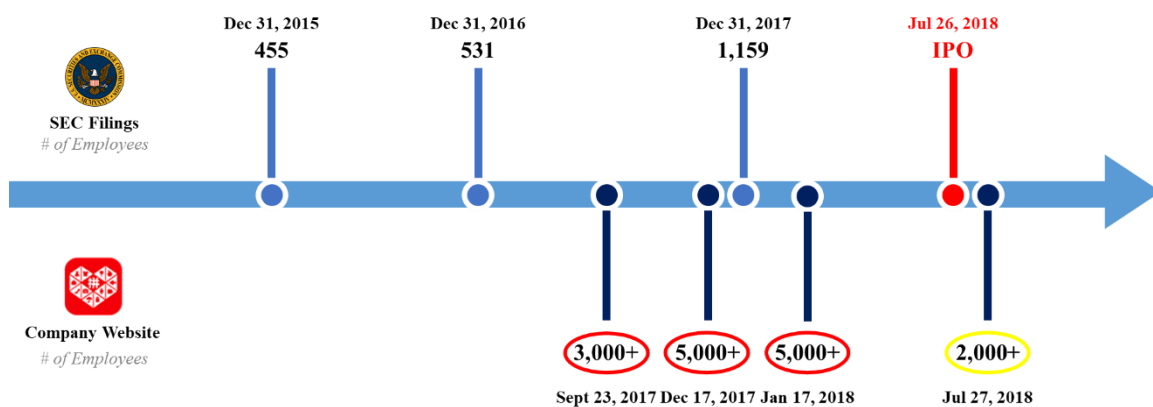


拼多多创始团队从2007年起就涉足电商领域。先后创立了母婴食品领域的代运营公司和具有卓越研发实力的游戏公司，为好奇、贝亲、安满、中粮等品牌提供全渠道电商运营服务。在创立拼多多之前，集团已经有近2000名员工。在北京、上海、广州、深圳、浙江、江苏、香港、美国、新加坡等地均设有分公司。

Before founding Pinduoduo, the group already has nearly 2,000 employees

Source: <http://www.pinduoduo.com/about.html>

Based on this disclosure, and that the Company reported to having 3,000 employees on its website by September 2017, we assume staffing levels of at least 2,000 employees for the first few months of the year.

Conflicting Disclosure of PDD Employee Number

Source: PDD SEC filings and Wayback Machine

Based on the average salary per employee and the historic headcount disclosed on PDD's website (which anyone can see through the Wayback Machine), we estimate that PDD's staff costs in 2017 should have been RMB 716 million, RMB 489 million more than the RMB 227 million implicit in its SEC disclosures.

Understated RMB 489 Million Staff Cost

Employee Headcount	2017
January - August	2,000
September - October	3,000
November - December	5,000
Average monthly salary per employee (RMB)	22,386
Estimated Employee Cost (RMB M)	716
Estimated staff costs as disclosed (RMB M)	227
Understated Staff Cost (RMB M)	489

Source: [Pinduoduo Website](#), [Public Filings](#), [Wayback Machine](#), [Blue Orca Calculation](#)

In 2017, PDD reported a net loss of RMB 525 million. Adding back the understated staff costs of RMB 489 million, we estimate that the actual loss would be RMB 1 billion, 93% worse than reported figure.

Calculated PDD Net Loss RMB 1 billion

<i>RMB M</i>	2017
Reported Net Loss	(525)
Understated Staff Costs	(489)
Calculated Net Loss	(1,014)
<i>Difference</i>	-93%

Source: [PDD Public Filings](#), [Blue Orca Calculation](#)

PDD's own website clearly indicates that the Company underreported its headcount in its SEC filings. Based on the average annual salary of its employees, we estimate that, by understating headcount, PDD underreported staffing costs by RMB 489 million. This is further supporting evidence, in our opinion, that the Company is not truthful in its disclosures to investors and that its business is far less efficient and generates greater losses than PDD claims in its SEC filings.

UNDISCLOSED RELATED PARTY SECRETLY STAFFING FOR PDD

PDD's own website stated in black and white that its headcount by the end of 2017 was 5,000 employees, 4.3x times more than the meagre 1,159 reported in its SEC filings. We believe it is reasonable to posit that the Company underreported staffing costs proportionally.

Fitting this narrative, there is considerable evidence that an undisclosed related party affiliated with PDD's chairman continues to secretly bear some of PDD's staffing costs.

PDD's founder and chairman, Colin (Zheng) Huang is a serial entrepreneur. He started an e-commerce site called Ouku in 2007, which sold electronics and home appliances. In 2009, he [started](#) his second e-commerce company, Dongguan Leqee Network Technology Company Limited ("Leqee"), which provided e-commerce services to brands. Leqee is 100% owned by a PRC parent company, Lemai Information Technology (Hangzhou) Company Limited ("Lemai Hangzhou"). Huang was the director of Lemai Hangzhou from November 2015 through May 2018, when he resigned prior to PDD's IPO.

Colin Huang was involved in Lemai Hangzhou Prior to IPO

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Lemai Information Technology (Hangzhou) Company Limited

乐麦信息技术(杭州)有限公司 存续

统一社会信用代码: 91330100568758041R
法定代表人: 刘威
登记机关: 杭州市高新区(滨江)市场监督管理局
成立日期: 2011年02月12日

发送报告
信息分享
信息打印

变更信息

序号	变更事项	变更前内容	变更后内容	变更日期
6	Amendment	Pre-change Record	Post-change Record	Date of Change
7	高级管理人员备案 Senior Management Filing	姓名: 刘威; 证件号码: *****; 职位: 总经理 姓名: 陈磊; 证件号码: *****; 职位: 监事 姓名: 黄峥; 证件号码: *****; 职位: 执行董事 收起	姓名: 刘威; 证件号码: *****; 职位: 董事长兼总经理 姓名: 周明杰; 证件号码: *****; 职位: 监事 姓名: 宋金; 证件号码: *****; 职位: 董事 姓名: 徐炳全; 证件号码: *****; 职位: 董事 姓名: 严潇; 证件号码: *****; 职位: 董事 收起	2018年5月9日 May 9, 2018
8	经营范围变更	Name: Huang Zheng Position: Executive Director 护、信息技术支持管理、数据处理的信息技术和业务流程外包服务; 计算机软件开发并提供相关技术服务、技术咨询; 服务; 市场营销策划、商务信息咨询、图文设计制作、网页设计、企业形象策划、票务代理、会务服务、佣金代理(除拍卖)。(涉及国家规定实施准入	Huang Zheng is absent from the list 相关技术服务、技术咨询; 服务; 市场营销策划、商务信息咨询、图文设计制作、网页设计、企业形象策划、票务代理、会务服务、佣金代理(除拍卖); 销售; 计算机软硬件; 设	2018年1月3日

Source: <http://www.gsxt.gov.cn/index.html>

Although PDD made no mention of Leqee or its parent entity Lemai Hangzhou in its prospectus, it has been widely reported in the PRC media that PDD was founded by a core team of employees transferred from Leqee in 2015.

2015年下半年, 当拼好货在跌跌撞撞中快速发展的时候, 主打游戏的上海寻梦信息技术有限公司(原乐其核心员工组成)介入, “拼多多”诞生了, 拼多多和拼好货分属两家公司, 都由黄峥管理。Shanghai Xunmeng (formed by former Leqee's core employees)

Source: http://www.sohu.com/a/238262666_422199

拼好货是以水果切入市场、主打C2B闪购的品质电商，其团队脱胎于乐其电商代运营团队，于2015年4月正式上线，凭借拼团和自建生鲜配送轻物流模式的优势迅速获得市场青睐，到2015年底已经成为在生鲜领域实现盈亏平衡的少数电商公司之一。目前拼好货发展稳定，月活过千万，广受用户好评。

Entering the market with selling fruits, Pinhaohuo is a quality e-commerce company, which focuses on C2B flash sales. Its teams are from Leqee.

Source: <http://www.chinanews.com/it/2016/09-14/8003783.shtml>

Chinese media reported that PDD's primary e-commerce entity, Shanghai Xunmeng, was formed using a core group of employees from its chairman's other entity, Leqee. Yet there is evidence that the deep ties between Leqee and PDD continued long after PDD supposedly broke off from its related-party incubator.

First, Leqee's own website announced that it was conducting on-campus recruiting for developer positions at PDD in 2017.

