Company Name: JD.com
Company Ticker: JD US
Date: 2019-02-28
Event Description: Q4 2018 Earnings Call

Market Cap: 42,089.96
Current PX: 29.0921
YTD Change($): +8.1621
YTD Change(%): +38.997

Bloomberg Estimates - EPS
Current Quarter: 0.904
Current Year: 3.874
Bloomberg Estimates - Sales
Current Quarter: 120437.533
Current Year: 550852.361

Q4 2018 Earnings Call

Company Participants

- Ruiyu Li
- Sidney Huang
- Lei Xu
- Jon Jianwen Liao
- Richard Qiangdong Liu
- Zhenhui Wang

Other Participants

- Ronald Keung
- Eddie Leung
- Alicia Yap
- John Choi
- Jin-Kyu Yoon
- Thomas Chong
- Ella Ji
- Jerry Liu
- Natalie Wu
- Alex Yao
- Richard Kramer
- Wendy Huang
- Grace Chen
- Tian X. Hou
- Jialong Shi

MANAGEMENT DISCUSSION SECTION

Ruiyu Li

GAAP and Non-GAAP Financial Measures

Also, this call includes discussions of certain non-GAAP financial measures

Please refer to our earnings release, which contains a reconciliation of non-GAAP measures to the most direct comparable GAAP measures

Sidney Huang

Financial Highlights

Revenue Growth and Net Income

- We are pleased to deliver another strong quarter with solid top line and a bottom line results

- Our net revenue growth reached the high-end of our expectations, and our non-GAAP net income increased by 67% from the same quarter a year ago
- During Q4 2018, our net revenues grew 22.4%, a solid performance on top of an exceptionally strong fourth quarter in 2017, despite relatively soft consumption in large ticket electronics and appliance categories
- Revenues from general merchandise categories grew 38% during the quarter, driven by home goods, skincare, and cosmetics categories
- In addition, fulfilled marketplace GMV again grew over 40% y-over-y as we continued to improve marketplace operations
- Net service revenues grew by 45.7% y-over-y, driven by JD Logistics third-party revenues and advertising services

Full Year

- For the full year of 2018, our net revenues increased by 27.5% and our total GMV grew by 30%, as we continued to take market share and outperform the industries we participate in
- Revenues from general merchandise categories grew over 42% during the year as a result of more diversified high-quality product selection and our superior customer experience
- Net service revenues grew over 50% and contributed nearly 10% of our total revenues in 2018, up from 8.4% in 2017, as we leveraged our retail infrastructure to expand into the services segments

Gross Margins

- Gross margin in Q4 was 14.2% compared to 13% in Q4 2017
- The margin expansion was attributable to the continued margin improvement of both JD Mall and JD Logistics
- JD Mall gross margin increased over 60BPS, mainly driven by economies of scale from the 1P business, up 38BPS in Q4, as well as the solid advertising revenue growth
- JD Logistics third party business also achieved significant gross margin improvement during the quarter, as they continued to grow to scale and optimize its operations

Full Year Basis

- On a full year basis, non-GAAP gross margin improved from 13.8% in 2017 to 14.1% in 2018, mainly driven from JD Mall gross margin expansion of 38BPS during the year, partially offset by investments in new businesses
- Fulfillment expense ratio in Q4 was 6.6%, down from 7.2% in the same quarter last year, thanks to improved utilization of our logistics capacity and higher workforce productivity in the seasonally high quarter

R&D Expenses

- During Q4, our R&D expenses increased 70% from the same quarter of 2017, but were relatively flat as compared with Q3
- For the full year of 2018, R&D expenses increased over 80% to RMB 12.1B, as we hired top R&D talent around the world to enhance our technology infrastructure and increment our AI-driven digital strategies

- With key leaders and various levels of staff now in place, we expect R&D expenses to stabilize in 2019

Marketing and G&A Expense Ratio

- Our marketing expense ratio was 4.7% in Q4 2018, up from 4.3% in the same quarter a year ago
- And our 2018 full year marketing expense ratio was 4.2%, comparable to the 2017 level
- Our fourth quarter and full year G&A expense ratios were 1% and 1.1%, respectively, comparable to the same periods in 2017

Net Income

- Coming to the bottom line, our non-GAAP net income in Q4 was RMB 750mm, with a net margin of 0.6%, up from 0.4% in the same quarter a year ago
- The improvement was mainly supported by JD Mall's operating margin expansion of 52BPS during the quarter and the reduced losses at JD Logistics third-party business

