Q4 2019 Earnings Call

Company Participants

- Jia Dong, Investor Relations
- Lei Xu, Chief Executive Officer, JD Retail
- Richard Liu, Chairman and Chief Executive Officer
- Sidney Huang, Chief Financial Officer
- Zhenhui Wang, Chief Executive Officer, JD Logistics

Other Participants

- Alicia Yap, Analyst
- Eddie Leung, Analyst
- Jerry Liu, Analyst
- Ronald Keung, Analyst
- Thomas Chong, Analyst
- Tina Long, Analyst

Presentation

Operator

Hello, and thank you for standing by for JD.com's Fourth Quarter and Full-Year 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. After management's prepared remarks, there will be a question-and-answer session. Today's conference is being recorded. If you have any objections, you may disconnect at this time.

I would now like to turn the meeting over to your host for today's conference, Jia Dong.

Jia Dong {BIO 16469954 <GO>}

Thank you, and welcome to our fourth quarter and full-year 2019 Earnings Conference Call. Joining me on the call today are Mr. Richard Liu, JD.com Group CEO; Mr. Lei Xu, CEO of JD Retail; Mr. Zhenhui Wang, CEO of JD Logistics; Sidney Huang, our CFO; and Jon Liao, our Chief Strategy Officer.

For today's agenda, JD.com Group CEO, Richard Liu, will discuss highlights for the fourth quarter and the full-year 2019 followed by Sidney Huang, our CFO, and other managements will join the Q&A session. Before we continue, I refer you to our Safe Harbor statements in the earnings press release which applies to this call as we will make forward-looking statements. 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 directly comparable GAAP measures. Finally, please note that unless otherwise stated all figures mentioned during this conference call are in RMB.

I would now like to turn the call over to our CEO, Richard Liu.

Richard Liu {BIO 17167866 <GO>}

Hello, everyone. This is Richard. Since day one of the Coronavirus outbreak, we have done our utmost to help people in Wuhan and throughout China, contributing as much aid as possible. We are in a unique position with our superior supply chain, logistics and technology, and we feel a strong sense of responsibility to provide robust support.

Let me take few moments to introduce specifically what we have been doing and its significance. Just before the Chinese New Year, we put together a team, specifically tasked with leading our efforts in addressing the epidemic. This team had a four-fold mission: donate protective equipment and medical supplies, establish dedicated express route to transport relief, supplies to assist Hubei province, provide support to people in heavily affected areas, and offer supportive policies to merchants on our platform.

JD took immediate action in donating critically needed medical supplies to hospitals and charity organizations in Wuhan, including a large amount of face masks and protective medical materials that were in urgent demand but short in supply. In addition to ensuring timely supply and the delivery of daily necessaries for unmet needs, JD Logistics opened a dedicated channel for relief materials across the country to assist Wuhan.

As of now, we have transported over 50 million items of medical emergency materials. To respond to the urgent needs for prevention and controls request by Hubei's Government, JD Logistics applied our advanced supply chain technology and experience and built the supply chain management platform to help manage the emergency supplies and ensure their delivery to the frontlines in Hubei. At the same time, JD's next generation technologies such as AI, big Data and IoT have been quickly deployed into a dozen emergency and epidemic prevention solutions, to support the work of local governments and enterprises.

Ensuring the health and the safety of our employees is always our top priority. All of JD's frontline employees were provided with masks, disinfectants and other protective equipment immediately after the outbreak. Beyond employee care, we offer over 30,000 doctors though our health business, JD Health. JD Health launched free 24/7 online medical consultation and psychological conselling services to people across China.

Regarding our merchants, we have offered a series of supportive policies including subsidies, fee reductions or waivers and other benefits to help them at this time. When SARS occurred 17 years ago, JD was a very small company, but we personally experienced then just how devastating epidemic situations can be to both businesses and people's lives. That's why today we will do everything we can within our power to serve our customers and support society. We sincerely hope the epidemic will be over soon. But regardless of circumstances we will always seek to improve the service experience for our customers and create value for our partners. This is brief summary of how we are doing our part to provide aid during the epidemic.