Leqee

2017校园招聘 关于乐其

2017 Campus Recruiting

梦想可贵 天生无畏

乐其电商集团2017校园招聘

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招聘分类 Hiring Category

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Social E-commerce Platform Pinduoduo

招聘动态 更多>>

暂无内容

职位搜索

工作地点: 全部 | 上海市 | 长宁区 | 苏州市 | 浙江省 | 杭州市 | 深圳市

招聘分类: 全部 | 技术岗 | 非技术岗

发布时间: 全部 | 三天内 | 一周内 | 一个月内 | 三个月内 | 半年内

请输入关键字 搜索

职位名称 Position	招聘类别	招聘分类	工作地点
IOS/Android研发工程师 IOS/Android Developer	校园招聘	社交电商平台拼多多	上海市
web前端工程师 Web Front End Developer	校园招聘	社交电商平台拼多多	上海市
后端研发工程师 Back End R&D Developer	校园招聘	社交电商平台拼多多	上海市
算法工程师 Algorithm Engineer	校园招聘	社交电商平台拼多多	上海市

Source: <http://leqee.zhiye.com/campus?p=1^16#jlt>

If Leqee was recruiting for PDD in 2017, it should be plainly evident that there were undisclosed related party dealings between Leqee and PDD during the track record period. And there is evidence that this practice continues to today, including job postings from as recently as October 2018.

Below we include screenshots of three separate Leqee job postings on a popular recruiting website in which Leqee is hiring for positions at PDD. PDD is explicitly mentioned in the title of the job recruiting posts. One post was for a Pinduoduo Event Operations Specialist and lists responsibilities including planning and executing large-scale retail e-commerce events like Singles Day (Double 11) and another special online shopping day, Double 12. The posting states that applicants would likely be working with the product department and operations department. But it is Leqee that is hiring, not PDD.

【拼多多】活动运营专员 Position: Pinduoduo Event Operation Specialist
 东莞乐其网络 Hiring Company: Dongguan Leqee

10-21万 72小时反馈 我感兴趣 请联系我

上海-中山公园 1个月前 1 month ago
 统招本科 | 经验不限 | 普通话 | 年龄不限

五险一金 领导好 扁平管理 休闲餐点 发展空间大 绩效奖金 带薪年假
 定期体检 节日礼物 包餐食 年底双薪

职位描述: Job Description:
 岗位描述: 1. Responsible for planning and execution of large-scale events, such as Double 11, Double 12;
 2. Work with Product Department and Operation Department to execute events
 3. 负责活动上线后的反馈, 整理和分析活动运营数据, 并对其进行分析和总结;

Leqee
 东莞乐其网络

关注

行业: 互联网/移动互联网/电子商务
 公司规模: 1000-2000人
 公司地址: 长宁区愚园路1258号2005



Position Posted by:
 HR/Hiring Manager
 Dongguan Leqee

HR / 招聘主管
 东莞乐其网络

立即沟通

Source: <https://www.liepin.com/job/196795081.shtml>

In the next job post, Leqee is hiring for a position it labels “Pinduoduo Senior PR Manager.”

拼多多高级公关经理 Position: Pinduoduo Senior PR Manager
 东莞乐其网络 Hiring Company: Dongguan Leqee

面议 72小时反馈 我感兴趣 请联系我

北京-朝阳区 1个月前 1 month ago
 统招本科 | 经验不限 | 普通话 | 年龄不限

五险一金 领导好 扁平管理 休闲餐点 发展空间大 绩效奖金 带薪年假
 定期体检 节日礼物 包餐食 年底双薪

职位描述: Job Description:
 岗位职责: Utilize PR promotion methods to establish a good public image of the company and enhance brand awareness and reputation
 1. 利用各种公关推广手段树立公司良好的公众形象, 提高品牌知名度与美誉度;
 2. 针对公司品牌、产品及活动, 进行各类稿件、宣传的文案撰写工作;
 3. 与各大媒体保持良好沟通关系, 不断开拓新媒体生态圈;
 4. 应对处理负面新闻, 进行危机公关。

Leqee
 东莞乐其网络

关注

行业: 互联网/移动互联网/电子商务
 公司规模: 1000-2000人
 公司地址: 上峰电商产业园1号楼402



Position Posted by:
 HR / Hiring Manager
 Dongguan Leqee

HR / 招聘主管
 东莞乐其网络

立即沟通

Source: <https://www.liepin.com/job/197276338.shtml>

In another job posting, Leqee announces that it is recruiting for a PDD Data Analyst position.

【拼多多】数据分析师
东莞乐其网络

Position: PDD Data Analyst
Hiring Company: Dongguan Leqee

72小时反馈
1个月以前 1 month ago

统招本科 | 经验不限 | 普通话 | 年龄不限

五险一金 | 领导好 | 扁平管理 | 休闲餐点 | 发展空间大 | 绩效奖金 | 带薪年假
定期体检 | 节日礼物 | 包餐食 | 年底双薪

职位描述:
岗位描述:
1. 负责业务运营数据的提取, 数据处理, 数据分析和报告编制;
2. 责和其他业务部门沟通, 梳理业务流程, 发现业务运营问题, 提供建议;
3. 针对运营问题进行深度诊断, 发现业务运营问题与机会点, 辅助制定运营策略, 提升运营效率;

职位发布者: HR / 招聘主管
东莞乐其网络

行业: 互联网/移动互联网/电子商务
公司规模: 1000-2000人
公司地址: 长宁区愚园路1258号2005

绿地商务大厦
棉麻衣铺
星伟桌球

Source: <https://www.liepin.com/job/196795829.shtml>

The above records are fairly unambiguous. The posts state that Leqee is hiring for positions at PDD as recently as October 2018.

It is critical to note that Leqee's hiring on behalf of PDD occurred during the pre-IPO track record period and after PDD went public, periods in which PDD would be obligated to disclose related party transactions between the Company and its related entity.

This fits the narrative that PDD's underreports its headcount and staffing costs to U.S. investors. If undisclosed related party Leqee is hiring on behalf of PDD, Leqee is bearing the staffing costs that should be borne and disclosed by PDD.

There is also evidence to show that PDD advertises for positions to work at Leqee offices. In its prospectus, PDD only discloses offices in Shanghai. PDD does not disclose any office or employees in Hangzhou.⁴ As a basis for comparison, JD.com disclosed each office location (by city) and the size of each office in its prospectus.

Properties and Facilities

Our principal executive offices are located on leased premises comprising approximately 11,200 square meters in Shanghai, China. Our principal executive offices are leased from independent third parties, and we plan to renew our lease from time to time as needed.

Our servers are hosted in leased internet data centers in different geographic regions in China. We typically enter into leasing and hosting service agreements with these internet data center providers that are renewed periodically. We believe that our existing facilities are sufficient for our current needs, and we will obtain additional facilities, principally through leasing, to accommodate our future expansion plans.

Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918005130/a2236295zf-1a.htm>

According to Leqee's campus recruiting post in October 2018, Leqee has three offices, located in the cities of Hangzhou, Guangzhou, and in the Green Business Building in Shanghai.

⁴ PDD has subsidiaries in Hangzhou but it only disclosed offices in Shanghai.

2019 Recruiting: Leqee E-commerce

2019招聘: 乐其电商

Date: 10/18/2018 编辑: 日期: 2018-10-18 访问次数: 19

乐其电商2019秋季校园招聘简章

五、联系我们

公司地址:

杭州: 浙江省杭州市滨江区江虹路611号上峰电商产业园1号楼402室

广州: 广州市天河区东圃大马路8号时代TIT广场A区317

上海: 上海市长宁区愚园路1258号1705室

Company Address:

Hangzhou: Room 402, Building 1, Shangfeng E-commerce Industrial Park, No. 611
Jianghong Road, Binjiang District, Hangzhou, ZhejiangGuangzhou: 317, Zone A, Times TIT plaza, No. 8, Dongpu Road, Tianhe
District, Guangzhou

Shanghai: Room 1705, No. 1258 Yuyuan Road, Changning District, Shanghai

Source: <http://www.isee.zju.edu.cn/notice/2018/1018/c21213a878128/page.htm>

We found evidence that PDD is hiring employees to work at two of Leqee's three offices, including in Hangzhou, a city where PDD supposedly does not even maintain an office.

Hangzhou

For example, a PDD job posting from January 2018 advertised an opening at PDD for a finance assistant. This post lists the same address as Leqee's Hangzhou office as the location for the position.

拼多多+财务助理招聘+周末双休+朝9晚6+坐标杭州



来自: 面团 2018-01-17 09:24:02 PDD Hires Finance Assistant
Jan 17, 2018

【拼多多】财务助理招聘

工作职责:

- 1.负责公司每月的报销、付款、用章处理;
- 2.协助财务完成日常事务性工作,协助处理账务审核日常单据;
- 3.负责归档财务相关资料;
- 4.负责开具各项票据;
- 5.完成领导交办的其他工作。

欢迎你加入拼多多的大家庭~

我们包快乐气氛任你high, 周末双休, 朝9晚6, 这样的日子简直不能太享受O_o

投递邮箱: miantuan@pinduoduo.com

简历命名格式:姓名+岗位+投递渠道

公司坐标:杭州市滨江区江虹路611号上峰电商产业园

Company Address: Shangfeng E-commerce Industrial Park, No. 611
Jianghong Road, Binjiang District, Hangzhou

Source: <https://www.douban.com/group/topic/111869173/>

In another job posting from September 2018, PDD recruits for an analyst role. Yet the address for the job is Leqee's Hangzhou office building (Building 1, No. 611 Jianghong Road in the Shangfeng Industrial Park).

