
PDD Holdings – In-Depth Equity Research Report

Executive Summary

PDD Holdings Inc. (NASDAQ: PDD), the parent company of Pinduoduo and Temu, is a leading Chinese e-commerce firm that has achieved remarkable growth by pioneering a social group-buying model targeting price-sensitive users in lower-tier cities. Since its inception in 2015, Pinduoduo has grown into one of the largest online marketplaces in China by active users, surpassing Alibaba in annual active buyer count in 2020.

PDD's business model emphasizes ultra-low prices and viral customer acquisition via social sharing. Its monetization relies mainly on merchant advertising and transaction commissions. In recent years, the company has demonstrated stellar financial performance—reporting revenue of RMB 247.6 billion in 2023 (YoY +90%) and net income of RMB 60.0 billion (YoY +146%).

International expansion has become PDD's second growth engine. Temu, launched in 2022, has rapidly penetrated developed markets like the U.S. and Europe by offering factory-direct Chinese goods at ultra-competitive prices. Within a year, Temu became one of the most downloaded shopping apps in North America.

PDD is managed by a professional leadership team, with co-founder Lei Chen as Chairman and Co-CEO, and is strategically supported by former founder Colin Huang, who retains significant influence through equity holdings.

This report offers a comprehensive examination of PDD Holdings across business strategy, financials, industry positioning, global expansion, and investment potential. It concludes with a risk assessment and valuation analysis to help investors make an informed decision.

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1. Company Overview and Development History

Founded in 2015 by Colin Huang, a former Google engineer and entrepreneur, Pinduoduo began as a social commerce platform focused on agricultural products. Leveraging the power of WeChat social networks, the platform introduced a unique group-buying model that allowed users to form purchase teams with friends or strangers to unlock steep discounts. This approach, which combined low prices and gamified participation, quickly resonated with consumers in China's lower-tier cities.

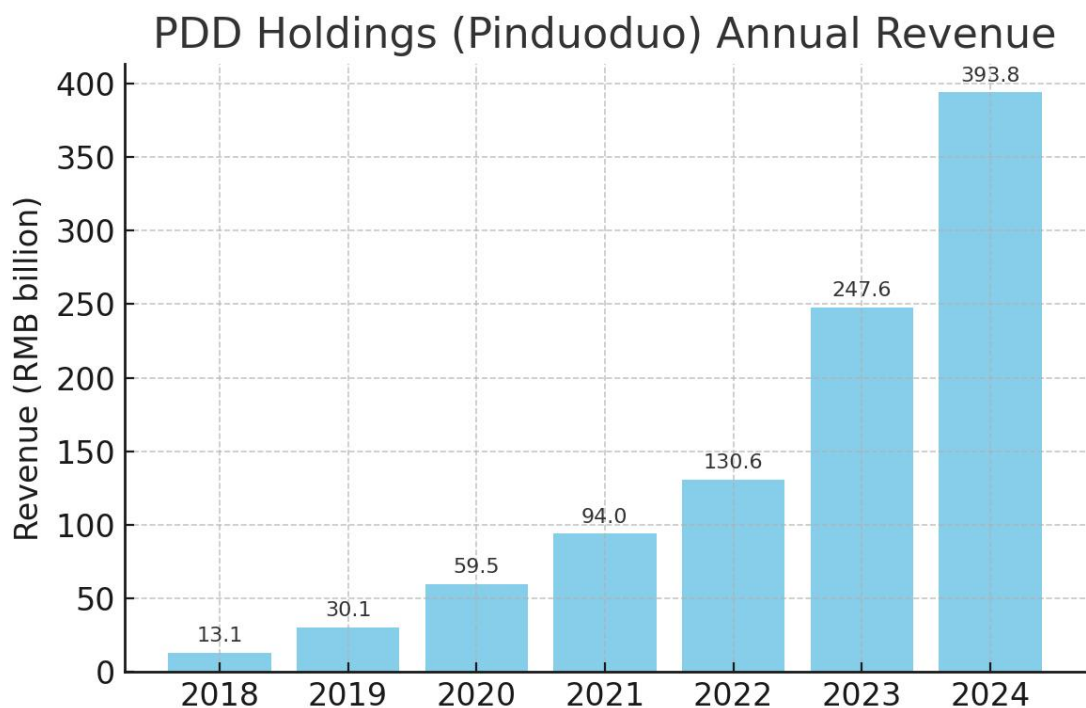
Key milestones in Pinduoduo's corporate development:

- 2015 – Pinduoduo was launched in Shanghai, targeting the agricultural produce vertical with a direct-to-consumer model. The company received early investment from Tencent, which became a strategic backer and allowed Pinduoduo to integrate with the WeChat ecosystem.
- 2018 – Pinduoduo went public on the NASDAQ, raising approximately \$1.6 billion. At the time, the company had already accumulated over 300 million annual active buyers.
- 2019 – Expanded into a broader range of consumer goods beyond agriculture. The company launched the "10 Billion Yuan Subsidy" program to attract brand-name products and price-conscious urban users.
- 2020 – Amid the COVID-19 pandemic, annual active buyers surged to 788 million. Pinduoduo's GMV reached RMB 1.67 trillion, a 66% YoY increase. The company also launched its community group-buying initiative, Duoduo Maicai, to penetrate the fresh grocery market.
- 2021 – Founder Colin Huang stepped down as Chairman. Lei Chen, a co-founder and former CTO, became Chairman and CEO. That year, the company posted its first full-year profit and committed its Q2–Q4 profits to

agricultural R&D through its "100 Billion Agriculture Initiative."

- 2022 – The company restructured under the name PDD Holdings and launched Temu, a global discount shopping app. Temu debuted in the U.S. in September 2022 and rapidly scaled across Western markets.

- 2023 – PDD Holdings reported RMB 247.6 billion in revenue and RMB 60 billion in net income. PDD briefly surpassed Alibaba in market capitalization, driven by Temu’s explosive growth and Pinduoduo’s continued domestic momentum.

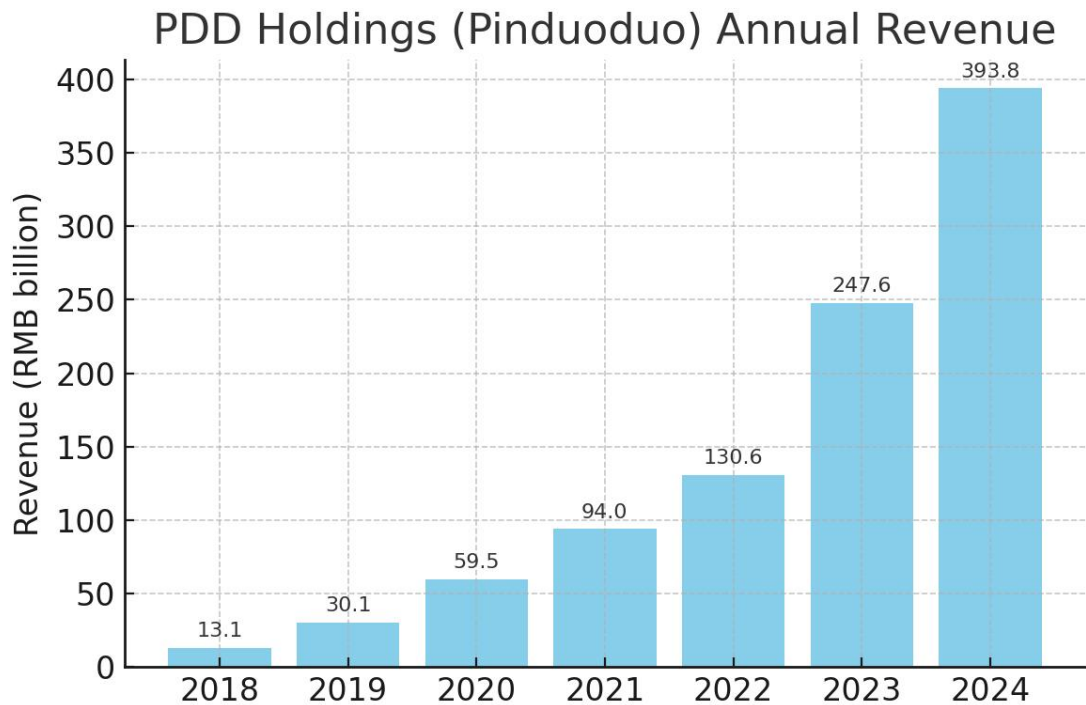


Today, PDD Holdings operates two core platforms: Pinduoduo, which remains focused on domestic value-conscious consumers; and Temu, which targets global users seeking affordable products. The company has evolved from an agricultural e-commerce startup into a multinational commerce powerhouse with a scalable, asset-light platform model.