There is one more thing that I'd like to draw your attention to. Today we have announced that our CFO, Sidney Huang, will retire this coming September. Though this will come as news to you, it's something we've been planning carefully and are in a perfect position to action this year. Just a few words about Sidney; his professional expertise, integrity, humility and fairness have all earned him respect from my self and from others throughout the Company since he joined us in 2013. Along the way, he has overcome countless challenges and witnessed many of JD's most important milestones, including our successful IPO in the US, and remarkable expansion of our business. On behalf of JD, I would like to sincerely thank Sidney for his hard work for the past 6 and a half years. And I wish him and his family all the best.

Sandy Xu, whom some of you may have met already, is appointed to be Sidney's successor. Sandy is a seasoned leader with impressive credentials. Combined with her broad international perspectives. I'm confident that she will be a great CFO for JD going forward.

Thank you. Now I'd like to turn it over to Sidney.

Sidney Huang {BIO 20098238 <GO>}

Thank you very much, Richard, for the kind of words. Hello, everyone, thank you for joining us today. I'll go through the quarterly updates and financial outlook before giving a few words on the succession plan.

We are pleased to deliver another strong set of results for the fourth quarter of 2019. Our net revenue growth exceeded the high end of our guidance, reaching 26.6%, driven by a highly successful single sales promotion season and our previously announced reinvestment strategies focusing on everyday low prices, enhanced user engagement and logistics services in lower-tier regions.

The strong topline growth was accompanied by robust user growth and strong traffic momentum. In particular, we saw 28 million net additional customers since September 2019, reaching a total of 362 million active customers in the past 12 months. This is our biggest quarterly net addition for the past three years. In the meantime, our mobile DAU grew 38% in Q4, the fastest in 8 quarters.

We continued to make progress in lower tier regions across China through innovative marketing activities, more diverse product offerings and improved logistics services. Similar to Q3, over 70% of new customers in Q4 came from lower-tier cities. Category-wise, general merchandise achieved accelerated growth of 37%, the highest growth rate for the past 4 quarters, led by food and beverage, fresh produce, cosmetics, healthcare and home products.

Net service revenues grew by 44% year-over-year and contributed 12.3% to our overall revenues, driven by strong momentum from third-party logistics and advertising revenues. For the full year of 2019, our net revenues increased by 24.9% to RMB577 billion or USD83 billion and continued to outgrow the industry across most major categories, thanks to the continuously improving and differentiated customer experience. In particular, general merchandise revenues grew by 34% during the year as we successfully cultivated customer shopping behavior in traditionally offline focused categories such as FMCG. Net service revenues grew over 44% and contributed 11.5% to our total revenues in 2019, up from 9.9% in 2018, as we leveraged our supply chain and technology capabilities to better serve our business partners.

Fulfilled gross margin, defined as revenue minus cost and fulfillment expenses and divided by revenue, remained relatively stable at 7.6% in the fourth quarter compared to the same quarter last year despite heavy reinvestment in everyday low prices and logistic service level in lower-tier regions. On a full-year basis, fulfilled gross margin expanded 88 basis points in 2019, which we believe was a better measure of the improving fundamentals across varying categories, driven by economies of scale and technology-based efficiency. Specifically, the fulfillment expense ratio in the fourth quarter was 6.4%, down from 6.6% in the same quarter of 2018.

For the full year of 2019, the fulfillment expense ratio improved 52 basis points to 6.4%, the best the level in 6 years since our IPO, even though we have been providing the most competitive compensation and benefits to our logistics staff, who have now become the hallmark of JD.com's premium service to consumers nationwide.

Our marketing expense ratio was 4.8% in the fourth quarter of 2019 comparable to the same quarter last year, and the full-year marketing expense ratio in 2019 was 3.9%, down from 4.2% in 2018, reflecting our more refined marketing strategy with improving ROI. Our R&D and G&A expenses in the fourth quarter were relatively stable compared to the prior-year quarter. On a full-year basis, R&D and G&A expense ratios improved 9 basis points and 17 basis points, respectively, compared to 2018. As a result, our non-GAAP operating income increased 125% to RMB704 million in Q4.

