Company Name: JD.com
Company Ticker: JD US
Date: 2017-03-02
Event Description: Q4 2016 Earnings Call

Market Cap: 44,176.21
Current PX: 30.93
YTD Change($): +5.49
YTD Change(%): +21.580

Bloomberg Estimates - EPS
Current Quarter: -0.053
Current Year: 1.003
Bloomberg Estimates - Sales
Current Quarter: 73057.500
Current Year: 342384.676

Q4 2016 Earnings Call

Company Participants

- Ruiyu Li
- Sidney Huang
- Richard Qiangdong Liu

Other Participants

- Eddie Leung
- Alicia Yap
- Alex Yao
- Alan Hellawell
- Chi Tsang
- Jin-Kyu Yoon
- Ronald Keung
- Ming Zhao
- Evan Zhou
- Natalie Wu
- Wendy Huang
- John Choi
- Ella Ji
- Jialong Shi
- Thomas Chong
- Tian X. Hou
- Rodney A. Hull

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

Net Revenue

- We are delighted to report another outstanding quarter of accelerating revenue growth and a record non-GAAP net profit

- Our net revenue grew 47% in Q4 2016
- Thanks to our highly successful shopping events in November and December holiday seasons

Direct Sales Revenue

- Our direct sales revenues grew 46% in Q4
- The highest since Q4 2015, led by home furnishing, food and beverage, home appliance and baby products
- Our revenues from services and others increased 58% y-over-y, supported by higher advertising revenue as well as income from financial services, which after eliminating intersegment revenues surpassed 1% of our total quarterly net revenues for the first time in Q4 2016

GMV

- Our GMV, excluding virtual items, grew 50% y-over-y in Q4
- GMV from general merchandise categories, excluding virtual items, grew 59% during the quarter
- Food and beverage, home furnishing, cosmetics and the baby products were the fastest-growing general merchandise categories, with apparel and footwear remained the largest category with solid growth momentum
- As a percent of the total, general merchandise GMV contributed 52.4%, another record-high level for JD Mall
- GMV from electronics and home appliance products grew 42% during the quarter, led by the home appliance category

Non-GAAP Gross Profit

- The non-GAAP gross profit increased by 58% in Q4 further demonstrating the healthy monetization of both our 1P and 3P businesses
- Non-GAAP gross margin improved to 15%, up from 14% a year ago, reflecting continued gross margin expansion in our first-party business due to increased economies of scale across all key categories
- Gross margin on direct sales revenue again improved over 100BPS on a y-over-y basis in Q4 2016

Non-GAAP Fulfillment Expense

- Non-GAAP fulfillment expense ratio was 7.5% in Q4, compared to 8.2% in the same quarter last year
- The lower fulfillment expense ratio was mainly due to a higher base in Q4 2015 as we started to move aggressively into the consumable product category
- A second factor affecting the fulfillment expense ratio was the exceptional sequential growth in the seasonally strong fourth quarter, which drove down our average fulfillment expense per order
- As a result of the stronger seasonal effect and exceptional performance in Q4, all other non-GAAP operating expense ratios also saw improvement on a y-over-y basis
  - This is likely a one-time event in the near-term, but provides a good indication for potential operating leverage in the medium to long-term

Core JD Mall Operations

- The non-GAAP operating margin was 0.6% in Q4, compared to a non-GAAP operating loss in the same quarter last year
- Excluding the new businesses, our core JD Mall operations had an operating margin of 0.8% on a non-GAAP basis, with an improvement of over 70BPS over the same period last year, mainly driven by the higher gross margin

Non-GAAP Net Income

- Our non-GAAP net income attributable to ordinary shareholders reached a new record of RMB 566mm with a net margin of 0.7% in Q4
- The non-GAAP EBITDA also set another record at RMB 1.1B with an EBITDA margin of 1.3%
- For full year 2016, our non-GAAP net margin was 0.4% and the non-GAAP EBITDA margin was 1.1%
- Our FCF remained strong
- For the trailing 12 months ended December 31, 2016, FCF totaled RMB 15.6B, up 121% from the previous trailing 12 months