Full Year

- On a full year basis, non-GAAP net income attributable to ordinary shareholders was RMB 3.5B, with a net margin of 0.7%, down 62BPS from 2017, largely due to investments in new businesses
- However, as we committed in our revised guidance in August last year, the operating margin for JD Mall remained intact, improving from 1.4% in 2017 to 1.6% in 2018, despite a 34 basis point increase in R&D expense ratio within JD Mall
  - This margin improvement demonstrates the resilience of our core margin trend, which is driven by the retail economies of scale and continuous improvement in operating efficiency

Capital Structure

- On the last August earnings call, I mentioned that we had established a property management group, not only to develop and manage our state-of-the-art facilities, but also to monetize these assets to compensate for our earnings shortfall last year, unlock value for our shareholders, while optimizing our capital structure

Logistics Properties Core Fund

Agreement to Transfer a Portfolio

- I'm pleased to share with you that we have established our first Logistics Properties Core Fund in February in partnership with GIC, the sovereign wealth fund of Singapore, and have just signed a definitive agreement to transfer a portfolio of modern warehouses valued at approximately RMB 10.9B to the Core Fund
  - The deal will close in several phases, with the majority to be completed in 2019, and our property management group will continue to manage the assets for recurring income stream and receive carried interest for future value appreciation

IRR, Investments, CapEx and FCF

- The estimated IRR from the transaction will be in excess of 17%, which is the annual return on these investments since we began developing these facilities from as early as 2012
- If we allocate the annual return to the corresponding years, we would have earned at least RMB 1.5B in additional profit in the year of 2018 alone
- The GIC Core Fund transaction demonstrates our ability to source, develop, manage, and monetize well-located, high-quality logistics facilities, as we are developing more similar projects that are available for future disposition
- We have designated CapEx related to these developments in a separate line in the FCF table, and any future cash proceeds from these asset sales will also be disclosed in this section, so you can make better judgment on our FCF situation

Outlook

Revenue Growth and Net Margins

- Now let’s discuss our financial outlook
- In light of the relatively soft demand in certain durable goods categories, we expect Q1 2019 net revenue growth to be between 18% and 22% on a y-over-y basis
- For the full year of 2019, we expect our non-GAAP net margin to be between 0.8% and 1.2%
  - This margin guidance excludes the development profit from our property management business, which will add another 0.5% to 0.6% to our GAAP net margin

GMV Data

- Lastly, one quick note on the disclosure change to the GMV data
- Beginning this year, we will no longer disclose quarterly GMV, but will continue to disclose full-year GMV, which is consistent with our major industry peer
- As we discussed in the past, GMV data currently disclosed are for industry comparison only and are not meant for financial analysis purposes
  - As we expand our service business, GMV is also increasingly less relevant to our revenue streams in the future

QUESTION AND ANSWER SECTION

<Q - Ronald Keung>: Another very strong results, but I just want to hear our thoughts into our GMV sort of growth and targets. How many categories when we think about the growth? Actually, thinking about from a user base, how do we see user growth trending for 2019, and so the strategies in driving that? But on that front in driving traffic, could you also give us any updates on your JD/Tencent agreement? Any rough timing that we would see or hear any updates from the two partners and aims to achieve on user growth. Thank you.

<A - Sidney Huang>: Maybe I will first address the category question, and then Xu Lei can discuss the user question, and then we’ll discuss the Tencent question. So, on the categories, as we mentioned in the past, first, we are full category retailer with the largest scale in China. We continue to believe this put us in a very unique competitive position to expand across the categories. This has demonstrated in our recent results and also results in the past years. So we do expect solid growth above the market both across all of our key categories going forward. Now, our overall growth rate may be impacted by certain durable goods categories. But, as I mentioned in the past, within these categories, we continue to significantly outperform the industry. So we are confident that growth should still be intact on a core category basis.

<A - Lei Xu>: I will take the question on user base in 2019 from two aspects. The first one is about the retention of existing users. In 2018, our average revenue per user has been on the rise mainly due to two factors. One is product cost category [ph] marketing (00:14:33), and also personalize the user interface.

For new customer, new user recruitment, we will do our efforts in following three aspects. The first one is supply chain. We will try to provide the right product offerings to the right tier cities. And second one is that we will explore new marketing scenarios, which [ph] stand for (00:15:34) community and campus and offline experience stores, and that way we would provide better products and service to new customers – to attract the new customers. And also, we will analyze our marketing expenditure structure and try to keep our resources to those more efficiently effective marketing investment.