On a full-year basis, our non-GAAP operating income jumped 364% to RMB8.9 billion and our GAAP operating income reached RMB9 billion, slightly higher than the non-GAAP measure as we conservatively excluded the RMB3.9 billion gain on sale of development properties during 2019. This is nevertheless core income for logistics asset management business, so it is part of our new business' operating income. From the Group level, we continue to exclude it from our non-GAAP operating income and non-GAAP net income due to its relatively non-recurring nature at this time. On the segment basis, non-GAAP operating income of JD Retail Group increased by 95% to RMB13.8 billion in 2019 with an operating margin of 2.5%, up 92 basis points from the 2018 level. The non-GAAP expense ratio dropped to 12.3%, the lowest level in 4 years.

Moving to the bottom line, our full-year non-GAAP net income attributable to ordinary shareholders increased by 211% to RMB10.7 mainly supported by our expanding fulfilled gross margins and improving operating efficiencies, both driven by economies of scale. On the GAAP basis, net income attributable to ordinary shareholders reached a record

RMB12.2 billion, which included RMB3.5 billion of fair value change in long-term investments.

Our free cash flow for the trailing 12 months also set a new record of RMB19.5 billion, driven by over RMB20 billion of operating cash flow and over RMB2 billion of net cash flow from our Logistics Property Management business. Our trailing 12-month free cash flow was 86% higher than our non-GAAP net income in the same period.

In summary, JD.com finished a remarkable year with robust revenue growth, solid profitability and free cash flow and most importantly accelerating, user growth. This is supported by our customer-centric focus, evidenced by the continuously improving net promotion scores, our number one internal KPI, as well as our persistent investments in tech-based infrastructure and in our people.

This long-term approach to running our business has also proven its a unique advantage during the battle against the coronavirus during recent weeks. Thanks to our years of investments in our self-operated proprietary supply chain and logistics network, JD.com was able to resume full operations very quickly after the Chinese New Year and has been in a unique position to provide broad product selection and uninterrupted timely service to our customers in most parts of the country, as people turned to e-commerce for daily groceries and other necessities, we are very privileged to have been a unique force in fighting this challenging battle.

As a result, while large ticket durable goods and discretionary products have been negatively affected by the outbreak, the consumer staple categories such as groceries, fresh produce, healthcare and household products are in greater online demand during the past 5 weeks, and JD.com was among the few companies, and, in many cases the only major platform that could fulfill the orders. Although these are not the most profitable categories and we also implemented strict policies to prohibit any price increases during this time, we're happy to be in a position to support people's livelihood in this difficult time and become a lifeline for millions of our existing and new customers.

Now on the financial outlook, it is obviously difficult to assess given the uncertain nature of the Coronavirus situation. However, based on the past 2 months' preliminary results, we do expect our net revenue to continue growing in double-digits in the first quarter, thanks to the resilience of our unique business model. In fact, the level of the user activities on our platform has accelerated in recent weeks. Daily active customers and the number of fulfilled orders have both been growing at a faster pace than the level in the prior year, so, we hope after the Covid-19 is over, we can quickly resume the robust growth momentum as well as the improving margin trend. With the greater consumer mind share we have earned during this turbulent time with our existing and newly engaged customers, we are more confident about our market position and our mid to long-term growth prospects.

Lastly, regarding the CFO succession plan, I would like to point out that this is a pre-planned and well prepared transition. Many of you have met with Sandy in the three International NDRs we conducted together last year. She is a highly seasoned financial executive, and has also earned tremendous respect internally through her outstanding contribution to JD Retail's financial and operational improvement in 2019 as JD Retail's CFO.

So, I feel fortunate to be able to pass my role into good hands before I reach 55, the ideal retirement age I had planned for myself. It's been truly an honor to have served JD.com over the past the 6 and a half years and worked with so many talented colleagues who have grown the company by over 700% in 6 years, and I want to thank Richard for giving me this invaluable opportunity and for the friendship and trust we have built along the way.