JD Finance Reorganization

- Now, I would like to update you the progress of the JD Finance reorganization
- As disclosed in our earnings release, we just signed the definitive agreements yesterday with a group of domestic investors, after receiving approval from our independent audit committee and the Board of Directors for the reorganization plan
- Under the agreement, JD.com will dispose its remaining 68.6% equity stake in JD Finance in exchange for RMB 14.3B in cash and 40% of the pre-tax profits of JD Finance after it achieves cumulative profitability in the future
  - We will also have the option to convert a 40% profit sharing right back into JD Finance equity when it's permitted by the applicable regulations

Capital

- As part of the transaction, Richard Liu, our Chairman and CEO, will acquire a 4.3% equity stake in JD Finance and will obtain the majority voting rights in the entity through his equity stake, and a voting proxy with other investors and the ESOP participants
- We are very pleased with the terms of the agreements
- In addition to the strategic objectives I mentioned on our last earnings call, upon the transaction closing, JD.com will receive RMB 14.3B or $2.1B in cash, which will be a tremendous financial gain over the RMB 2.1B of capital that we have invested in JD Finance

Finance Business

- As JD.com and JD Finance will be both under voting control of Richard after this transaction, from the accounting perspective, the deal will be accounted for as an under common control transaction with the economic gain recorded directly in the equity section of the financial statements, without any impact on the P&L

- Nevertheless, this is a real economic gain to our shareholders, which effectively more than offsets the total GAAP losses over the past two years
- In addition, the 40% profit sharing right does not bear any downside risks associated with the JD Finance business, but it does allow our shareholders to continue enjoying 40% of its potential upside
  - Therefore, from a valuation perspective the 40% profit sharing right is actually more valuable than a 40% straight equity interest
- For many TMT and consumer-focused investors, the transaction can also remove the complexity and the perceived risks associated with a financial services company
- So you can better evaluate the core e-commerce and the related businesses

Outlook

Net Revenue Growth

- Finally, let's discuss our financial outlook
- We expect Q1 net revenue growth to be between 34% and 38% on a y-over-y basis
- This guidance reflects our solid growth momentum for a seasonally slow quarter
- For the non-GAAP net income, we expect an overall non-GAAP net margin between breakeven and a positive 1% for the full-year 2017, assuming JD Finance will be deconsolidated in H2 this year, and that a New Dada equity loss pickup is maintained at its current run rate
- This guidance reflects our continued focus on the growth of our business and our commitment to gradually improving the operating margin while still maintaining sufficient flexibility to invest and to compete in this highly dynamic sector

QUESTION AND ANSWER SECTION

<Q - Eddie Leung>: Just on two quick questions. The first one is about your marketing business. Could you give us an update on the progress of your marketing business about your marketplace – about your marketplace? Are we seeing the proportion to your marketplace and others revenues going up from this business model?

And then secondly just some clarification on some recent news about expansion even to your offline stores in the rural areas. Any more color will be helpful. Thank you.

<A - Sidney Huang>: Okay. Eddie, I assume you are asking about the advertising business on the other revenues. So we have definitely seen our advertising business growing at a faster pace than our overall company revenue growth. However, we have also refrained from aggressively monetizing added expense of the user experience. So our growth in our advertising program with merchants and suppliers is definitely moving ahead at fast speed, but at the same time at a very – it's quite a measured pace.

So for the second question on the offline stores, I assume you are asking about our franchise stores that we just recently announced. It will be an extension of our rural program. It's not really for JD to setting up physical stores, but we will work with local businesses to set up a franchise, small stores. It's a one level actually below our Jingdong brand business model, which is at the country level. And the 10,000 stores that we mentioned is really working with really just at one level below the country level. So we can reach to broader consumers in the rural area, but it's actually a asset-light business model.

<Q - Alicia Yap>: My questions is related to your gross margins. So I actually seeing there are some – despite a y-over-y is an increase, but on the sequential basis it's actually a decline and also since on the one key margins itself are sequentially seems to be about 70BPS decline. So, is that mainly because of the FMCG categories being bigger, or is it related to the seasonal aggressive promotional discount?

And then related to that is that how much are we targeting to spend on the sales and marketing to promote Yihaodian and also the FMCG category, and when will this category to achieve a breakeven target? Thank you.