<A - Jon Jianwen Liao>: With regard to JD/Tencent relationship, both parties are fully committed to such partnerships, are important to both parties and more details to follow.

<Q - Eddie Leung>: My question is more about the improvement in gross margin or the trend. So, just could you give us some comments on the following two factors? One is, I remember you mentioned that the electronics appliance category has been under some industry pressure, and that's pretty obvious. And historically one driver for your gross margin is increasing negotiation power and better scale so that you can get larger discounts and rebates from your suppliers, especially in the electronics appliances. So just wondering if these macro change would affect the pace of the scalability and how would that affect our gross margin.

And then separately again on gross margin. Sidney, you also mentioned that JD Logistics gross margin improving. So just wondering if we have any broad timeframe that we would expect the subsidies to the third-party users, corporate users, would be reduced, and hence we would see potentially positive gross margin from JD Logistics? Any comment would be helpful. Thank you.

<A - Sidney Huang>: On the gross margin, I mentioned even for the electronics and home appliance categories, we remain above the industry growth. And namely, we definitely see double-digit growth, for example, in Q4. And the industry, on the other hand, is in low single-digit. So the growth will continue to drive scale economies. In fact, when the industry is slow, as the largest retailer, the largest most important channel, we may gain even more economies of scale when we discuss with these brands, for example, helping them to create inventory and also order more unique customized product models. So there are various ways to improve gross margin without compromising the consumer facing price. We will remain as the most competitive price provider from a customer point of view.

On JD Logistics, we mentioned that in the early stage of its business, we had some early discounts to attract the major customers. But after the initial phase, the pricing has been moving back to a more normalized level. So right now it is – most of these clients have passed the initial discount phase. So that's why the gross margin for JD Logistics has been improved quite significantly.

<Q - Alicia Yap>: I have questions on these annual active customer account. Understand that the company actually disclosed on the quarterly active customer is experiencing y-over-y growth, right, for Q3 and fourth quarter. So just wonder if we're looking at it on a quarterly active customer base. On a sequential basis, what is the growth rate from Q3 to Q4? And should we assume this kind of flattish annual trend to only normalize later in Q3 2019? Thank you.

<A - Sidney Huang>: Q4 quarterly customer accounts also increased sequentially, roughly 6% in Q4. So there is still upward trend in the active customer base. I mentioned in the past, the divergence of these two data points is really because we are seeing improving quality of the new customers this year. But the customers in the previous 12 months we did see more onetime accounts. So, that's how we singled out the recent two quarters just to show our customer growth is still relatively healthy.

<Q - John Choi>: I have a question on your non-GAAP guidance for 2019. So, it seems like your R&D expenses are going to be flattish, assuming other obviously operating expenses across the line OpEx, and then, hopefully, with better improvement in JD Mall and also from improvement on the third-party logistics. Shouldn't we be seeing more leverage on your margin? So, can you give us a little bit more color on the margin guidance and the breakdown there?

And just if I could follow-up on your – it seems like your merchant account is now a bit higher fourth quarter vs. third quarter. Can you give us an update what has changed in terms of the third-party merchants? Thank you.

<A - Sidney Huang>: Xu Lei will answer the merchant questions. So, on the [indiscernible] (00:22:53), just to take R&D as an example, when I say the R&D expense will stabilize in 2019, to stabilizing at Q3, Q4 level. So, on full year basis, if you take that run rate, you would still see y-over-y improve probably above our revenue growth. So, that's one factor. Obviously, we will continue to invest in the various initiatives. We'll be on a more selective basis with more financial discipline, also more balanced approach this year. But we will be in select areas where we think it's really critical to company strategy; we will continue to invest very aggressively. So at the beginning of the year, we will rather start with relatively conservative guidance. Clearly, the margin will be better than last year. We do hope we can give you more upside over the course of the year, especially when we have better clarity on the macro trend.

<Q - Jin-Kyu Yoon>: There's somewhere around 700 basis point delta between online sales and GMV in the quarter. Just kind of wanted to gauge what that delta will look like going forward. I understand that you won't give GMV numbers, but it would be interesting to hear kind of what the delta will look like for the upcoming year. As well as, how much material impact are you seeing from your [indiscernible] (00:24:58) business or how much are you seeing contribution from that business? Thanks, guys.

<A - Sidney Huang>: You're referring to the growth rate between the revenue and GMV, and the difference would be the marketplace GMV. I mentioned that our fulfilled marketplace GMV actually grew over 40%, so that would bridge the gap in terms of different growth rate of GMV and revenue.