PDD Recruiting Position in Hangzhou

财务分析 Financial Analysis
拼多多 Pinduoduo 1.5-3万/月

Posted on Sep. 10

杭州 | 2年经验 | 本科 | 招1人 | 09-10发布

五险一金 | 交通补贴 | 餐饮补贴 | 专业培训 | 绩效奖金 | 年终奖金 | 弹性工作 | 定期体检

职位信息

岗位职责:

- 1、协助编制每月管理月报;
- 2、协助主管完成日常事务性工作,保证财务体系畅通;
- 3、监控公司自动财务系统异常,及时定位及处理异常;
- 4、梳理并完善公司财务以及业务各相关流程,监控各流程的实施情况;
- 5、协助公司财务体系的合规和外部审计工作;
- 6、从财务角度,参与并协助业务部门各项目的顺利推进;
- 7、完成上级交办的其他任务。

联系方式

Work Location: Room 530, Building 1, Shangfeng E-commerce Industrial Park, No. 611 Jianghong Road, Binjiang District, Hangzhou

上班地址: 杭州市滨江区杭州是滨江区江虹路611号上峰产业园1号楼530

地图

Source: <https://jobs.51job.com/hangzhou/100499004.html?s=04>

Remember that PDD discloses no office in Hangzhou and does not disclose any related party transactions between the Company and Leqee. Yet PDD is advertising for positions to work out of the same building as Leqee's Hangzhou office.⁵

Shanghai

Prior to September 2017, PDD's primary operating subsidiary, Shanghai Xunmeng, was registered at the following address: Room 1109-1110, No. 1258 Yuyuan Road, Changning District, Shanghai. This room is located on the 11th floor of what is known as the "Green Business Building."

Shanghai Xunmeng SAIC Information

变更信息				
序号	Amendment 变更事项	Before 变更前内容	After 变更后内容	Date 变更日期
1	董事备案	黄峥;孙沁;顾晓鸣	黄峥;孙沁	2018年6月6日
2	许可经营项目变更	无	无	2017年11月22日
3	经营范围变更	网络科技、计算机软硬件领域的技术开发、技术转让、技术咨询、技术服务, 网络工程, 计算机系... 运营	网络科技、计算机软硬件领域的技术开发、技术转让、技术咨询、技术服务, 网络工程, 计算机系... 运营	2017年11月22日
4	住所变更	上海市长宁区愚园路1258号1109-1110室	上海市长宁区娄山关路533号2902-2913室	2017年9月1日
5	Address Change	Room 1109-1110, No. 1258 Yuyuan Road, Changning District, Shanghai	Room 2902-2913, No. 533 Loushanguan Road, Changning District, Shanghai	9/1/2017

Source: <http://www.gsxt.gov.cn>

⁵ Hangzhou Weimi and Hangzhou Aimi are both registered in different districts in Hangzhou, 30 minutes away from Leqee's Hangzhou office. Note that PDD did not list the address of its subsidiaries on its job posts, but instead lists Leqee's Hangzhou office.

In a July 2016 job posting, Leqee advertised that it was hiring for interns at Pinduoduo and Pinhaohuo (PDD's old business), which Leqee referred to as its mobile e-commerce division. This post is notable not only because Leqee claims to occupy the entire 11th floor of the Green Business Building, but also because it refers to PDD as a division of Leqee.

Excerpt from Leqee Job Post for PDD

Leqee Group Mobile E-commerce Department [Fall Recruiting Internal Referral] - Pinduoduo

乐其集团移动电商事业部【秋招内推】——拼多多



来自: 拼多多招聘 2016-07-26 17:44:34

寻找崛起中的少年! From: Pinduoduo Recruiting 7/26/2016

你这么屌, 我们要让全世界都知道

乐其集团移动电商事业部【招聘实习生】——拼多多&拼好货

公司介绍: Leqee Group Mobile E-commerce Department [Hiring Intern] - Pinduoduo & Pinhaohuo

乐其移动电商事业部, 成立于2015年4月, 是中国第一家社交电商。经过一年的迅速发展, 当前公司已有超过500名员工, 并且队伍还在不断壮大中.....

我们提倡全新的购物体验: 凝聚更多人的力量, 实现优质优价!

拼好货&拼多多, 是中国第一家社交电商, 是真正意义的团购。用户通过发起和朋友、家人、邻居等的拼团, 可以买到优质也优价的好货。

关于我们:

About Us:

创始人Google出身, 4次成功创业经验 Founder was from Google

我们的团队有留学博士, 有世界计算机竞赛冠军

联系方式:

电话: 021-61312536 Company Address: 11th floor (Entire Floor) of Green Business Building, No. 1258 Yuyuan Road, Changning District, Shanghai

邮箱: hr@yiran.com

公司地址: 上海市长宁区愚园路1258号绿地商务大厦11楼 (整层)

乘车路线: 地铁2/3/4/11号线江苏路站七号口出/中山公园站五号口出

Source: <https://www.douban.com/group/topic/88959196/>

This recruiting advertisement was posted during the pre-IPO track record period, when PDD would have an obligation to disclose any related party transactions between Leqee and PDD. Yet Leqee is never mentioned in PDD's prospectus.

Another news article from August 2016 also [reported](#) that Pinduoduo staff, who worked on the 11th floor of Green Business Building, said they were under a business department of Leqee.

On the 11th floor of the Green Business Building, reporter found that Pinduoduo's staff worked here. Pinduoduo's employee said that they are under a department of Leqee. An employee of Pinhaohuo vaguely stated that they also had close ties with Leqee.

在绿地商务大厦11层, 记者发现“拼多多”在此办公。“拼多多”员工表示, 他们是乐其网络科技有限公司旗下的事业部。而“拼好货”的一名员工含糊表示, 他们和乐其公司也有紧密关系。

《IT时报》记者通过全国企业信用信息公示系统查询发现, “拼好货”所属公司杭州埃米网络科技有限公司的股东为孙沁和黄峥, 而黄峥又是东莞市乐其网络科技有限公司的执行董事, 而“拼多多”所属的上海寻梦信息技术有限公司又投资成立了深圳市拼多多网络科技有限公司, 其法人正是孙沁。

Source: <http://finance.eastmoney.com/news/1365,20160808653586390.html>

Although Shanghai Xunmeng changed its registered address in September 2017 to PDD's new Shanghai headquarters, there is evidence suggesting that PDD's staff still operate out of Leqee's office space in the Green Business Building.

For example, in January 2018, PDD's wholly foreign-owned enterprise subsidiary (WFOE), Hangzhou Weimi, posted an opening for a position located on the 11th floor of the Green Business Building.

hrjob > 杭州微米网络科技有限公司 > 招聘经理

招聘经理 Hiring Manager Update Date: Jan 12, 2018
更新时间: 2018-01-12 浏览21次

杭州微米网络科技有限公司 Hangzhou Weimi
行业: 移动互联网 注册资金: 800万

Work Location: Room1106, Green Business Building, No. 1258 Yuyuan Road, Changning District, Shanghai

工作地点: 上海-长宁区-中山公园-愚园路1258号绿地商务大厦1106

Source: <https://www.hrjob.cn/job/2267811>

Leqee also advertises for job openings at **exact same address! Even the room numbers are the same.**

乐其网络运营部招聘

资深运营专员 (互联网) Leqee Network Operations Recruiting Senior Operations Specialist 收藏 已投递

10k-20k / 上海 / 经验不限 / 本科及以上 / 全职 完善在线简历 上传附件简历

天编客服 在线客服

2018-11-08 发布于拉勾网 Posted on Lagou.com on Nov 8, 2018

职位诱惑:
高薪,平台大,升职机会,公平工作

职位描述:

岗位职责

- 1、平台日常运营管理,制定和实施网站运营年度计划,实现网站预期的各项目目标;
- 2、商品、活动、数据、用户等电商运营行为,为销售结果负责;
- 3、配合公司移动客户端产品更新进程,完成移动客户端推广工作的策划和执行。

任职资格:

- 1、本科及以上学历,3年以上互联网运营类岗位工作经验;
- 2、很强的商业敏感度,强烈的数据化运营及ROI意识,对商品/网站运营有成功经验,掌握丰富的推广方法;
- 3、较强的数据分析和项目管理能力,了解市场动态和目标用户心理。

工作地址 **Work Address: Room 1106, No. 1258 Yuyuan Road, Green Business Building**

上海-长宁区-中山公园-愚园路1258号绿地商务1106室 查看地图

Leqee 乐其网络 

电子商务
D轮及以上
500-2000人
<http://www.leqee.com>

相似职位

 互联网运营专员 10k-18k

Source: <https://www.lagou.com/jobs/3868056.html>

We think these posts clearly demonstrate that PDD's subsidiary is advertising for PDD employment positions located at Leqee's Shanghai offices.