2. Business Model and Revenue Structure

PDD's success hinges on its innovative and disruptive business model, which

combines social engagement with e-commerce. It adopts a multi-pronged monetization strategy focused on high user engagement, platform stickiness, and scalable merchant services.



Social Group-Buying Mechanism

Pinduoduo popularized a unique "team purchase" model, where consumers could unlock deep discounts by inviting friends or joining groups of strangers to buy the same item together. This viral acquisition mechanism dramatically reduced customer acquisition costs while simultaneously enhancing user engagement. Unlike conventional e-commerce that focuses on search and browsing, Pinduoduo's interface encourages discovery through gamification and personalized feeds.

Value Proposition and Consumer Targeting

The platform has been especially successful in targeting price-sensitive consumers in third- and fourth-tier cities, many of whom are underserved by traditional online retailers. Its "cost-performance ratio" strategy has earned

strong loyalty from bargain hunters. Over time, PDD has expanded its demographic reach to urban consumers through its "10 Billion Yuan Subsidy" program, which offers generous price support for branded goods.

Light Asset Platform Model

Unlike JD.com, which operates a heavy logistics infrastructure and sells inventory directly, PDD follows an asset-light marketplace model. It does not own or stock merchandise but connects merchants directly with buyers. This approach enables rapid SKU expansion without major capital investment and reduces operational complexity.

Revenue Breakdown

PDD primarily earns revenue through two channels:

1. Online Marketing Services – These include advertising and promotion fees paid by merchants to gain visibility on the platform. This segment is analogous to Alibaba's paid search and display ads and has historically been the largest source of revenue for PDD.
2. Transaction Services – These consist of commissions and service fees collected on order transactions, including payment processing and after-sales services. While initially a minor contributor, this segment has grown rapidly in recent years, especially with the rise of Temu.

In 2023, PDD generated approximately RMB 247.6 billion in revenue. Online marketing accounted for about 62%, while transaction services contributed 38%, indicating a healthy diversification of income sources. Notably, the growth of transaction services reflects stronger monetization and the rising GMV base, especially driven by Temu.

Gamification and User Engagement

PDD integrates interactive features such as lotteries, virtual farming games, and cash reward systems to boost daily active user engagement. These tools are designed to enhance session times and frequency, turning shopping into entertainment. This strategy is particularly effective in mobile-centric, attention-scarce markets.

Supply Chain and C2M (Consumer-to-Manufacturer)

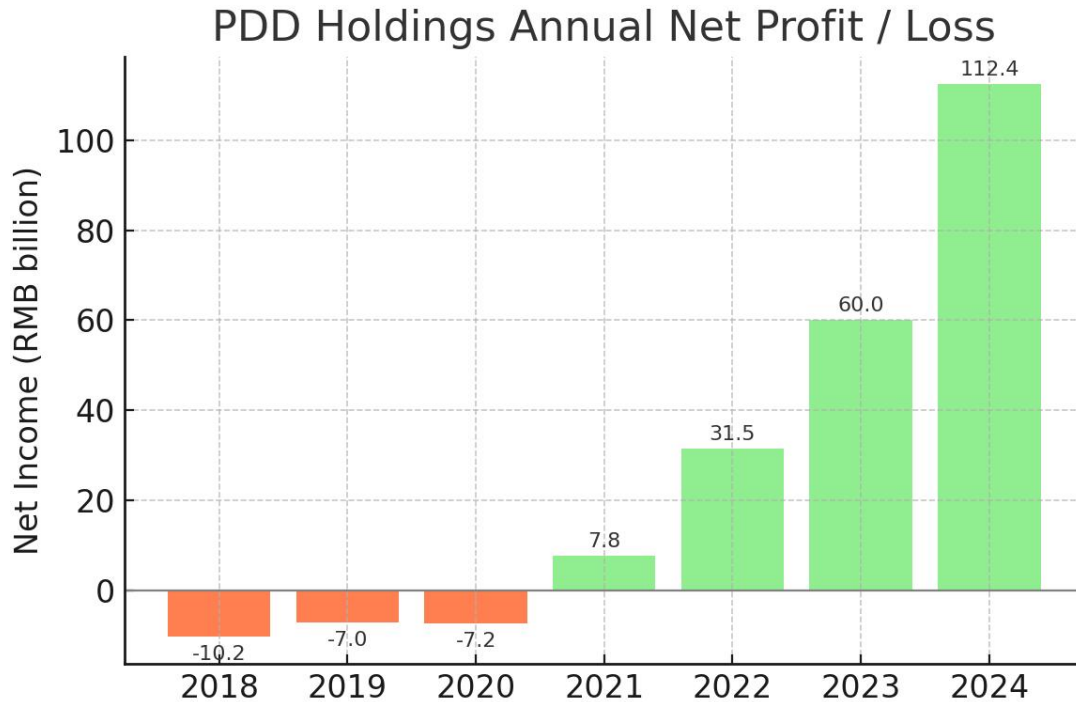
PDD has been instrumental in promoting the C2M model, where consumer demand directly informs production planning. The platform aggregates real-time user insights and transmits them upstream to manufacturers. This facilitates leaner inventory management and faster product iterations.