<A - Lei Xu>: Last April [indiscernible] (00:26:36) PINGO group buying business, and it has proved itself to be very inducive to helping to reach to lower tier cities and markets, has been very useful and helpful. As you know as a mainstream e-commerce player, we haven't actually leveraged our competitive advantage in those lower tier markets. And through PINGO now we are positioned to do that. And also, as you know, Weixin market has been growing very fast and PINGO has given us the right tool to tap on that opportunity. So, to [indiscernible] (00:27:22) we have established the social media e-commerce development to help us to reach to lower tier cities and also female customers.

<Q - Thomas Chong>: I have two questions. My first question is about the marketplace business, in particular the apparel category. How should we think about the trend as we head into this year?

And my second question is about our 7FRESH strategy. Can management give us some color about how many 7FRESH stores will be opened this year, and will we pursue the 1P or 3P model going forward? Thanks.

<A - Lei Xu>: For apparel business, we have three plans for 2019. The first one is that we'll step up our efforts to include high-quality brands and merchants to provide wider choice product offerings to our customers. Second one is that we will build smart operating capabilities. We will integrate our 1P business with our 3P based upon our supply chain capabilities. For example, we will consolidate the warehouses and the stores of merchants with our warehouses and distribution capabilities to improve the overall efficiency.

[indiscernible] (00:30:09) exception of existing customers to get more value out of the existing customer base. And also, we will do more PINGO group buying business with apparel category, because this category is [indiscernible] (00:30:26) suitable to group buying business model. And also, [indiscernible] (00:30:49) the composition or the structure of merchants in 2018 thanks to the product improvement and also just the improvement of our ecosystem. The composition of merchants has increased its wholesomeness and is going in a very healthy direction. So, we expect to see this trend to continue in 2019.

<A - Sidney Huang>: On 7FRESH, it is still a relatively young business that we started early 2018. Currently, we have 12 stores. We're still in experimental phase exploring various omni-channel strategies and tactics to prove the model. Honestly, we don't think anyone has proved this model in the market today. So we will take a more managed pace in the expansion of this business this year.

<Q - Ella Ji>: I wonder if you can provide us more colors for your margin outlook with the property fund impact. I'm talking about on ongoing basis, not the onetime impact. So going forward in 2019 and onwards, how should we think about the, for example, fulfillment as a percentage of revenue? And also, your management fee, the contribution to the revenue, so revenue and margin impact. And then quickly on the PINGO, I wonder if [indiscernible] (00:32:53) can provide us long-term outlook? In terms of user and the GMV contribution, where do you think PINGO can help contribute to your big picture? Thank you.

<A - Sidney Huang>: On the property management business, we're still in the process of closing those transactions. So only after the closing we'll start to earn the management fee. With our large scale, we don't think the management fee will have any material impact on our bottom line, at least this year. But as we continue to monetize the other assets on the portfolio, it could become more meaningful.

There shouldn't be much of impact on our fulfillment expense after all with our large warehouse network only about, at end of the year, roughly 2.5mm square meters of warehouses were self-built, and now we are monetizing them. So, this is a fraction roughly about 20-plus percent of our overall warehouse space. So, the current monetization plan will not have much of a significant impact on the fulfillment expense.

<A - Lei Xu>: Maybe add something about group buying business. As I had already pointed out, group buying PINGO actually is very helpful for us [indiscernible] (00:34:58) to the lower tier cities and female client space through emerging tools or channels like Weixin. And also it helps us actually to activate the bottom tier merchants on our original platform because of the specific characteristics of group buying customers. We will continue on [indiscernible] (00:35:52) our emphasis on group buying and [indiscernible] (00:35:56), and mainly we will step our efforts in [indiscernible] (00:36:01).

All right, the first one is we will build our supply chain that is more suitable for group buying business model. We'll be establish a specialized team to deal with this project. We will provide not just existing product, but also products that actually shipped to [indiscernible] (00:36:52). We will also develop [ph] an APP (00:37:00) specialized for PINGO.

<Q - Jerry Liu>: My question is just on the broader macro environment. In Q4 and so far this quarter, have we seen any improvement in the macro environment, especially as we think about consumer sentiment around big ticket purchases, such as home appliances and smartphones? And secondarily, just following up on the margin questions earlier, what's the assumption around the competitive landscape around the competitive intensity over Double 11 in Q4? Thank you.