To review. PDD never discloses any related party transactions with Leqee in its public filings. PDD never even mentions Leqee in its prospectus, despite common ownership and even though Chinese media reported that PDD was formed with a development team from Leqee.

Yet there is evidence for continuing transactions between Leqee and PDD throughout the track record period and up to and including October 2018.

Leqee advertised on its own website that it was recruiting on campus for PDD. We also found multiple job posts on independent websites in which Leqee is listed as the hiring company for positions such as PDD event coordinator, PDD public relations manager and PDD financial analyst.

In addition, we found multiple job postings from PDD subsidiaries which advertise for open positions at PDD but list Leqee's offices as the work address for the positions. This includes advertisements for openings at PDD in Hangzhou, a city in which Leqee has offices but PDD never discloses any office locations.

At the very least, we think such evidence indicates continuing undisclosed related party transactions between PDD and Leqee. Furthermore, we think such recruiting advertisements show fairly unambiguously that Leqee is hiring for PDD and that PDD is hiring for positions to work out of Leqee's offices.

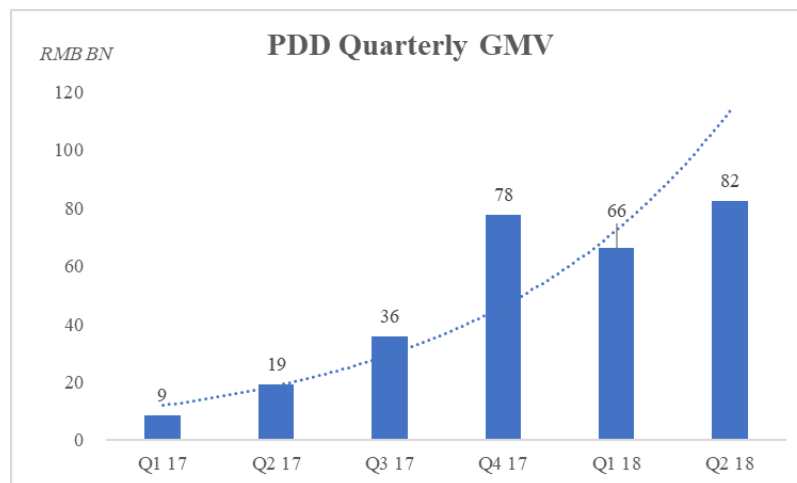
This evidence also corroborates evidence presented in the previous section which indicates that PDD is underreporting its headcount – as it indicates some PDD employees are staffed by Leqee.

In our opinion, this evidence supports our supposition that Leqee is secretly shouldering some of PDD's staffing costs, costs which we believe should appear on PDD's SEC financials and would increase PDD's reported losses and undermine PDD's reported operating leverage and efficiency. PDD is not the business it pretends to be. And its undisclosed dealings with Leqee, in our view, should subvert any notion that PDD is fairly and accurately representing its business and financial performance to U.S. investors.

PDD INFLATES REPORTED GMV

E-commerce businesses, for better or worse, are valued not only on revenue and profitability (or lack thereof) but also on operating metrics, principally the gross value of merchandise sold on the platform or through the application (GMV).

In its prospectus, the Company [reported](#) that its GMV was RMB 141 billion and in 2017, RMB 66 billion in Q1 2018, and RMB 82 billion in Q2 2018.⁶ If we chart various disclosed GMV data points, we can see that PDD's reported growth trajectory appears near miraculous.



Source: Goldman Sachs Report, September 13, 2018

So much of the bull case for PDD rests on the supposedly meteoric growth of its reported GMV.

Yet we believe that there is significant evidence, including commission fee revenues and payment processing costs disclosed by PDD in its SEC filings, to suggest that PDD's reported GMV is highly misleading and that the actual transaction volumes on its applications are materially lower than disclosed.

a. Double Contingency Application Architecture Promotes GMV Overstatement

In its prospectus, PDD defines GMV as “the total value of all orders for products and services... **regardless of whether the products and services are actually sold, delivered or returned.**”

"GMV" are to the total value of all orders for products and services placed on our Pinduoduo mobile platform, regardless of whether the products and services are actually sold, delivered or returned. Buyers on our platform are not charged for shipping fees in addition to the listed price of merchandise. Hence, merchants may embed the shipping fees in the listed price. If embedded, then the shipping fees are included in our GMV. As a prudential matter aimed at eliminating any influence on our GMV of irregular transactions, we exclude from our calculation of GMV transactions over certain amounts (RMB100,000) and transactions by buyers over a certain amount (RMB1,000,000) per day;

Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918005130/a2236295zf-1a.htm>

Although the SEC questioned, in [correspondence](#) with Alibaba, the inclusion of unsettled orders and unsold items in reported GMV, this definition is standard across e-commerce companies.

That said, we believe there is something unique about PDD's e-commerce application which makes its reported GMV figures substantially more misleading than the GMV figures disclosed by other Chinese e-commerce giants using a similar GMV definition.

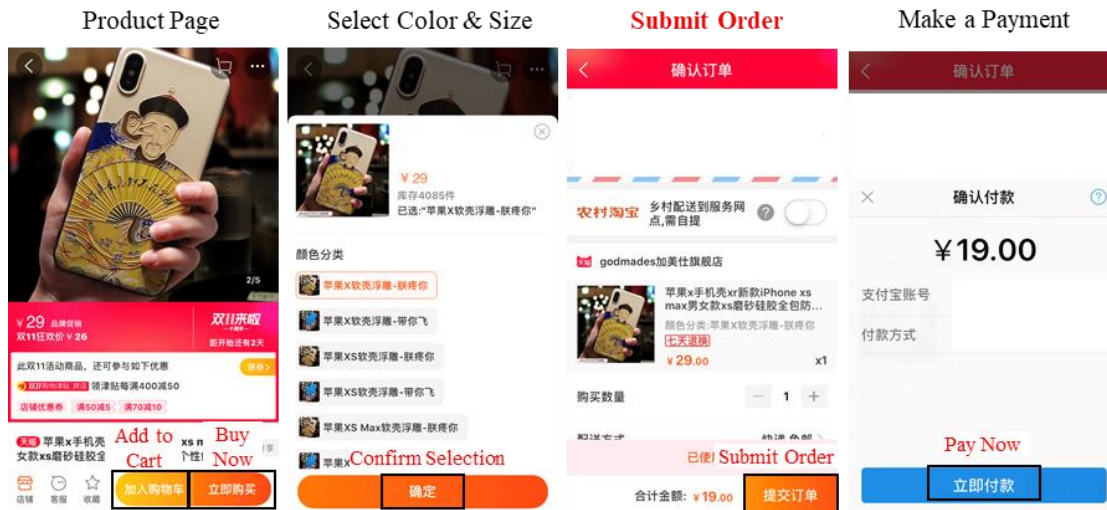
On U.S. e-commerce platforms like Amazon or eBay, a customer browses for an item, places it in a cart, and then pays for the item upon checkout. Setting aside the issue of returns, the GMV figures that these companies disclose

⁶ PDD [disclosed](#) that its Q1 17 GMV was RMB 66.2 million in the first version of its F-1, but removed that information from other versions. PDD's Q2 2018 GMV was disclosed in a Goldman Sachs research report dated September 13, 2018.

represent the total volume of orders paid for on an e-commerce website or app. Chinese e-commerce applications such as Taobao and JD.com are slightly different, in that customers submit an order prior to making a payment.

Take Taobao for example. When a customer wants to purchase a product, he or she could add it to a shopping cart or choose to buy immediately; then confirm his or her selection of the color, quantity and/or size of a product, and finally submit the order. On Taobao, customers must **affirmatively click the “submit order” button for an order to be placed**. They are then taken to a payment screen.