In agriculture, PDD offers a zero-commission structure for farmers and suppliers of fresh produce, creating value for both producers and consumers. By enabling farm-to-table logistics, PDD positions itself as a champion of rural digitization and inclusive commerce.

Overall, PDD's business model blends low-cost delivery, social interaction, gamification, and platform economics to drive user acquisition, retention, and monetization in both domestic and international markets.

3. Financial Performance Analysis

Over the past five years, PDD Holdings has demonstrated extraordinary financial growth, transitioning from a loss-making startup to a highly profitable e-commerce powerhouse.



Revenue and Profit Trends

PDD's revenue has grown at a compound annual growth rate (CAGR) of over 80% since 2018. In 2023, total revenue reached RMB 247.6 billion, nearly doubling from RMB 130.6 billion in 2022. The fourth quarter alone contributed RMB 88.9 billion, marking a 123% YoY increase. Net profit also surged, reaching RMB 60.0 billion for the full year, up from RMB 31.5 billion in 2022, representing a YoY growth of 90%. The company's net margin expanded to 24.2% in 2023 from 17.2% in the prior year.

Quarterly Momentum

Quarterly results underscore the company's accelerating growth. Revenue growth in 2023 by quarter was 58%, 66%, 94%, and 123%, respectively. This reflects both strong domestic recovery and the rapidly increasing contribution from Temu's global expansion.

Cost Structure and Profitability

PDD's gross margin remained high due to its asset-light model. Gross margin was 62.9% in 2023, up slightly from 61.9% in 2022. Operating expenses have been tightly managed, with marketing spend as a percentage of revenue falling from over 80% in

2018 to around 35% in 2023. Meanwhile, R&D investment grew to over RMB 10 billion in 2023, signaling a strong commitment to product innovation and AI capabilities.

Cash Flow and Balance Sheet

The company's financial health is robust, with a cash reserve of over RMB 120 billion and negligible debt. Operating cash flow in 2023 exceeded RMB 70 billion. This strong financial position allows for reinvestment into growth initiatives like Temu without external financing pressure.

User Metrics

Pinduoduo's annual active buyers exceeded 880 million by 2021. While recent figures are undisclosed, third-party estimates suggest the user base has continued to grow, especially among rural and lower-income demographics. Monthly active users (MAUs) are estimated to be over 700 million in 2023. Average revenue per user (ARPU) also continues to climb as users increase order frequency and purchase higher-value items.

4. Industry Analysis and Competitive Landscape

China's E-commerce Landscape

China is the world's largest e-commerce market, with online retail sales reaching RMB 15.4 trillion in 2023. The market is dominated by a few major players:

- **Alibaba Group** – Despite slower growth, it remains the leader with ~40% market share through Taobao and Tmall. Alibaba's strength lies in high-end consumers and branded merchants.
- **JD.com** – Focused on electronics and large items, JD operates a self-owned logistics network. It holds about 15% market share.