<A - Sidney Huang>: If you look at our growth rate and also across the durable goods vs. the general merchandise categories, the latter has not been much impacted. But the electronics appliance categories were impacted. So we do still see double-digit growth and at this point, it's tough to tell. But we are cautiously optimistic for H2 this year when the government various incentive policies begin to take effect. So, we are cautiously optimistic on the macro for H2.

<Q - Natalie Wu>: Firstly, just a little bit follow-up on Ella's question for your, like, 305mm active customer accounts, how many of them are originated from PINGO model? And what's the current user conversion ratio from Weixin channel team purchase model to your own JD app?

And secondly, you have recently announced an internal restructure in your Annual Meeting, I think. And in the meanwhile, you've also mentioned that for your business unit leaders, they shouldn't put too much emphasis on GMV, as GMV is not a leading indicator, but a result. So just wondering if there's any new change introduced to your original KPI mechanism. Thank you.

<A - Sidney Huang>: The WeChat channel continues to be a very, very important new customer acquisition channel. Just overall we still see over a quarter of our new customers coming from the WeChat channel. We don't track how much of that from PINGO and subsequent conversion. But, overall, it is definitely a very important new customer acquisition channel. I'll ask Xu Lei to answer the second question.

<A - Lei Xu>: As pointed out by [indiscernible] (00:41:37) Sydney, Weixin market is very important for us to increase our user base. However, we still have our centralized app channels, which are equally important for us acquiring customers. And we are stepping up our assets to come up with new Weixin products to acquire even more new customers. However, I'm not in a position to say Weixin channel is the new single most important channel for new customer acquisition. Actually, it's one of the important channels for us to acquire to new customers.

<A - Richard Qiangdong Liu>: I would rather talk more about our strategy on 2019, because the organization system is really very complicated to say over a short time. In 2019, we will focus on three most important things. Firstly is our lower tier cities. I think some of you will know we have focused on lower tier cities for several years. From last year, the good news is – I think it was the [ph] fifth (00:43:02) year from the lower tier cities [ph] it's always (00:43:06) Tier 1, Tier 2 cities already. And this year we will take more product to the lower tier cities to attract more customers.

Secondly is our obviously digitalization. We will drive our whole group through the traditional management system, so based on our big data and digitalization to improve our management system efficiently to help our partners to keep growing our platform. And the last line, we will [ph] open mall and mall (00:43:52) new business model to the offline business. Today, we have 7FRESH, we have home appliance. We have [ph] JD's delivery home (00:44:02). We have a new channel department. And from this year, we will have [indiscernible] (00:44:09) new offline business model. On first step, we will keep testing until this model is improved. We will copy as quick as possible. Thank you.

<Q - Alex Yao>: I have a follow-up question on your previous commentary around user acquisition strategy into the lower tier cities. I think you guys have been doing this for quite a few years. What will you be doing differently this year vs. the previous few years? Apparently there's a new product launch such as PINGO. But is there anything incremental you need to do to be more efficiently tapping to the lower tier or lower end consumer demand? For example, is there a change in the supply chain, the merchandising strategy, such that you will build relationship with the low end or even super low end supply chain in China, or is there incremental requirement for you to invest more in lower tier city logistic infrastructure? Any color would be helpful. Thank you.

<A - Sidney Huang>: As Xu Lei already mentioned, I think one what you mentioned going to lower tier city, the lower priced supply chain products is actually one of our initiatives this year. Logistics, on the other hand, we're already in these lower tier cities. We already have a full coverage network. So there is not much extra to be done, but more on the supply chain side, more on the product side. And also the various online offer on omni-channel strategies will also help the lower tier city expansion.

<Q - Richard Kramer>: If I just have one question, I'd like to ask the outlook for FCF for 2019. Is this something that's expected to, again, be sharply negative? And at what point, and excluding the real estate transaction, would JD turn to being a sustainably FCF generating business? Thank you.

<A - Sidney Huang>: We this time – if you'll note on cash flow section actually separate out the CapEx for development projects available-for-sale, so those who will be turned into positive cash as we monetize those products. So, this position will be part of the contra CapEx account, because those were the cash outflow we have already absorbed. If you look at the disclosure, if you subtract this CapEx for development projects available-for-sale, you will already see a very different cash flow picture even for 2018. In 2018, we had a onetime event, as we communicated early in 2018.

So, we do have confidence that cash flow in 2019 will be improved from both operating side, because of operating margin will improve, and also from CapEx side, now that we have also completed a major CapEx year for our technology infrastructure in 2018. So, we will have less other CapEx. We will have better margin, operating cash flow, and we'll have the development available-for-sale line separated, which will see a cash inflow this year. So, on combination of all the three, we should see better cash flow this year.