<A - Sidney Huang>: Sure, Alicia. So on the gross margin, you are right that normally in Q2 and Q4, we will – during those major promotion events, gross margin tend to be slightly lower than Q1 and Q3. So that's the reason. So that's why we always look at the gross margin trend on a y-over-y basis, which is more apples-to-apples.

For the Yihaodian business, we continued to invest as part of our broader FMCG effort. And we have encouragingly see that from our own business at least the margin has been moving in the right direction despite of the massive promotional activities that we are running during Q4 which seeing a very, very encouraging results.

The reason for that is really because of the scale of economies as I mentioned earlier. The gross margins has seen meaningful improvement. And at the same time, we are also optimizing on our fulfillment infrastructure and also on the order economics driven by for example minimum order size required for free delivery. So we have seen – beginning to see a very meaningful improvement in both growth and order economics for the consumer product category.

<Q - Alex Yao>: Two quick – two quick ones. One is regarding the strong top line growth momentum particularly for Q1, which is usually seen a weak quarter for you guys. Can you talk about what's driving the – our revenue momentum there?

And then secondly, just want to clarify that your 2017 net margin guidance is between 0% to 1% that included Dada loss pickup, which is about RMB 1.4B this quarter. So assuming annualized RMB 6B loss you still expect to be profitable next year, sorry this year?

<A - Sidney Huang>: Right. So on Q1 revenue guidance, you do see the seasonal slowdown in growth rate. I guess you are comparing our growth rate to, perhaps, other industry players. From our perspective, we always strive to grow much faster than the industry average. So the kind of growth rate in our mind is – we hope it would be even stronger. So to us this is only – we hope the – a very comfortable base and we can – we saw internal effort, we can outperform.

For the 2017 net margin guidance, I don't know how you get to the RMB 1.5B New Dada loss. As I mentioned in the past, you should assume about RMB 100mm monthly run rate in loss pickup from New Dada. So that would be the run rate I'm referring to.

<Q - Alan Hellawell>: Just quickly, now that we have moved through a near CY of anti-brushing and decline in the sale of virtual items, given that it's now rear view mirror. I was wondering if you could quantify how much of a tailwind this translates in 2017 for us.

And also we just love a little more color around the FCF turning negative, the increase in inventory that is in Q4 and what we might take on board as it relates to 2017? Thank you.

<A - Sidney Huang>: Sure, Alan. So for our GMV growth in 2017, by Q2 basically we will have the enhanced anti-brushing effort that we announced last year. So, all else being equal, you will see a more normalized growth rate. I can't promise you for an acceleration, but at least by that time, it will be more apples-to-apples.

We continue to work very hard to improve the quality of the products we list through our marketplace. So, that ongoing effort we hope will pay off and both our customers and the quality merchants will benefit.

On the FCF, as I mentioned actually on my previous earnings call, that there were some seasonal timing effect in Q3, so by Q4 we effectively burst that timing difference. And again, when – for cash flow, because you could easily make some impact at quarter end, so any single quarter, cash flow will not reflect your ongoing cash flow momentum. So, that's why we always like to use the trailing 12 months as a better metric to measure our FCF.

<Q - Chi Tsang>: I was just wondering, if you can give us an update on sort of how Yihaodian is going both from a sort of a 1P and a 3P perspective? Thank you.

<A - Sidney Huang>: All right. So, as we mentioned in the last quarter, actually beginning November 1 we took over the first-party business while still utilizing the Yihaodian entity and its team to run the procurement for us. So, the business has been very healthy, we see healthy growth on a y-over-y basis and it also contributed roughly RMB 1.8B in Q4 during those two months.

So, it's a very healthy business and we look to further innovate, utilizing this separate e-commerce platform and we will – by the time the plan is finalized, we will announce to the market. So, we will have a new positioning for Yihaodian to better serve the local communities. But in terms of category focus, it will continue to be focused on the FMCG and food and beverage categories.

<Q - Jin-Kyu Yoon>: On the $2.1B that you are going to receive, is that going to come in stages or should we expect that one lump sum payment? And second of all with that, is there a spending horizon for that cash flow you are going to see, any CapEx cycle that we may see going forward? Thanks.