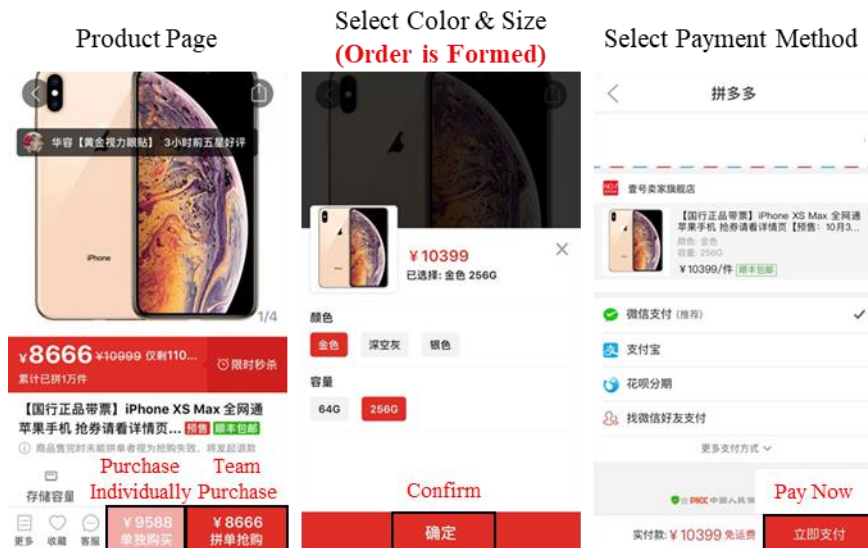
Taobao: Manual Order Submission



Source: Taobao Mobile App

But PDD’s application is unique even by Chinese standards. On PDD’s app, when a customer confirms his or her selection of the color, quantity and/or size of a product, an order is **automatically generated**. The shopping cart function is effectively eliminated.

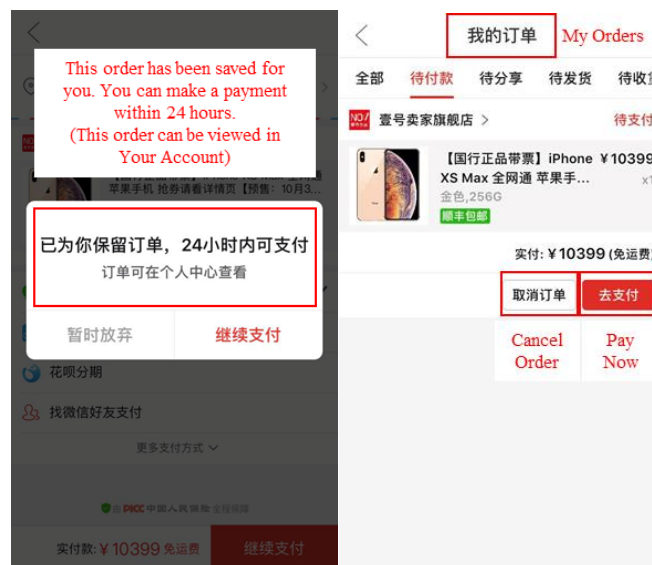
PDD: Automatic Order Submission



Source: PDD Mobile App

Once a customer completes his or her selection of a size and/or color or type of product, an order is automatically generated on the application. If, at this point, you try to exit the “select a payment method page,” a message will pop

up on your phone saying “This order has been saved for you. You can make the payment within 24 hours. (This order can be viewed in Your Account).” And if you go to ‘My Orders’ page, you will see the saved order.



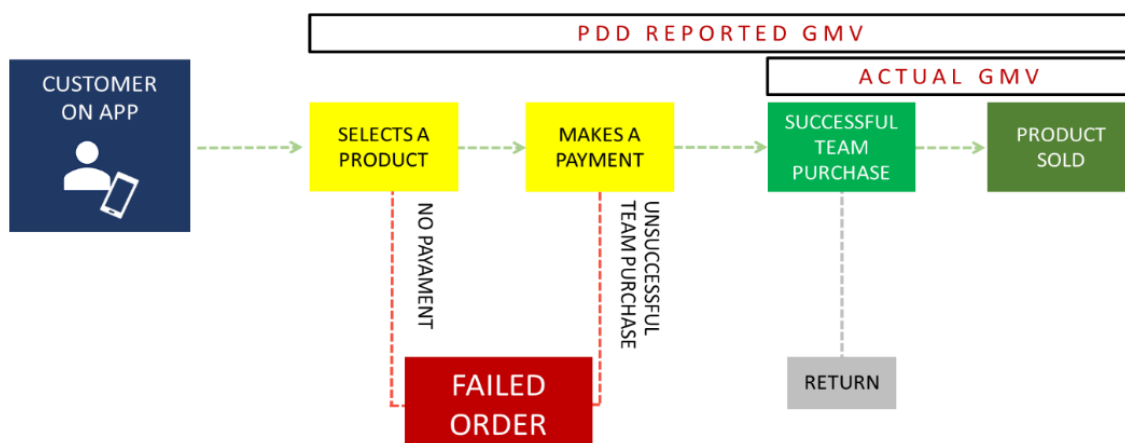
Source: PDD Mobile App

Because of its automatic order submission and the absence of any “shopping cart” function, we believe that the Company counts as GMV orders that are placed without even a basic commitment to complete the transaction. If the purpose of GMV is to disclose transaction volumes and not simply aspirations, then including such aspirations as “orders” would seem highly misleading to investors.

But the absence of a shopping cart function is only the **first contingency**. There is a second. If you elect a team purchase price for a product, but no one joins your “team” for the team purchase, the transaction is also cancelled after 24 hours. Even if a customer makes a payment (passing the first contingency), the failure to attract fellow purchasers to a team purchase order will also result in cancellation of the transaction (the second contingency).

This is what we refer to as the double-contingency.

PDD REPORTED GMV COMPONENTS



Source: PDD Public Filings, Blue Orca Analysis

*Customers can also purchase products individually, which we believe represent a small portion of total orders.

The flowchart summarizes the various steps involved to complete a sale on PDD's mobile platform. Since PDD generates product orders automatically for customers prior to payment, unpaid orders on PDD's application replace the shopping cart function. In our view, this leads to a massive distortion of GMV, especially when compared to other Chinese e-commerce companies. Then there is a second contingency. Even if the customer enters payment information, the transaction could still fall apart if the customer could not find enough people to complete a team purchase within 24 hours.

PDD will no doubt retort that its reported GMV comports with its definition of GMV in its prospectus, which states explicitly that GMV includes unsold items. Although this may be technically correct, our point is larger. Investors and merchants use reported GMV as a proxy for the volume of transactions and merchandise sold through an e-commerce application. Our point is that the Company's reported GMV is misleading because it is so over-inclusive (by definition) that it is neither a reflection of the total transaction volumes on PDD's application nor is it a proper basis for an apples-to-apples comparison of transactional volumes across e-commerce platforms.

Why do we care? Because we believe that PDD discloses GMV to make its stock look more attractive to investors. Investors making a headline comparison between PDD's reported GMV and other e-commerce businesses like JD.com or Alibaba could easily be forgiven for believing they are making an apples-to-apples comparison. But we believe that this is clearly not the case.

Indeed, there are at least three data points which we believe indicate that PDD's true GMV is between 34-47% less than the figure reported. In our view, anyone looking to value PDD on its GMV or compare transactional volumes and popularity across e-commerce platforms should adjust PDD's reported GMV to reflect the actual volume of merchandise sold through its application.

b. Disclosed Payment Processing Costs Imply GMV 43% Less than Reported.

PDD tells merchants on its website that it does not charge a commission on transactions. It does, however, state that it collects a 0.6% transaction fee on behalf of third-party payment processing services such as WeChat Pay and Alipay.

PDD Merchant FAQ



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8、个体工商户可以开始什么类型的店铺？

解答：个体工商户只可以开设个人店铺。

9. Are there any costs involved to open a shop on Pinduoduo?

9、在拼多多平台开店是否需要费用？

解答：拼多多平台目前不收取任何提点。涉及费用的情况只有下列两种：一、报名活动时，需要支付保证金；二、代微信、支付宝第三方支付平台收取0.6%交易手续费。

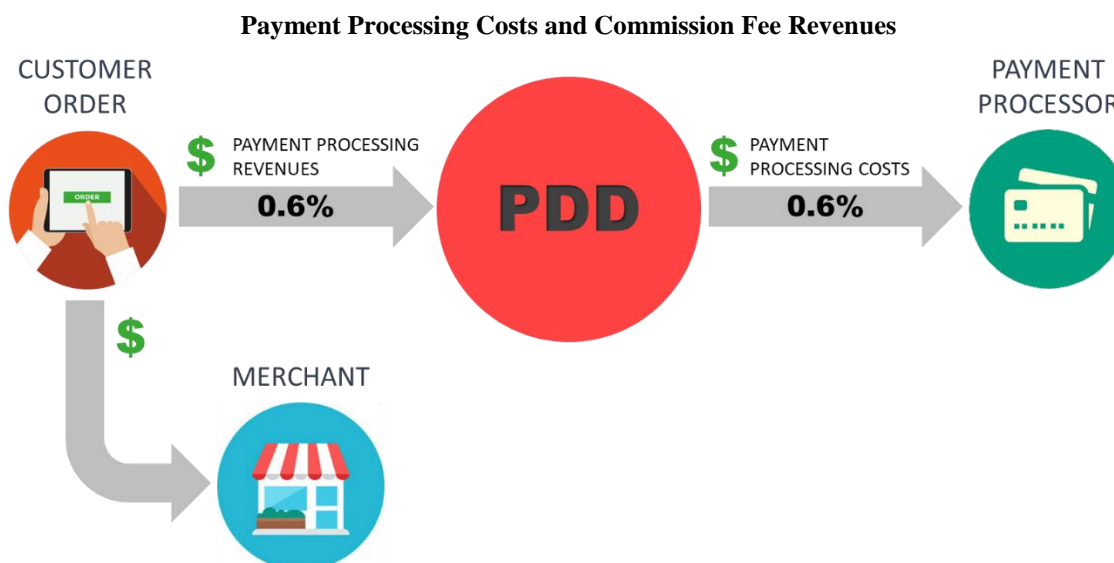
Answer: Currently, Pinduoduo does not take any commission. There are only two cases involving costs:

10、企业店铺可以经营多个1. (Merchants) Pays deposit when signing up for promotion events.