- **Pinduoduo (PDD Holdings)** – Now the second-largest by GMV and the largest by user count. PDD’s strength lies in cost efficiency, user engagement, and penetration in lower-tier cities.
- **Douyin/TikTok E-commerce** – ByteDance has emerged as a formidable competitor by integrating short-form video content with live shopping.

PDD’s Competitive Advantages

- Deep penetration in underserved regions
- Strong viral growth through WeChat-based sharing
- Highly efficient cost structure with minimal inventory and logistics burdens
- Increasing brand presence through targeted subsidies and quality improvements

Challenges

- Competitors have re-entered the price war with their own subsidy programs
 - PDD faces image challenges regarding product quality and customer service
 - ByteDance’s content-driven model is attracting young, urban users away from traditional platforms
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5. Overseas Expansion Strategy – Focus on Temu

Temu Launch and Positioning

Temu launched in the U.S. in September 2022 as a discount marketplace selling Chinese goods directly to international consumers. Its slogan, “Shop like a billionaire,” reflects its focus on ultra-low prices.

Growth Traction

By December 2023, Temu had surpassed 400 million monthly active users globally

and was the most downloaded shopping app in the U.S. for several consecutive months. GMV reached approximately USD 14 billion in its first full year.

Business Model

Temu operates a managed marketplace, controlling pricing and logistics while sourcing products from Chinese manufacturers. Merchants provide inventory while Temu handles marketing, payments, and customer service.

Logistics and Fulfillment

Temu invests heavily in cross-border logistics, partnering with air freight carriers and last-mile delivery services. Delivery times have improved to an average of 7–10 days in the U.S.

Challenges and Risks

- High logistics and marketing costs have kept the business in a loss-making phase
- Regulatory scrutiny in the U.S. and Europe around trade practices and consumer data
- Intellectual property disputes, particularly with Shein

Outlook

Temu aims to reach GMV of USD 30 billion by 2025. The company is piloting local seller programs in Europe and expanding its category selection. Monetization through ads and commissions is expected to begin in 2024.

6. Management, Shareholder Background, and Governance

Leadership Team

- **Lei Chen** – Co-founder, Chairman, and Co-CEO; previously CTO of Pinduoduo
- **Jiazhen Zhao** – Co-CEO, leading global operations including Temu
- **Colin Huang** – Founder and former CEO/Chairman; stepped down but remains influential via equity holdings

Governance Structure

- The company transitioned away from dual-class share structure in 2021
- Independent directors and audit committees in place
- Strategic advisory emphasis on long-term value and rural development

Ownership and Key Shareholders

- Colin Huang owns ~29% stake via investment entities
- Tencent is a major early investor (~16% at peak), though not actively involved in management
- Significant public and institutional shareholding after U.S. IPO in 2018

Corporate Culture and ESG

- Promotes internal values of thrift, innovation, and customer focus
 - Faced public criticism in 2021 over employee overtime culture; has since implemented well-being programs
 - Runs “10 Billion Agriculture Initiative” to support smart agriculture and poverty alleviation
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7. Investment Highlights and Valuation

Key Strengths

- High-growth e-commerce platform with strong profitability
- Unique social commerce model
- Expanding global footprint through Temu
- Healthy balance sheet with strong cash flows

Valuation Metrics

- 2024E Net Profit: RMB 112.4 billion
- Current Market Cap: ~\$150 billion
- Forward P/E (2024E): ~10x
- PEG Ratio: < 0.3, suggesting undervaluation

Upside Catalysts

- Faster monetization of Temu
- Continued margin expansion domestically
- Return of consumer confidence in China post-COVID

Valuation Comparables

- Alibaba trades at 12–15x P/E
 - JD.com at 18x
 - Amazon at 60x+ with lower margins PDD appears undervalued relative to peers given its superior growth and profitability.
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8.Key Risks and Challenges

- **Regulatory Risks:** Potential scrutiny from Chinese regulators and U.S. lawmakers, especially around data and trade practices
- **Intense Competition:** Ongoing price wars with Alibaba, JD, and TikTok e-commerce

- **International Expansion Risks:** Legal, cultural, and logistic challenges in scaling Temu
- **Reputation Risks:** Perception issues related to labor conditions and product quality
- **Sustainability:** Reliance on subsidies may affect long-term margins