<A - Sidney Huang>: Sure. The RMB 14.3B, yeah, you mean $2.1B, yes, we will receive that in a lump sum payment upon closing. So we should expect to receive that in the middle of 2017. We have not – have any specific use of the proceeds, but as part of our ongoing investment, there will be CapEx requirement this year. I did mention last time that CapEx for 2016 was artificially low; some of the projects were delayed due to the local land readiness. So you will see higher CapEx in 2017, but it will be covered by our operating cash flow in any event.

Now the additional cash proceeds we got from this transaction obviously we can also use it for strategic investments in our ecosystem and other general corporate purposes that we deemed appropriate.

<Q - Ronald Keung>: Just a question on the supermarket initiatives, do you have any further cooperations or strategic plans with Walmart and Yonghui mainly across supply chain sourcing and O2O this year? Thank you.

<A - Sidney Huang>: Sure. So we have developed – we have a very healthy relationship with those two strategic partners. In particular our New Dada entity is forming a closer partnership with those two companies. So we disclosed that the number of stores that are linked to our New Dada Jingdong Daojia platform. And in particular, increasingly we have established separate picking centers in those stores, so that when a customer place an order, the items can be very quickly packaged and delivered.

So, at – for JD Daojia program, the current commitment is delivering within two hours. But if you look at the actual, in most of the stores, the delivery time is actually narrowing down to about one hour. So the customer service level has been continuously improving with the closer partnership with those two supermarket partners. There are also potential – other potential collaborations which is yet to be announced.

<Q - Ming Zhao>: Yes. So my question is the JD Finance is spun off from the company, but JD is generating a lot of cash. So for a lot of retail companies, the FCF is plenty and they use that to do investment and generate returns. So if JD Finance is spun off, what can JD do to generate returns from those cash flows you generate? What's a business model for that FCF generation? Thank you.

<A - Sidney Huang>: Right. So that's interesting question. In fact even before we spin out JD Finance, we had committed to the market that JD Finance starting 2016 would be self-funded. So we actually didn't use JD.com's FCF to fund JD Finance. We disclosed in the cash flow section of our earnings release the total cash inflow and cash outflow for JD Finance business. And you can see that inflow actually was higher than the outflow during the year.

So that has been our philosophy that the finance business should be independently run. JD.com has not either subsidized or deployed our capital to support the business beyond the initial investment.

I actually mentioned about RMB 2.1B that was the capital that we invested. On top of that, we did have a line of credit to JD Finance that's capped at around RMB 10B, and that line of credit is still available. But you know as you can see in last year, that line of credit did not move up. And so that's basically our separation of risks between JD.com and the JD Finance.

So, as far as the FCF, we do have actually many investment opportunities for the e-commerce ecosystem. And so this, we have been very active in discussing strategic partnership with many of the potential partners in either retail or on the product side. And we expected more of those investment opportunities to come up.

<Q - Evan Zhou>: Congrats on a very strong quarter. Questions regarding our FMCG category growth. I think a couple of days ago, we kind of announced that we have roughly like RMB 100B of GMV in the product defined FMCG category for this year. Is there a number that we can kind of reference our expectation for this year?

And also in terms of the contribution from the loss, in terms of the margin drag from the FMCG segment or JD supermarket, can you kind of provide some color to quantify that for this year? Thank you.

<A - Sidney Huang>: Sure, yeah, I believe the RMB 100B is a three year target – for this year. Okay. Yeah, so this is obviously announced by our business unit, and it should be a number that's pretty comfortably achievable.

On the margin profile, it is – as I mentioned earlier, we do see a trend of improving operating margin or narrowing operating loss for that business, which is driven by both expanding gross margin due to the economies of scale, and also improving order economics through higher ticket size and a more efficient fulfillment.

So it is definitely improving, but at the same time this remains the last major category that's money losing. And we do believe because the characteristics of this unique category, it is worthwhile for us to continue to invest in this category, at least in the next two years. And there will be, obviously, profitability potential for this business. Again, both from further improvement in the gross margin and also on the order economics.

<Q - Natalie Wu>: So, my question is regarding on – actually, the average order size seems to be like that – stabilized in Q4. Also the fulfillment cost per order stopped sliding as well. So, just wondering is it merely due to a seasonality phenomenon or should we expect the trend to carry on in this year?