解答：普通企业店铺、专营店可2. (Pinduoduo) Collects 0.6% transaction fee on behalf of third party payment platforms, such as WeChat and Alipay.

Source: <https://ims.pinduoduo.com/#!/zhaoshang/problem>

In PDD's SEC filings, PDD discloses the total amount of commission fees collected on behalf of third parties as revenues and the transaction fees remitted to payment processors as a cost. Setting aside for the moment the ludicrous accounting decision to record pass-through commission fees on a gross (and not a net) basis, PDD's disclosures tell us a lot about the actual volume of transactions on its application.



Note: This diagram represents the ultimate allocation of money from a successful transaction on PDD's application (as we understand it), not the actual cash flows.

If every transaction on PDD's e-commerce platform generates 0.6% in transaction fee costs, then such costs should be 0.6% of PDD's reported GMV. But the math does not add up.

PDD reported that such payment processing costs were RMB 541 million and RMB 163.7 million in 2017 and Q1 18, respectively. Using PDD's disclosed transaction costs as an input, we calculate that PDD's actual GMV was RMB 90 billion in 2017, **36% less than PDD's reported RMB 141 billion that year.**

Payment Processing Costs Implied 43% GMV Overstatement

RMB M	2017	1Q 18	Cumulative
Payment processing costs	541	164	705
Processing fee %	0.6%	0.6%	0.6%
Implied GMV	90,220	27,278	117,498
Reported GMV	141,200	66,188	207,388
Difference %	-36%	-59%	-43%

Source: PDD Public Filings, Goldman Sachs Report, September 13, 2018, Blue Orca Calculation

The difference is even greater in the first quarter of 2018. PDD reported that payment processing costs were only RMB 164 million in 1Q 2018, which would imply that PDD's actual GMV was only RMB 27 billion that quarter, **59% less than the RMB 66 billion reported to U.S. investors.**

On an aggregate basis, PDD's disclosed payment processing fees imply GMV is 43% less (RMB 90 billion) than reported over those five quarters.⁷ Notably, PDD stopped disclosing transaction fee costs in Q2 2018, likely because such figures materially undermined its reported GMV.

Perhaps the Company would argue that payment processing costs are not reflective of total GMV because the Company still collects commissions on returned orders and does not remit fees on such orders to merchants.

Commission fees. We also earn commission fees from merchants when transactions are completed. We generally charge 0.6% of the value of merchandise sold by merchants for payment processing fees charged by third-party online payment service providers and other transaction-related costs.

⁷ A Credit Suisse report in September 2018 stated that Tencent will or has (it is unclear) reduce its processing fee from 0.6% to 0.4%. While the date of the change in fees is unclear (Credit Suisse does not give a timeframe), there is nothing to indicate that the fee rates changed prior to 2Q 2018, and thus would not impact the calculations set forth above.

We also charge commission fees to merchants for sales transactions completed on our online marketplace where we are not the primary obligor to the consumers, nor do we take inventory risk or have latitude over pricing of the merchandise. Commission fees are determined as a percentage based on the value of merchandise being sold by the merchants. Revenues related to commissions are recognized in the consolidated income statements at the time when our services to the merchants are determined to have been completed upon the consumers confirming the receipts of goods. **Commission fees are not refundable if and when consumers return the merchandise to merchants.**

Source: <https://www.sec.gov/Archives/edgar/data/1737806/000104746918005130/a2236295zf-1a.htm>

We think this is unlikely to explain the discrepancy. PDD does not disclose the return rate of goods on its platform, and some commentators expect the return rate to be high because the number of counterfeit and cheap goods sold on PDD's platform. But the low-price of the products also discourages customers from incurring the extra cost to return such cheap purchases. Therefore, we believe PDD's return rate is likely around 6%, similar to its peers like [Tmall](#). Accordingly, that return rate would not be sufficient to explain the major discrepancy between reported and actual GMV implied by the Company's disclosed payment processing costs.

c. Disclosed Commission Fee Revenues Imply Actual GMV 34% Less than Reported.

PDD also discloses revenues from payment processing fees from merchants, which the Company claimed in its prospectus were 0.6% of the value of the merchandise sold.

Based on this disclosed commission fee revenue, the implied GMV should include all paid orders placed on PDD's platform, regardless of whether the orders are delivered or returned. The Company reported GMV of RMB 289.9 billion for the last 18 months ending June 2018.⁸

Commission Fee Revenue Implied 34% GMV Overstatement

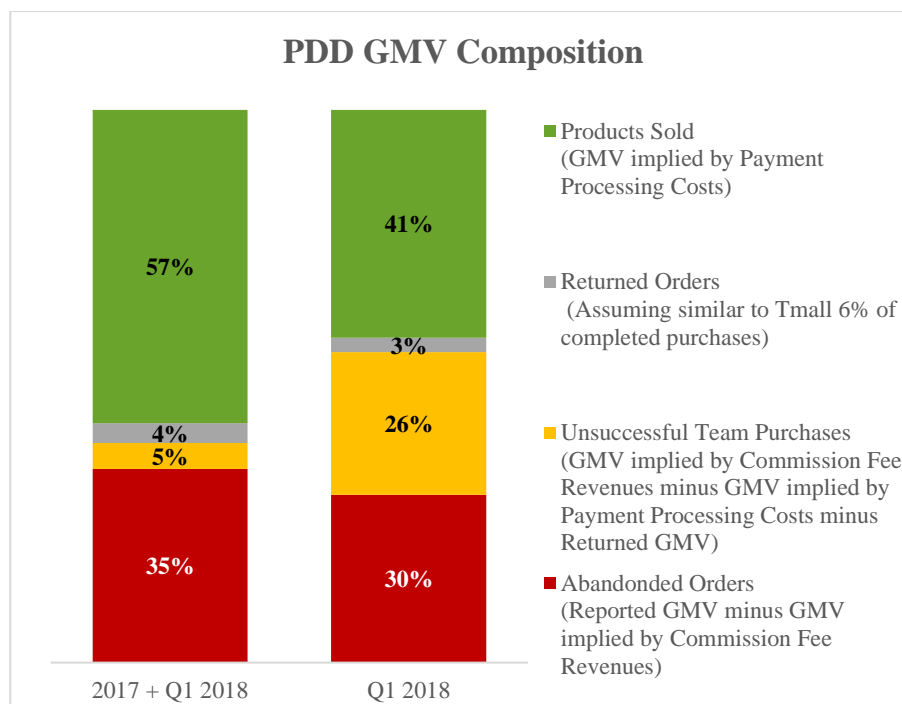
RMB M	2017	1Q 18	2Q 18	Cumulative
Commission fee revenue	531	277	338	1,146
Implied GMV	88,569	46,084	56,350	191,003
Reported GMV	141,200	66,188	82,468	289,856
%	-37%	-30%	-32%	-34%

Source: PDD Public Filings, Goldman Sachs report, September 13, 2018, Blue Orca Calculation

For the six quarters ending 2Q 2018, the Company also reported its commission fee revenue was RMB 1.1 billion, which implied the GMV was only RMB 191 billion, **34% less than reported.**

The discrepancy, we believe, is explained by PDD's over-inclusive definition of GMV as applied to its unique application architecture. In practice, we think PDD's reported GMV includes not only successful transactions, but also orders that are generated but abandoned (i.e., left in the "cart") and failed team purchases. While PDD will no doubt claim that its reported GMV comports with its disclosed definition of GMV, this misses the point. The point of disclosing GMV should be to give investors a metric to measure the volume of transactions on a platform. Here PDD, in our opinion, totally fails.

⁸ PDD's Q2 18 GMV was from Goldman Sachs report, September 13, 2018



Source: Blue Orca Analysis of PDD Disclosures

**PDD stated it recognizes commission fee revenue when customers receive products, but in reality, it collects commission fee when customers make payments regardless of receipts.*

d. Merchant Payables and Cash Cycle Imply GMV Overstated

Other PDD disclosures likewise imply that GMV is much lower than reported. When a merchant sells a product to a customer through PDD's application, there is a multi-day procedure, including a number of steps, from the time a customer makes a payment to the day when the merchant actually receives cash from their PDD account after a successful sale. We call this the merchant cash cycle.