This concludes my prepared remarks and we can now move to the Q&A session.

Questions And Answers

Operator

The question-and-answer session of this conference call will start in a moment. In order to be fair to all callers who wish to ask question, we will take one question at a time from each caller. If you have more than one question, please request to join the question queue again after your first question has been addressed. (Operator Instructions).

Your first question comes from the line of Eddie Leung of Bank of America. Please ask your question.

Q - Eddie Leung {BIO 15234642 <GO>}

Thank you for taking my question. Best wishes to everyone, and thank you, Sidney, for all the help in the past. Just a follow-up question on what -- you guys mentioned in the past about your strategy in fourth quarter and perhaps near term before the outbreak. I remember you guys mentioned that in the near-term you would plan to invest your one-time gains in the first half of 2019 in sales and marketing in the fourth quarter. So just wondering how much in the fourth quarter was specific because of this initiative and how much was on an ongoing basis?

And then a secondly, I also remember one strategy you mentioned would be to drive value-added services such as advertising revenues and logistic revenues and would not be aggressively pushing for commission rates or the supplier volume rebates and hence potentially the so-called commission rates or first-party gross margins might not be flowing very fast. So just wondering, could you give us an update on the 3P commission rates as well as the gross margin trends of your 1P business, given your strategy mentioned that before? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Okay. Thank you, Eddie. Let me try to answer your question. The -- this is, Sidney. Yeah, we have mentioned in the prior earnings call that we had a one-time gain in the first half, We also have mentioned in our last earnings call that we have spent part of it in Q3 and basically we have spent the remaining -- balance in the fourth quarter.

So, that's why you see that our fulfillment gross margin didn't really expand much as we reinvested, but our operating margin for Q4 still improved from the same quarter last year because Q4 was seasonally -- seasonal quarter that will be basically giving priority to promotions and giving back to customers. So, it's not a quarter to pursue profitability to begin with.

On your second question, I don't know if I get your question right, but yes, we -- if you are asking about our strategy between commission and advertising, so we are giving certain merchants on volume-based discounts and we are not at a stage to provide or pursue commissions but rather encouraging merchants to be more active by spending more advertising whereby driving traffic and growth. So, that strategy has not changed.

Q - Eddie Leung {BIO 15234642 <GO>}

Actually, could you also talk about the gross margin trend of your 1P business? Similarly, I think you guys mentioned that probably it would not be appropriate to push for higher supplier rebates in the near term as you want them to spend more marketing dollars. Thanks.

A - Sidney Huang {BIO 20098238 <GO>}

Sure, yeah. So if it's on gross margin, we are planning this on a full-year basis. So if you look at our full-year gross margin, it was definitely -- showed improving trend and -- but as I mentioned in prior -- as well on this call, we would like investors to pay more attention to fulfilled gross margin, which is gross margin minus fulfillment expense ratio. This is because different categories have different gross margin and fulfillment cost characteristics. Some categories may have higher gross margin but also higher fulfillment expense ratio. So if you want to understand and also analyze the different products categories or analyze the Company's overall margin -- gross margin trend, it would be better to look at the fulfilled gross margins, which as I mentioned earlier, improved 88 basis points for full-year 2019.

Q - Eddie Leung {BIO 15234642 <GO>}

Thank you.

Operator

Your next question comes from the line of Ronald Keung of Goldman Sachs. Please ask your question.

Q - Ronald Keung {BIO 15432736 <GO>}

Thank you for taking my question, management, and congratulations on the strong results for Richard, Xu Lei, Wang Zong, Sidney and Liao Zong. So my question would be on the virus impact and kind of the longer-term implications of that. So, we've heard some of the near-term strength in user growth and just thinking on a longer-term perspective what's our strategy in retaining these users, particularly maybe for some first-time users that came to your platform over the past month buying JD Supermarket and buying groceries, what's our strategy in retaining those customers for long-term growth? And would management aim to provide maybe a full-year profit guidance? I'm thinking will it -- is it -- management is trying to maybe guide this only after settling of the virus outbreak or any color on the full-year profit guidance would also be appreciated. Thank you management.