<A - Sidney Huang>: Right. Actually both. So for – normally, in Q4 you do see somewhat higher average order size because of the promotional events. But also for certain category, as I mentioned about FMCG, some of the new policies will actually slide to the consumers to ticket size gradually. So, that trend will continue, we hope.

But on the other hand, because the low ticket size categories like FMCG and apparel and home furnishing are growing faster than the electronics and home appliance categories. So, on a blended basis, you may not see average ticket size improving every quarter. So, there's these two forces in getting to a blended average.

<A - Richard Qiangdong Liu>: Hello, everyone. This is Richard speaking. I'll try my best to speak English, but you will cannot maybe Ruiyu will have you offline later. [Foreign Language] (34:59) I know a lot of investors care about our FMCG category and also a lot of competitors gave a lot of rumors on the market. They said, look at me, I made so much money, if I only reduce a little bit of my margin, and I'm taking Jingdong to be on price war, okay, with the never ever being possible. Okay we will tie sooner or later.

It's certainly wrong; I can give you two points. First one is most of our suppliers will have a margin protection items. In fact, Jingdong will remain the lowest priced. If any competitor reduces their price, we have our right to reduce our price on the same pack, on the same level. But, the supplier will give us the same gross margin. So we're not losing any money.

To be honest, sometime it starts impact our gross margin a little bit because on the same time we are not only reducing our price, we also give a [Foreign Language] (36:28). Coupon. We will give a lot of coupons to our customers. It's our money, but not a significant impaction, just only a little bit.

And second, actually the price war is a very good for our company. I can give you two examples. First one is about [ph] books (36:55) in 2009. We started into a price war with [ph] Fung Dou in books (37:02) category. And so, after six years later, I can tell you [ph] last year the books (37:10) category has been profitable by quarterly.

And in 2012, we also launched price war with Suning about the larger home appliance. In one day we lost huge money, because at that time, we have no margin protection item, at that time, it's our money. One day, we lost hundreds, millions, and I'm sure every investors cried on that night. But five years later, we are certainly the number one, the largest retailer in China, both online and offline. And it has been profitable for some years.

Today, we also in a price war on FMCG category. But obviously, the price war is the best news to us and we'll recommend my shareholder anytime [ph] when you hear of (38:18) some price war with Jingdong you should open a luxury [ph] banner or champagne and a tip (38:22) for that, because it means sooner or later, we will be number one, and it will be profitable. It can make a lot of money for our shareholders.

So let's make it simple. No war, no win, no profit, and no worry. Thank you.

<Q - Wendy Huang>: So you mentioned that if you want to convert the profit sharing 40% to the equity ownership there are some regulatory approval you need to go through. So can you give some detail on what kind of the – government approval that you need to attend in order to achieve that?

And also you mentioned that you will get a profit share only after the company actually – should there be accumulated profit, so what is the accumulated loss as of now? Thank you.

<A - Sidney Huang>: So if we keep in mind that the spinoff in the first place is done to facilitate JD Finance to want to apply for certain licenses. For example, the securities license that will require strict domestic shareholder base. And second, the domestic shareholding structure will facilitate our future domestic listing. So for those two areas, as of now, the regulation will not permit us to convert to 40% profit sharing right back to – back into equity. However, in the future, should the regulations become – should the regulations change in those two areas for example, then clearly, we would have the option to convert back into equity.

On your second question, we have not disclosed our cumulative losses. We will, however, disclose more segment information in our annual report, where you will see at least the operating losses for our new business lines, which will give you a fairly good idea on the JD Finance profile. It is a private company, so we are not disclosing the exact loss amounts at this point.

<Q - John Choi>: I have a couple of questions here. Sidney, I was wondering if you could kind of clarify or give more color on the strategic area of investment that you mentioned as you said, given that JD Finance is now being officially spun off. You say, you're going to invest in [ph] real-time (41:59) products and et cetera. I was wondering if – what kind of areas and how big kind of investments you guys are thinking of, and how we should think of it in a longer term.

And the second question is on your fulfillment area. I mean, if you look at the fulfillment, we've seen nice operating leverage, but as you can see recently a lot of the third-party logistics providers have been coming to the market with IPO, and we've heard a lot of aggressive investment plans from them. So, is JD required to further step up the investment in order to compete or maintain its competitive advantage vs. these players, and should we be thinking about additional CapEx related to this? Thank you.