From the time the customer pays for the order until the time the merchant withdraws the cash, PDD has possession of the funds. It is therefore obligated to disclose on its balance sheet a line item liability called "payables to merchants." This amount represents the funds, on any given day, which are held by PDD but are to be paid to its merchants when their transactions are finalized.

PDD disclosed RMB 82.5 billion in GMV in Q2 2018, just under RMB 1 billion per day. However, the average payables to merchants between Q1 and Q2 2018 was only RMB 9 billion. A simple calculation with these two figures shows that if the Company's disclosures of GMV and payables are accurate, **it should take an average of 10 days from the time a customer pays for an order until the time a merchant receives their cash.**⁹

Implied PDD Merchant Cash Cycle

RMB bn	Q2 18
Claimed GMV	82.5
Average Payables to Merchants	9.0
Implied Cash Cycle	9.9

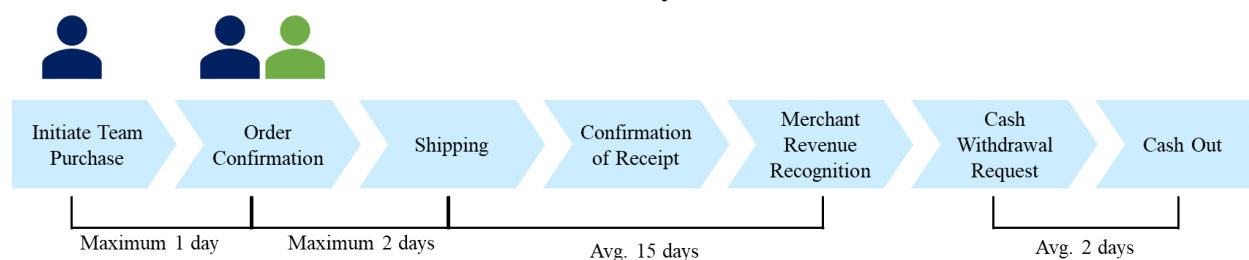
Source: PDD Public Filings, Blue Orca Calculation

⁹ For simplicity's sake we disregard returns, which we believe account for roughly 6% of all orders. This is the same return rate of other e-commerce businesses such as Tmall. It also makes intuitive sense that the return rate would be lower. Despite a high complaint rate, the low-price of products sold on PDD's application likely discourages customer to go through all the trouble to return products.

But this cash conversion cycle implied by PDD's financials appears substantially lower than merchants report in practice.

The cycle is as follows. When a customer selects an item and initiates a team purchase, an order is then generated. Once a team purchase order is generated and the customer enters their payment information, others have 24 hours to join the 'team purchase' or the order is cancelled. If other customers join, then the order is successful and the group pays for the products. At this point, PDD takes possession of the funds and has a liability on its balance sheet for the money held on behalf of the merchant. After the payment, the merchants then [have](#) 48 hours to ship the order. Once customers receive their orders, they need to confirm the receipt. If they do not, PDD's system automatically confirms for buyers after 15 days. Then, it might take up to 24 hours for the amount to be posted on a merchants' PDD accounts. When merchants submit money withdrawal requests, it could [take](#) 2 to 4 days to receive the cash.

Merchant Cash Cycle Timeline



To better understand the timeline of this process, we contacted a consultant who specializes in advising merchants on PDD and who was [quoted](#) in a Bloomberg article as an expert on the practical mechanics of PDD's process. The consultant owns a 30-employee company which teaches merchants how to maximize their sales on the PDD platform. He has coached more than 400 merchants. He told us that, on average, it takes 15 days from [shipping](#) to have the transaction amount posted on merchants' accounts and another two days to process money withdrawal requests.

In January 2018, a new PDD merchant queried on a PDD online support forum how long it takes for money to be available for withdrawal after a customer receives the goods. Another merchant replied around 15 days.

[新手求助] [买家从确认收货后到我账户能提现的周期是多久?](#) [复制链接]

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[After buyers confirm receipts, how long does it take for the transacted amount to be available for withdrawal? How long is the cash cycle?](#)

发表于 2018-1-9 14:42:32 | 只看该作者

[上面的提现差不多1天使差不多, 但是要到账上估计还是有时间的, 反正你准备个15天肯定差不多了, 半个月](#)

[It takes approximately one day to withdraw cash, but it takes some time for the transacted amount to be shown on your \(PDD\) account. Anyway, you should be prepared for around 15 days, half a month.](#)

Source: <http://mmsbbs.pinduoduo.com/forum.php?mod=viewthread&tid=21044>

Based on this data and our understanding of the procedures, we estimate that it takes a merchant an average of 18.5 days to convert a sale to cash. This is almost double the 10-day merchant-payables cycle implied by PDD's SEC disclosures.

We think the simplest and most likely explanation for the difference between the implied cash cycle and the actual experience of merchants is that the Company inflates its reported GMV.

If the actual cash cycle is 18.5 days, then the implied GMV of completed transactions would be RMB 44.1 billion, 47% less than PDD's reported GMV.

Sensitivity Analysis of GMV Implied by Cash Cycle

Cash Cycle Days	9.9	13	15	18.5	20	22
Average Payables to merchant	9.0	9.0	9.0	9.0	9.0	9.0
Implied GMV	82.5	62.7	54.3	44.1	40.8	37.0
Claimed GMV	82.5	82.5	82.5	82.5	82.5	82.5
Difference %	0%	-24%	-34%	-47%	-51%	-55%

Source: PDD Public Filings, Blue Orca Calculation

**For simplicity, we ignored the impact of returned orders*

Note the sensitivity of our calculation to changes in the payables cycle. Our calculation of the merchant cash conversion cycle (18.5 days) assumes no return and that merchants would withdraw cash as soon as the money hits their PDD account. In reality, we believe the cash cycle should be longer, as merchants may not withdraw money every day.¹⁰

So much of the hype around PDD is based on the meteoric growth in its headline GMV. Yet the cash cycle triangulates with the transaction volumes implied by PDD's disclosed payment processing costs and revenues; which together suggest PDD's actual GMV is between 34%-47% lower than the headline GMV figure reported to investors.

PDD Overstated Its GMV by 34-47%

Implied GMV based on	Overstatement
Payment processing costs	-43%
Commission Fee Revenue	-34%
Cash Cycle	-47%
Average	-41%

Source: Blue Orca Calculation

¹⁰ This calculation is based on our due diligence, and thus is by necessity a rough estimate of the cash cycle and the timeline for merchants to get paid. PDD likely has this data, but to our knowledge, fails to disclose it to investors.

AGGRESSIVE REVENUE RECOGNITION

We believe that prevailing GAAP accounting rules prohibit a company from recognizing revenues collected on behalf of third parties. FASB Topic 606 [specifies](#) that when a third party is involved in a transaction, an entity should record revenue on a gross basis only if it is acting as a principal. Otherwise, the entity is an agent and should record only net revenue.

As discussed above, PDD reports transaction fee revenues in its SEC filings, generally 0.6% of the value of merchandise sold. But PDD explicitly tells merchants that it collects no commissions, and that the 0.6% transaction fees are collected on behalf of third-party payment services such as WeChat Pay and Alipay.



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Answer: Currently, Pinduoduo does not take any commission. There are only two cases involve costs:

1. Paying deposit when signing up for promotion events.

2. Collecting 0.6% transaction fee on behalf of third party payment platforms, such as WeChat and

10、企业店铺可以经营多个品牌吗？

解答：普通企业店铺、专营店可以经营多个品牌。

Alipay.

Source: <https://ims.pinduoduo.com/#!/zhaoshang/problem>

PDD tells merchants that the transaction fees are just collected on behalf of third parties. Accordingly, we think revenue recognition rules should prohibit PDD from recognizing this pass-through revenue on a gross basis.¹¹

Indeed, PDD reports RMB 531 million of transaction fee revenues but RMB 541 million of transaction fee costs.

Revenues

We generate revenues from online marketplace services and merchandise sales. Revenues from online marketplace services include revenues from online marketing services and commission fees. The following table sets forth the components of our revenues by amounts and percentages of our total revenues for the periods presented:

	For the Year Ended December 31,					For the Three Months Ended March 31,				
	2016		2017		%	2017		2018		%
	RMB	%	RMB	US\$		RMB	%	RMB	US\$	
(in thousands, except for percentages)										
Revenues:										
Online marketplace services:										
Online marketing services	—	—	1,209,275	192,787	69.3	—	—	1,108,100	176,657	80.0
Commission fees	48,276	9.6	531,416	84,721	30.5	33,634	90.9	276,504	44,081	20.0
Merchandise sales	456,588	90.4	3,385	540	0.2	3,385	9.1	—	—	—
Total revenues	504,864	100.0	1,744,076	278,048	100.0	37,019	100.0	1,384,604	220,738	100.0

Online marketplace services

Under our current business model, we generate revenues primarily from online marketplace services. Our revenues from online marketplace services include revenues from online marketing services and commission fees.