A - Sidney Huang {BIO 20098238 <GO>}

So -- yeah, so let me take a first shot and then see if other management will have anything to add. So -- yeah, so on the long-term outlook for how we can leverage this increasing user base, our strategy has always been the same, is to provide differentiated customer experience through our everyday low prices, through our best-in-class service level, through expanding product categories and better interactive user engagement. So, that strategy has never changed and we do hope through this latest event, through this Coronavirus outlook, some of our advantages are becoming more recognized by our consumer base. And so this is -- you would never exactly know what will happen, but on the other hand, we do become definitely more confident in our ability to attract and to retain our customers.

And then on the margin, as I mentioned earlier, we do hope once the Coronavirus situation stabilize, we will resume our increasing margin trend. So yes, we will be giving the margin -- full-year margin outlook once we have better clarities on the Corona situation and that the trend will be consistent for the periods post the Coronavirus.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language). Xu Lei from JD Retail. Let me share with you some observations we have seen during this Coronavirus period on the performance of our businesses and our future prospects.

(Foreign Language). And indeed, this Coronavirus has -- the market has taken a hard hit. There is a lot of challenges, for example, the consumers' demand has been oppressed and limited for the short period of time. However, we also see some good signs such as we see more old customers are returning to our platform and some inactive users on our platform are becoming more and more active. We are awakening them up.

(Foreign Language). And from the current traffic structured, we can see that there are more and more newcomers. New users are being more active and doing repeated purchases on our platform. And in the future by leveraging our refined -- operating with these existing and new users to improve their user experience and increase their stickiness with our platform.

(Foreign Language). And also because of the epidemic situation, we have fully demonstrated the competitiveness advantage of our business model. More and more merchants have realized that the significance to strengthen collaboration with us, we have been working more deeper in terms of stocking their products in our warehouses and working to develop the omnichannel collaborations and all this effort has been accelerating after the epidemic.

(Foreign Language). And in terms of the categories, we see a very faster growth in the categories of consumer goods, fresh produce and health-related products.

(Foreign Language). And through this epidemic fight, we believe that more and more people including customers, industries, even the government will pay more attention on the significance of -- the internet and e-commerce can play into stabilizing this market, especially for the fresh produce and house-related categories, and through our services to provide high-quality and low cost services we will provide more value to the society.

(Foreign Language). Thank you. Next question.

Operator

Your next question comes from the line of Jerry Liu of UBS. Please ask your question.

Q - Jerry Liu {BIO 17515547 <GO>}

Hi, thank you, and Sidney, wish you all the best on your upcoming retirement. My question is still on margins. First is, in the first quarter, just given the virus outbreak and some of the relief programs we have, where should we expect margins? I know this is a bit of a one-off situation. And then if we look longer-term at more normalized margins, can we talk about what will drive JD Retail fulfilled margins higher and also an outlook on logistics margins? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Okay. So maybe I'll talk about the short-term and long-term margins on retail. And then maybe, Zhenhui will talk a bit on the logistics side. So yes, Q1 is very difficult to assess given during the epidemic obviously we were -- we spare no cost, no effort to support the local people in Hubei for example donated a lot of materials, provided logistics services for free.

So various initiatives clearly will impact the bottom line, but on the other hand, based on the current situation, actually we do believe our margin situation while not as good as obviously in the prior-year quarter, but we should perform relatively -- on a relative basis compared to other companies in general that we should do relatively better. That's all I can say at this point. So I don't think you need to worry about dramatic losses, you don't need to worry about too big a volatility, but there is clearly some negative impact and -- but we are holding up relatively -- just relatively well.

On the long term, we continue to drive growth, drive -- at the same time drive our scale. And as we communicated in the past that with the scale and customer base that we can have more creative ways to enhance margin, most likely from our better relationship with the suppliers, with customized products, as Xu Lei mentioned, in the past quarters. We can do more of those direct from factory to consumers actually in our mature categories. And we have done a lot of that, made a lot of progress in 2019 and we expect to make more progress this year. So, that would be one.