<A - Sidney Huang>: Sure. For investment, we always maintained that all of our investments will be strategic and we are – we're very focused to invest only in the ecosystem around our e-commerce business, and also on the new technologies. So, as we also mentioned in our earnings release that – Richard actually laid out our next 12 years strategic plan to invest further into the technologies, in particular in artificial intelligence and big data for example. So, some of the investments will potentially be invested in these technology areas. So – but they will all be very much related to our core business.

On your second question, we addressed this before, that our logistic network is actually quite different from [indiscernible] (43:51), which is purely a delivery company. So for us we – it's a integrated warehousing network, and last-mile delivery, which is very unique for the e-commerce model. And in fact the speed of delivery is determined by the warehouse network, not by the last-mile itself.

And also the quality is very, very different because JD's delivery men – for those of you who live in China you will know that because of our training and our corporate culture, JD delivery men are essentially our customer representative. They are very, very committed to be very thoughtful and provide service beyond just a simple delivery.

So it's a very different model in terms of both the speed determined by the warehousing network, and the personal touch by our well-trained delivery staff. So which we believe is still – we'll remain very, very differentiated with the third-party network utilizing the delivery companies.

<Q - Ella Ji>: For your current customer base, I wonder if you can share a breakdown between the male and the female. And for the new customers that you added, I wonder what are the categories that are attracting these new customers coming to you for the first time?

And also, just regarding your advertising, I understand that you won't go aggressive in terms of adding more ad inventories, but can you talk about like what's your efforts in the advertising targeting? So for example, to improve the clicks rate et cetera, can you just share us with some update on that? Thank you.

<A - Sidney Huang>: Sure. So for the male/female customer base, we've done some analysis internally, because we don't require customers to identify their gender when they register. So we could only get a proxy. So definitely the female customers have been increasing in proportion. Based on different analysis, they are at least very close, but we believe the male customers are still a bit slightly higher in our overall customer base.

So this is actually one of the key areas of new customer acquisition that we will be – this year, it's one of our key strategic focus is to attract female customers through both our existing FMCG effort and also our enhanced apparel category effort. One of the initiative, in fact, is to breakout the apparel business from our existing apparel and home business unit. So, we'll form a separate apparel business group led by a new leader, and we will implement a number of measures to enhance the platform to attract the new female users.

So, your second question is actually related, so it's – how – for example the FMCG category is one of those we believe can attract many new customers, specifically female customers. And obviously the existing promotional activities, our superior service level, our channel penetration into the lower tier cities, all of these efforts will help attract new customers to our platform.

On your last question, I think it is actually somewhat related to our efforts to invest in technologies and artificial intelligence. So, we have been investing in this area to better target our customers and also provide more personalized recommendations to our products, to our consumers. Honestly, we are still far away from reaching a satisfactory stage for this area.

So it's – on the other hand, it is actually a great opportunity if we can improve in customer targeting and advertising effectiveness for example, and also just organic traffic utilization, we actually can see a much better conversion rate for example down the road. So it is one area for our further improvement.

<Q - Jialong Shi>: I just wonder how do you think of your relationship with Walmart. We know Walmart has kept buying your shares from the open market in the past few months. So, I just wonder if Walmart tries to seek a board directorship in the future. Will you object to this move or you would welcome Walmart to become your new board director?

And also how much operating loss you booked from FMCG category into Q4, and how much you expect to invest in FMCG in – this year? Thank you.

<A - Sidney Huang>: Sure. So, on the Walmart ownership, well we actually disclosed the last quarter, on the last earnings quarter Walmart had reached 10% stake in JD.com and has a board observer seat. In fact, there is no further development from share perspective.

However, at the same time, the two companies have developed closer ties during the past quarter, our friendship. Sam's Club flagship store on JD.com has seen very, very encouraging results during the quarter. We are also collaborating other new initiatives, which is yet to be announced. I mentioned about the Dada collaboration. We are already – in a very short period of time, several dozens of Walmart stores have been connected through the Dada program to our JD Dada program. So many exciting initiatives are being discussed and implemented.

