July 3, 2024

Dear Dada Board and Management,

Orlog Capital is a long-term, fundamental value driven investor. Our fund began operations at the beginning of 2022, and we've been shareholders in Dada since the start. Currently we own a little under 1% of the company.

Despite a continuously weakening share price and market volatility, we've held firm to our conviction that Dada's underlying businesses are valuable. Supported by the traffic and resources of our parent company JD, we believe it is inevitable that Dada will grow into one of the top players in online to offline retailing and fulfillment while becoming highly profitable in the process.

Although this core belief remains unchanged, our trust was heavily shaken by the revelations of overstated Ad & Marketing revenues in our JD Now business earlier this year. While we applaud JD's immediate efforts to clean up Dada by putting its top people in key management and board positions, so far this hasn't helped the share price. Today, the capital market confidence in the company is so low that the current share price of less than $1.4/ADS implies an investor is getting RMB1.2bn of net cash and both of our businesses for free. This is despite the company having no debt and RMB3.8bn in cash.

One of the main reasons is the expected decline in traffic and operating results of JD Now which we understand to be the result of our decision to give up our independent JDDJ App to focus solely on building the JD Now business within the JD App. Despite the short-term pain, we support this move as it reduces our fixed costs and concentrates our efforts on unlocking the real value of our business – leveraging our JD relationship and tapping into their vast traffic pool. But we think the market has

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low clarity on this situation and is likely also pricing in the worst fears that Dada may destroy significant value in the future by prioritising JD's best interests over its own.

We wouldn't have remained investors if we believed this to be true. However, we see many things the company could do today to improve transparency, show alignment of interest and accrue value for loyal shareholders. Our suggestions are:

1. <u>Transparency.</u>

a) **Information Disclosure.** The previous disclosures on User Count, GMV, Orders, Take-rate for JD Now could directly be connected to the financial results and the operating performance of the business. We would like to see equivalent standardised and consistently reported figures reinstated in the future which would allow investors to track the progress of our turnaround.

b) **Provide medium term, measurable goals.** We fully support management's freedom to take risks, make difficult decisions and take short term losses but there needs to be clear communication on direction and milestones for these actions. We would like to see a 3-5year roadmap with concrete goals so that there is accountability when assessing management performance. Examples of milestone targets could include: JD user penetration goals, order volume/GMV growth targets, margin improvement commitments, Ad & Marketing business objectives, etc.

c) **JD relationship details.** We don't think the market fully appreciates the extent of our close relationship with JD. It would help if we clearly set out the details such as the traffic support (e.g. our agreed allocation of JD's search results), areas of data and business development co-operation, Ad product co-development, the commission and revenue sharing agreements, etc.

2. <u>Alignment of Interest.</u>

The original founders of Dada are gone, and the new management and Chairman are all past and current JD executives with minimal equity in the company. We would like to see an alignment of interest by establishing a significant portion of their remuneration in Dada shares. As we understand it, this was one of the original reasons why JD began spinning out its non-JD Retail businesses - so that individual management teams would be directly incentivised by the performance of their own business units. This turnaround situation could be the perfect demonstration of this in action.

In the near term, the 2020 Share Incentive Plan is inadequate given an annual stock issuance cap of ~7m ADS[1] and the drastically lower share price (at US$1.4/ADS, we would need issue ~16m ADS to equal the RMB163m SBC paid in FY23). We recommend the Board revisits the company's SBC plan and consider inserting a monetary value provision e.g. the higher of X million in monetary value or Y million in shares. The Board should also consider adding other forms of SBC alongside the RSUs with exercise price conditions at meaningfully higher prices versus current share price (e.g. $3-4/ADS which was the price range between the time of new management joining and the announcement of the Ad & Marketing investigation). Share price doesn't need to be a direct management KPI, but it should serve as a major motivation factor in the sum of their decision making.

3. <u>Capital returns.</u>

The current $40m share buyback scheme is insufficient and proceeding too slowly given the extremely low share price. We think for any share price below ~$2/ADS (where EV <0), the company should accelerate buybacks and increase the allocation. Although there are only ~100m ADS not owned by JD and Walmart, we don't believe the free float should be a major consideration. Nor should our cash position be a limitation given the size – we believe Dada could buyback all 100m free floating ADS today without affecting operations[2].

At this junction in price, value accretion trumps liquidity concerns, especially for long-term minded shareholders who truly believe in the future of the company. Free float and liquidity can easily be expanded on favourable terms in the future when operations are strong. For

[1] The 2020 Incentive Compensation Plan is a 10year plan with 45.7m shares in total authorised. Additionally, there is an annual increase of 1% of total shares. So 45.7/10+(1%*264) = ~7m ADS pa

[2] We estimate Dada needs RMB2bn cash before reaching cashflow breakeven. This leaves RMB1.8bn (~US$250m) which can buyback 179m ADS at the current price of US$1.4/ADS. Alternatively, $250m could buyback 100m ADS at an average price of $2.5/ADS

example, a future Hong Kong IPO would greatly benefit from the buyback actions we take today.

Both our share buybacks and SBC today should be aggressive and work in conjunction with each other. We would rather see a large portion of our buybacks being reissued to management via SBC than the equivalent salary being paid directly in cash. Also, as SBC shares vest, this gradually adds back liquidity in what should be better times.

This is our darkest hour, but also the finest moment for the company to step up and show excellence. We believe Dada has the right team, strategy and competitive advantages to recover and thrive; what we would like to see today is investor friendly actions which will demonstrate its quality as a listed company.

Dada has the opportunity to set the precedent for how JD's current and future listed companies are operated. Wasn't this the heart of the big hairy audacious goal laid out last year in JD's 35711 vision? Dada should at least be among the seven companies with a market valuation over RMB100bn. We urge the company to rise to the challenge and not just become another overseas listed Chinese company that fades into obscurity.

Yours Sincerely,

John Qiu

Founder/CIO