And then two will be, on the logistics side with the scale economies we can also have better and better unit economics on the fulfillment side, so we can drive fulfilled gross margin.

A - Zhenhui Wang {BIO 21020367 <GO>}

(Foreign Language). Wang Zhenhui of JD Logistics.

(Foreign Language). As the -- we already mentioned, the epidemic situation is still ongoing and all of you have already seen that JD Logistics has done tremendous job in fighting against this epidemic, no matter it's from our CSR responsibility or fulfillment commitments, we have -- doing our best.

(Foreign Language). It would seem that tens of thousands of our JD Logistics staff have been working relentlessly and stay in their position to fulfill all the orders to our consumers, including those preventative medical supplies and emergency supplies to the epicenter of Hubei province.

(Foreign Language). And at same time, the health and safety of our employees is always our top priority. Since the outbreak of the epidemic, we have immediately supplied all kinds of preventative equipment to our frontline employees.

(Foreign Language). I do believe as the epidemic situation is getting better, more and more customers will be -- our brands and reputation will be widely recognized by more and more customers and this will ensure our longer-term sustainable value and growth.

(Foreign Language). We have done -- compared with 2018, for 2019 we have been -- made a lot of improvement in our margin. And for this coming year, we will do the same to improve our margin. Thank you.

Q - Jerry Liu {BIO 17515547 <GO>}

Thank you.

Operator

Your next question comes from the line of Thomas Chong of Jefferies. Please ask your question.

Q - Thomas Chong {BIO 21155199 <GO>}

Hi, good evening. Thanks management for taking my question. I have a question about our JD Logistics. Can management comment about our future strategies in expanding our competitive strengths compared to peers? And my second question is relating to social e-commerce Jingxi. Can management talk about our target for this year and how we should bring about MAU and the annual customer growth for this year? Thank you.

A - Zhenhui Wang {BIO 21020367 <GO>}

(Foreign Language). This is Wang Zhenhui.

(Foreign Language). And in terms of the JD Logistics market positioning, we have positioned of ourselves as a comprehensive logistic solutions provider with the supply chain at our core and this has been based on our nationwide 6 major logistic networks. And all this make us very different from other logistics player in the market.

(Foreign Language). And we have three purposes and identifiers for our business models, and for the first we strive to provide the premium and best user experience for our customers.

(Foreign Language). And secondly, by leveraging our integrated logistics solution with our warehousing and our deliveries and together with our transaction flows, we will provide -- We will short the link between the products to reach our customers and improve the link -- the distance of the link as much as possible.

(Foreign Language). By Q4 in 2019, we are managing over 16.9 million square meters of warehouse across the country.

(Foreign Language). And thirdly, which take us apart from other competitors is that our logistic and business growth is driven by our technology based on supply chain technology.

(Foreign Language). And based on the three points I just mentioned, that enables us to provide whole year very sustainable and good quality services to our customers and our clients, even in during these epidemic turbulent time.

(Foreign Language). And in future, we'll continue our competitiveness in all these areas, especially to enhance user's experience and bringing more value to our clients.

(Foreign Language). Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language). And this is Xu Lei, will answer question about the social e-commerce.

(Foreign Language). And on our -- on the Weixin platform, we have the first tier and the second tier access. Now for the second tier, access is reflected at the Jingdong shopping tab, which is extension -- actually it's extension of our main site model.

(Foreign Language). And for the first-tier entrance point, which we have already revamped in the last quarter and re-branded as Jingxi platform, which is the channel we target, mainly to the lower tier market.

(Foreign Language). And through a few years of development on Jingxi platform, before the epidemic outbreak, the sales -- the orders on Jingxi platform has exceeded 1 million every day -- daily orders as we see there's 1 million orders.

(Foreign Language). And we have seen that most of the new customers coming to Jingxi platform are from lower-tier cities. Their shopping behavior is more like social interactions, being more impulsive in shopping decisions and have a very high conversion rate.