<Q>: I'm asking on behalf of Eric Wen. Please allow me to ask in Chinese first and then I will translate it into English.

[Foreign Language] (52:04-52:20)

I'd like to ask two questions. First, compared to Alibaba's new retail, how much GMV do – of the new China business unit you wish to achieve in 2017? And second, what's the difference between Alibaba's [ph] AST in Shoto (52:33), and of the new China business unit? Thank you.

<A - Sidney Huang>: Yeah. Sure. First of all, I don't think that the two models are comparable. In fact, we believe we have explored the so called new retail model far ahead of our competition. In fact, the [ph] auto (52:56) model at the JD home model was online to offline initiative that leverage the offline strength with the online customer reach. So, we have seen very, very encouraging results in our JD home business. And especially after the merger into the New Dada, the average ticket size, the service level to our customers have seen a significant improvement over the past six, seven months. So, from our perspective we do see tremendous opportunities in the integrated model between online and offline.

For the [ph] Shintonu (53:49), it's actually a completely separate business, that's aiming to support the mom-and-pop shops in the cities and also rural areas, so it's actually a quite different model that we are still in the fairly early development stage. But given that JD.com has this highly sophisticated supply chain capabilities and also our own last-mile delivery network, we believe our model is superior to any competition.

<Q - Thomas Chong>: I have a quick question about the synergies with Tencent; can management provide some color about the percentage of new customers for Mobile QQ and Weixin? Thanks.

<A - Sidney Huang>: Right. Yeah. The collaboration has been very, very fruitful. We – if you look at the number of new customers attracted in Q4, it's remaining above 25%. So it's a very, very solid new customer acquisition channel. So we also – in addition to the – to those two channels and the new customer acquisitions, we also have a number of other collaborations including [indiscernible] (55:36), which is a joint marketing and advertising program working with key brands that we mentioned in the past. So we also have seen very encouraging results out of that program.

<Q - Tian X. Hou>: So the question is related to your gross margin. So as you expanding in your FMCG business and apparel business, so the ticket value compared with home appliances and 3C can be smaller; so the ticket, the size – each ticket, each deliver, the economics can be worse than before. So how do you manage the gross margin growth going forward?

<A - Sidney Huang>: Right. So, first of all, the gross margin is actually less affected by the ticket size itself, but the operating margin will. For gross margin, actually Richard kind of mentioned earlier that on the customer side, we will always maintain everyday low price plus very aggressive promotions and coupons. The gross margin were purely coming from our enhanced scale economies. So, for example, for FMCG, we are today even – we are actually not the largest FMCG retailer yet in China.

So, as we continue to grow in scale, it is fairly natural to see more and more scale economies through better purchasing price and more volume-based rebates. And that will continue to drive expanding gross margin without compromising our everyday low price and the promotions. But I think your question is more on the operating side. There are ways, for sure, to enhance the order economics.

So, one example – one simple example is through, as I mentioned earlier, requiring higher ticket size for free delivery, for example, right. And there are other methodologies to encourage customer to buy more through certain promotional initiatives. So over time, the order economics will be improved through higher ticket size. And you are right that it will probably never get to the electronics and home appliance categories. But on the other hand, both apparel and consumer products do tend to carry higher gross margin than the electronics category.

<Q - Rodney A. Hull>: I wondered if you could discuss the logistics monetization as you move forward, I was trying to monetize some of your logistics network for your 3P providers. If you can provide any update and sort of the traction there to date and maybe what we should think about for the coming year in 2017? Thank you.

<A - Sidney Huang>: Sure. Yeah, so we are actually aggressively expanding our service to our merchants. In Q4 for example, the merchants – number of merchants adopting our services has increased quite meaningfully. And in terms of number of orders that were served by our warehouse network, it start moving into a high single-digit, which is a quite meaningful improvement. So we have mentioned in the past that warehouse and delivery, the integrated service involving both will be – will differentiate the customer experience because of the speed and also the personal touch of the JD delivery staff.

So – but at – for many smaller merchants, it's not necessary an easy decision. So it will be a natural progression that increasingly – starting from more salable merchants and then to mid-sized merchants. But we are seeing definitely very encouraging trend in our key merchants adopting the service.