<Q - Wendy Huang>: I assume that most of the comments you made earlier was more on the electronics side, but not on the home appliance side. Given the government subsidy policy, the recent turmoil on the home appliance side in certain cities, how do you do that, as it has driven the home appliance consumption, and how actually JD [indiscernible] (00:49:26) from that? And also how sustainable this trend could be?

And also a follow-up on the cash flow question, the previous analyst. So, should we expect FCF to turn positive definitely in 2019, given the three factors you just mentioned? Thank you.

<A - Lei Xu>: Recently the government has come up with a tighter [indiscernible] (00:50:12) policy, the regulations they aim to encourage and motivate or stimulate the development of home appliance market. And we've been deeply involved in that. And I think it will take time to take effect and also it would take time for us to observe the ultimate result of those policies. As you know, for home appliances category, JD has been enjoying very high reputation. And also in terms of online market, JD has enjoyed notably competitive advantage on our peers. So that will position us in the very favorable position.

Also, this year just in 2019, we will also have 1P or direct sale capabilities to our partners and help them to improve against us. And that way, together, we can do the [ph] market (00:51:48) even better. And also we will increase the percentage of customized product offerings this year. That will help us to tap deeper into the lower city customers and also help us to improve our profitability. Also we will penetrate deeper into countries and towns. We will open up more experiential stores and we will work more closely with the local players to get more engagement points with our customers.

<A - Sidney Huang>: On the FCF, we don't give guidance on FCF. But clearly that will be objective. Internally, we'll be working very hard towards achieving positive cash flow.

<Q - Grace Chen>: My questions about Q4 numbers, Q4 sales were at high-end of the guidance. I'm wondering which areas performed better that led to the upside in Q4 sales. And for the gross margin fourth quarter, it came in better than the expectation. So I believe the substantial improvements in the loss of JD Logistics should be one of the key reasons. So, could you share with us some more details about JD Logistics? For example, what's the gross margin status now, and what's your target for gross margin and operating margin 2019 and in the mid to long-term? Any more color will be very helpful. Thank you.

<A - Sidney Huang>: Q4 growth I mentioned was actually pretty well-balanced, other than the couple of categories that we singled out, but they were still growing at double digits. So, pretty healthy growth across all the categories. Now, margin expansion was also partly due to the previous Q4 was at somewhat of a lower margin base, given due to different promotional strategies. So, obviously, we're very pleased with the performance.

And the logistic side was also a very major positive contributor, given the high volume and better utilization of the facilities. So it is a seasonally high quarter for us normally in Q4 in terms of utilization. But from year-to-year, there may be different emphasis. So, that would be – we gave the full year guidance for this year already. We will see steadily increasing gross margin for JD Mall and also improving margins on JD Logistics.

<Q - Tian X. Hou>: The question is related to the new customers. So, you guys mentioned most of new customers and come from the lower tier cities and/or some of that driven by the WeChat. So, I wonder when we increase more lower tier cities, management and the customers, will that impact the GMV per order? That's number one.

Number two, on an annual basis, each active or unique customer, what is the ASP on the annual basis? And also, how many times they purchase? So that's all the questions [indiscernible] (00:56:35). Thank you.

<A - Lei Xu>: For PINGO customers, it's true that the initial stage actually the ticket price, the customer price is on the low side compared to our other customers. However, after we acquired those new customers, we'll [indiscernible] (00:57:33) strategy to how to retain them and how much they spend afterwards. We will sell cross-categories to them. So after all those efforts, actually we see a quite optimistic picture with the PINGO customer spend with us.

Let me share with you the approved figure with the overall JD Mall average revenue per user. Actually, last year in terms of the time customers take to go from, say, middle stickiness customer to a high stickiness customer actually had shortened. That means that it takes less time for us to turn ordinary customers into loyal customers. In the future, we will make even more intensive efforts to turn new customers into the first time customers and then second and third time customers.

<Q - Jialong Shi>: I have just one question. Your fulfillment expense slowed down quite meaningfully. Y-over-y growth slowed down quite meaningfully in Q4. So I just want to know what was the driver heading into this year where you see continued leverage on fulfillment expense. Thank you.

<A - Zhenhui Wang>: Let me take this question. As you know, fourth quarter is our peak season and we have improved substantially our storage capacity and also warehouse utilization. That’s why we have quite a satisfactory fulfillment rate. We think looking forward into 2019 as the order intensity improves [indiscernible] (01:00:50).