(Foreign Language). And -- however compared with the -- our main site users, Jingxi platform's new users in terms of the stickiness and their repeated shopping tendencies are still relatively low. And in the future, in addition to the new customer acquisition efforts we will do on Jingxi platform, we will also pay more attention on the whole life circle -- lifecycle of users' experience on this platform.

(Foreign Language). And besides the users' depreciation, there are some other differences compared with our main sites, because all this shopping behavior is based on social e-commerce engagement through those more interactive marketing tools. This will help us to reach further to those new customers in the third to six tier cities.

(Foreign Language). And the second difference is the Jingxi platform will be helpful for us to expand our products in the long tail and help us to find a new supply chain.

(Foreign Language), And so far, we have collaborated closely with the manufacturers from over 100 industrial belts and in the future, we would develop this number to 1,000 industrial belts. And difference from our existing supply chains for the main site is that most of the suppliers are from the selling locations, the Jingxi platform supply chain will be mainly supplied by those industrial belts which is the manufacturing and the producers. So because of this difference, in the future we will work more closely with JD Logistics to fulfill the whole process of supply chain.

(Foreign Language), And also, we have observed a very explosive growth of the mini apps on the Weixin platform. So in addition to developing our own mini apps on Weixin platform, we also leveraged the advantages of our technologies and our products to be more interactive with other mini apps on retail.

Thank you.

Q - Thomas Chong {BIO 21155199 <GO>}

Thank you.

Operator

Your next question comes from the line of Tina Long of Credit Suisse. Please ask your question.

Q - Tina Long {BIO 21068620 <GO>}

Thank you, management, for taking my question and best wishes to Sidney. I have two quick question. The first one is on the first quarter guidance. So, we guided for at least 10% revenue growth. Can we get a little bit more details splitting like categories as well as 1P versus 3P, because I think that because of the logistics constraints probably some merchants are having difficulty selling products? So are we also giving them some support and also that impact, the revenue growth from the 3P part?

And second question is on the logistics as well. So, can you probably give us update on the order of -- the percentage of order from external orders as of 2019 as well as probably our target for 2020? And in terms of the logistic segment margins because in third quarter 2019 we have already achieved the OP margin level breakeven for that particular quarter, so probably can you give us some update on the full-year margin level or the -- yeah, margin level for Logistics parts and as well as 2020's target? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Okay. Thank you, Tina. So for Q1 guidance, at this point it's -- we sort of mentioned some of the FMCG categories' fresh produce, home products, healthcare products, these are the categories growing much, much faster than usual and we are actually very strong in all of these categories from online platform perspective. So, we have seen a lot of growth, a lot of new users coming into these categories. So, this is what we have seen so far.

Now the coronavirus situation in March is still unknown, so we have tried to take into consideration the potential downside. But so far, we've been doing relatively well, again just on a relative basis. And we guided double-digit revenue growth, so that's mainly on our 1P business. 3P, depending on the type of merchants, obviously, if the merchants relying on third-party logistics, then it would be very difficult at this point for them to fulfill. If they have used JD Logistics, then their operation is much less impacted. So, that's basically on the Q1 Guidance.

On the Logistics, we have not disclosed the order numbers in 2019 and also outlook for to some point because the number of orders have become very -- depending on the type of products and also now we have two platforms, both our main app and also Jingxi. So the (Technical Difficulty) of the order volume are very different. So, when you look -- then look at the number of orders, it actually doesn't help providing useful information unless you actually dig a lot deeper into different types of the orders. So I think especially with the social commerce, what I can tell you is for -- on Jingxi for example, the number orders are very large but average ticket size is very low. So, you really have to -- I think in the end if you look at the revenue, look at the GMV contribution and on Logistics margin we also look at on the full-year basis, so in Q4, we also made some extra investments in customer experience, especially in the lower tier markets and we also enhanced the service level across the country. So, Q4 was -- on a relative basis, we did make some extra investments. But on the full-year basis, as Zhenhui mentioned earlier, we saw very meaningful improvement on Logistics margin and he also expects the margin will further improve in 2020.