Online marketing services. We provide online marketing services to allow merchants to bid for keywords that match product listings appearing in search results on our platform and advertising placements such as banners, links and logos. The placement and the price for such placement are determined through an online bidding system.

Commission fees. We also earn commission fees from merchants when transactions are completed. We generally charge 0.6% of the value of merchandise sold by merchants for payment processing fees charged by third-party online payment service providers and other transaction-related costs.

Source: [PDD Prospectus](#), p. 83

¹¹ To our knowledge, PDD did not receive a discount from WeChat Pay before 2Q 2018, although this an area where PDD's lack of transparency has created confusion. PDD stated in its prospectus that Tencent (WeChat Pay) agreed to provide them with Weixin payment services and charge a rate **no higher** than the normal rate of its payment solutions charged to third parties, which is 0.6%.

Costs of revenues

The following table sets forth the components of our costs of revenues by amounts and percentages of costs of revenues for the periods presented:

	For the Year Ended December 31,					For the Three Months Ended March 31,				
	2016		2017		2017		2018			
	RMB	%	RMB	US\$	%	RMB	%	RMB	US\$	%
(in thousands, except for percentages)										
Costs of revenues:										
Costs of online marketplace services:										
<u>Payment processing fees</u>	(51,864)	9.0	(541,320)	(86,300)	74.9	(33,994)	62.5	(163,666)	(26,092)	51.4
Costs associated with the operation of our platform	(41,687)	7.2	(178,458)	(28,450)	24.7	(17,387)	31.9	(155,034)	(24,716)	48.6
Costs of merchandise sales	(484,319)	83.8	(3,052)	(487)	0.4	(3,052)	5.6	—	—	—
Total costs of revenues	(577,870)	100.0	(722,830)	(115,237)	100.0	(54,433)	100.0	(318,700)	(50,808)	100.0

Source: [PDD Prospectus](#), p. 84

We think in this case that accounting rules clearly prohibit PDD from recognizing transaction fees collected on behalf of third parties on a gross basis. But that, it appears, is exactly what they do.

This is material because it demonstrates PDD's aggressive approach to accounting rules. It is also material because firms like PDD trade on a multiple of sales. Even if it is zero margin revenue, PDD can inflate its stock price by recording a higher top line.

VALUATION

PDD claims to have gone from scratch to China's third largest e-commerce business in three years. The Wall St. hype machine, in full force, touts it as the world's fastest growing internet company. This hype has pushed PDD's stock to nosebleed prices befitting its faddish business model.

As a basis of comparison, PDD trades at 21.7x LTM Q2 2018 sales, twice the multiple of industry giant Alibaba (8.8x) and forty-four times the price-to-sales multiple of more established Chinese e-commerce businesses like JD.com (0.5x). Most of JD.com's revenues are from direct sales, not merchant services, so the comparison is not perfect. But it is illustrative. On an estimated 2018 price-to-sales ratio, PDD's stock still looks very expensive (11.5x) compared to Alibaba (7.5x) and other Chinese e-commerce players.

	Stock price (USD)	Market Cap (USD M)	P/S		P/GMV		P/E	
			LTM	2018E	LTM	2018E	LTM	2018E
Alibaba	146.98	380,999	8.8 x	7.5 x	0.5 x	0.5 x	45.1 x	28.4 x
JD.com	22.39	32,114	0.5 x	0.5 x	0.1 x	0.1 x	No Earnings	76.0 x
Vipshop	5.24	3,468	0.3 x	0.3 x	0.2 x	0.2 x	10.1 x	9.5 x
Secoo	9.43	477	0.7 x	0.6 x	0.5 x	N/A	21.5 x	96.1 x
Median			0.6 x	0.5 x	0.4 x	0.2 x	21.5 x	52.2 x
Average			2.6 x	2.2 x	0.3 x	0.3 x	25.5 x	52.5 x
Pinduoduo	17.15	18,999	21.7 x	11.5 x	0.5 x	0.3 x	No Earnings	No Earnings

Source: FactSet, Bloomberg, GMV figures from public filings and Goldman Sachs research report

*Ratios are calculated using the prices closed on Nov 13, 2018

We believe, based on the evidence presented in this report, that PDD's business is worth far less than it claims.

Because they are chronically unprofitable, investors value growing e-commerce businesses on a multiple of sales. We believe that SAIC filings provide compelling evidence that PDD's 2017 sales were 36%-40% less than reported. As a result, we believe that any valuation of PDD on a multiple of sales should adjust sales figures accordingly to reflect its actual revenues. On an adjusted sales figure, using Alibaba's price-to-sales ratio (7.5x), we value PDD's shares at \$7.10, a 59% downside from its current price.

Valuation: P/S Multiple

\$	2018E
Revenue (USD M)	1,649
# of shares (M)	1,108
Sales per share	1.49
Current trading price	17.15
P/S multiple	11.5 x
Revenue Overstated %	-36%
Adjusted Sales per share	0.95
Alibaba P/S multiple	7.5 x
Blue Orca Valuation	7.10
Downside %	-59%

Source: PDD Public Filings, FactSet, Bloomberg, Blue Orca Calculation

Some analysts value PDD on 2020 earnings, based on the fantasy that PDD's loss making business will magically become profitable by that time. We think such prognostications fail to account for evidence highlighted in this report suggesting that PDD understates its headcount and by extension its staffing costs. Which is in turn supported by evidence that Leqee, an undisclosed related party, is secretly bearing some of PDD's staffing costs. In our view, this

evidence suggests PDD's cost structure is more onerous than disclosed, reducing the likelihood that its chronically unprofitable business will somehow magically turn a corner by 2020.

PDD is also sometimes valued as a multiple of GMV. Here we believe there is ample evidence to support our investment thesis that the Company's reported GMV is overinclusive and misleading, and that the actual transaction volumes through PDD's e-commerce platform are substantially lower than the headline GMV. We have three data points to suggest GMV is overstated: payment processing costs, commission fee revenues and the merchant cash cycle.

PDD Overstated Its GMV by 34-47%

Implied GMV based on	Overstatement
Payment processing costs	-43%
Commission Fee Revenues	-34%
Cash Cycle	-47%
Average	-41%

Source: Blue Orca Calculation

The three metrics imply that PDD's actual GMV is between 34-47% less than reported. If we take an average (41% less than reported), we can value PDD's shares on a price-to-adjusted GMV basis. In this calculation, we generously use the Company's current price-to-GMV multiple (0.29x). After a 20% corporate governance discount, which we believe is appropriate given the complete absence of transparency as to PDD's GMV composition, we value PDD's shares at \$8.05 per share on an adjusted GMV-basis.

Valuation: P/GMV Multiple

\$	2018E
GMV (RMB M)	442,000
# of shares (M)	1,108
GMV per share (RMB)	398.99
GMV per share	59.88
Current trading price	17.15
P/GMV multiple	0.29 x
GMV Overstated %	-41%
Adjusted GMV per share	35.12
Adjusted share price	10.06
P/GMV multiple	0.29 x
Corporate Governance Discount	20%
Adjusted P/GMV multiple	0.23 x
Blue Orca Valuation	8.05
Downside %	-53.1%

Source: PDD Public Filings, Goldman Sachs research report on September 13, 2018, FactSet, Blue Orca Calculation

We think our valuation is conservative, as our price/adjusted sales calculation uses generous multiples attributed to industry leading e-commerce businesses. But companies misrepresenting their financial performance, inflating important usage and popularity metrics, and engaging in undisclosed related party transactions do not deserve to trade at such generous multiples. So although we value PDD's shares at \$7.10 on a price-to-adjusted sales, and \$8.05 on a price-to-adjusted GMV, we expect some investors may conclude, as we have, that PDD is simply uninvestable.

DISCLAIMER

We are short sellers. We are biased. So are long investors. So is PDD. So are the banks that raised money for the Company. If you are invested (either long or short) in PDD, so are you. Just because we are biased does not mean that we are wrong. We, like everyone else, are entitled to our opinions and to the right to express such opinions in a public forum. We believe that the publication of our opinions about the public companies we research is in the public interest.

You are reading a short-biased opinion piece. Obviously, we will make money if the price of PDD stock declines. This report and all statements contained herein are solely the opinion of BOC Texas, LLC, and are not statements of fact. Our opinions are held in good faith, and we have based them upon publicly available evidence, which we set out in our research report to support our opinions. We conducted research and analysis based on public information in a manner that any person could have done if they had been interested in doing so. You can publicly access any piece of evidence cited in this report or that we relied on to write this report. Think critically about our report and do your own homework before making any investment decisions. We are prepared to support everything we say, if necessary, in a court of law.

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