Q - Tina Long {BIO 21068620 <GO>}

Okay, thank you.

Operator

Your next question comes from the line of Alicia Yap of Citigroup. Please ask your question.

Q - Alicia Yap {BIO 15274658 <GO>}

Hi, good evening, management. Thanks for taking my questions. Congratulations on the solid results. And Sidney, congrats on your planned retirement and also congrats Sandy for taking on the new role. My questions is there are some follow-up questions on the first quarter topline guidance. So Sidney, I just wanted to make sure your 10% at least -- 10% growth is only based on 2 months of the indication that you could see until yesterday and you have not factored in the growth potential in March?

And then just on roughly even advertising -- will advertising be negatively impacted in the first quarter? And should we assume -- is it fair to assume electronics will be the only category, so the electronics and appliance will be the only category that experience a year-over-year decline, the rest of auto categories will actually still have the year-over-year growth and maybe some category will exceed the growth rate that we experienced in the fourth quarter?

And just lastly similar on the topline instead, understand you won't give guidance beyond 1Q, but given the demand and the softness in the big-ticket item likely to be temporary, do you expect a strong pickup in the second quarter, especially with your June 18 promotional campaign, especially for those big ticket items that is delayed purchasing? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language). Xu Lei continuing on the advertising question.

(Foreign Language). And overall, we have seen during this epidemic period of time, thanks to our 1P business the advertising business see actually quite a strong growth. And secondly, since last year we have been working more closely with some of our merchants to support their warehousing and stocking collaboration with us and this has already been done in early 2020 and these has also enabled us to -- enabled the 1P business and products to have an amazing performance during this epidemic time.

(Foreign Language). And for most of our suppliers and merchants, most of them are new clients or large companies. So relatively speaking, there immunities and abilities [ph] in this epidemic and especially their supply chain, it's more resilient than those SMEs.

(Foreign Language). And on the advertising industry, we have seen overall across the country this industry has taken a hard hit and this loss has already been reflected. However, thanks to JD's business models and our advertising business is very closely related to our sales and we also leverage our advantages of our self-operated model with our merchants. We have seen a strong advertising demand from our 1P merchants during this period of time.

(Foreign Language). And in the -- specifically, the category of home appliances, as many of you have seen that the performance has been quite negative in this special time.

(Foreign Language). However, there are two good signs we can see in this category. First of all, we believe the consumer demand for home appliances are still there. This has sort of been proved by some of our surveys and interviews with our customers and we believe as the epidemic situation gets under control the demand from consumers will come around.

(Foreign Language). And indeed, there are like bigger challenges for the home appliances that needs to have the home delivery services and installations. But according to our statistics, as the epidemic situation is getting better, for some regions the need for these home appliances has been coming back and this will be on a better track as the situation gets under control.

(Foreign Language). In 2019, we do see the growth performance of the home appliances across the industry is not satisfying. However, the growth in this category on JD platform is much higher than the whole industry. Though this category has been suffering from the -- more challenges and the difficulties during this epidemic time, we will make some (inaudible); however, we are confident that there will not be navigate growth for the year.

A - Sidney Huang {BIO 20098238 <GO>}

Let me also add a couple of data points, so -- because Alicia, you actually were you're referring to electronics categories and the concern whether it would be a negative growth for the -- in Q1. While Xu Lei mentioned the large appliances were negatively affected, but there are actually some of the small a lot appliances such as those used in kitchens were actually doing quite well as people now all stay home and cook their own food.

And also another bright spot is the computers and laptops because now students are all staying home and studying remotely and we actually saw pretty healthy demand for the computers and laptops. So, I do not see the electronics as the whole category would be negative in Q1. In fact, we should see -- we should still see positive growth even for electronics during the first quarter.

Operator

All right, we are now approaching the end of the conference call. I will now turn the call over to JD.com's Jia Dong for closing remarks.

A - Jia Dong {BIO 16469954 <GO>}

Once again, thank you for joining us today. Please don't hesitate to contact us if you have any further questions. Thank you for your continued support and we look forward to talking with you in the coming months.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.