Q3 2017 Earnings Call

Company Participants

- Richard Liu, Chairman and Chief Executive Officer
- Ruiyu Li, Senior Director of Investor Relations
- Sidney Huang, Chief Financial Officer

Other Participants

- Alex Yao, Analyst
- Alicia Yap, Analyst
- Alvin Jiang, Analyst
- Chi Tsang, Analyst
- Eddie Leung, Analyst
- Grace Chen, Analyst
- Jerry Liu, Analyst
- Jialong Shi, Analyst
- Jin Yoon, Analyst
- John Choi, Analyst
- Natalie Wu, Analyst
- Ronald Keung, Analyst
- Thomas Chong, Analyst
- Wendy Huang, Analyst

Presentation

Operator

Hello, and thank you for standing by for JD.com Third Quarter 2017 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, Mr. Ruiyu Li. Thank you. Please go ahead.

Ruiyu Li {BIO 19135837 <GO>}

Thank you, operator, and welcome to our Q3 2017 earnings call. Joining me today on the call are Richard Liu, our CEO; and Sidney Huang, our CFO. For today's agenda, Mr. Huang will discuss highlights for the third quarter 2017. Following the prepared remarks, Mr. Liu and Mr. Huang will answer your questions.

Before we continue, I refer you to our Safe Harbor statement 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.

Now I would like to turn the call over to Sidney.

Sidney Huang {BIO 20098238 <GO>}

Thank you, Liu. Hello, everyone. Thank you for joining us today. We are pleased to report another quarter of solid top line growth and record profitability. During the third quarter 2017, our net revenue from continuing operations grew 39.2%, a solid performance following an exceptionally strong second quarter. Our direct sales revenues grew 38% led by home appliance, food and beverage, cosmetics, home furnishing and baby products.

General merchandize categories as a whole grew 67% in revenue on a year-over-year basis despite the intense competition in these categories. Our revenues from services and others increased to 46% year-over-year and acceleration from the growth rate in the seasonally similar first quarter of 2017, supported by improved brand engagement and better monetization of our platform.

Some of you may have noticed that we moved our GMV disclosure to the back of the earnings release and are using just one instead of two different definitions for this non-GAAP metric. As you may recall, we began to disclose two sets of GMV numbers since the fourth quarter of 2015. In order to provide an apples-to-apples comparison to our major industry peer, while maintaining our original definition in parallel for investors convenience, over the past two years, we see continued confusion over these different definitions. So we decided to simplify it, beginning this quarter.

Since the industry definition is broader with many unfulfilled orders in the numbers, we will not further analyze such GMV figures which are provided for industry comparison only and should not be relied on for financial analysis purposes. However, we will continue to provide qualitative analysis on our GMV trend based on the underlying transactions actually fulfilled.

For the third quarter of 2017, the fulfilled GMV grew in the low 30s, mainly attributable to two factors. First, the anniversary effect of integrating the Yihaodian platform without which the GMV growth rate for JD Mall would be in the mid-30s. Second, the impact from certain apparel and general merchandise merchants withdrawing from our platform. Based on the feedbacks we received from these merchants, the move was mainly due to the cohesive tactics from our competition, which if proven true would be illegal and clearly against the merchants' will. Despite this short-term headwind, we are pleased to see a very successful November 11 promotion season which demonstrated the resilience of JD's powerful platform.

We are also pleased to report very healthy gross margin expansion in the third quarter, which reached a record high of 15.3% on a non-GAAP basis. Non-GAAP gross profit after fulfillment expenses, another important measure of our platform monetization, grew 64% on a year-over-year basis as we gained further economies of scale from procurement, merchant services and the fulfillment network. Our collaborations with leading platforms such as Tencent, Baidu, NetEase, Qihoo and Todou have shown exciting early results as we provide better-positioned marketing tools to our merchants and brands to enhance the ROI on their advertising spending while reaching a broad customer base on multiple platforms.

Leveraging in-house AI technologies, our real-time bidding advertising platform has generated triple digit revenue growth in the past three quarters and is now contributing a significant majority of our advertising revenue. During the third quarter, we continued to invest proactively in logistics, branding and technologies. Non-GAAP fulfillment expense ratio increased 11 basis points from the same quarter last year as we significantly expanded our warehouse network during the quarter to better serve our merchants and prepare for the November promotional season. At the end of September, we had 405 warehouses nationwide with approximately 9 million square meters in total space, up over 50% from 12 months ago.

Non-GAAP marketing expense ratio was 3.5% in Q3, higher than the 3% in the same quarter last year as we continued to increase our branding effort to reach consumers in the lower-tier cities. In spite of heavy investments for our future expansion, we are pleasantly surprised by another quarter of record earnings. Non-GAAP operating profit increased 171% to a record high of RMB1.5 billion in the third quarter. Non-GAAP net income attributable to ordinary shareholders was RMB2.2 billion with an increase of 359% on a year-over-year basis. And our GAAP net income attributable to ordinary shareholders was RMB1 billion, also a record high with a healthy net margin of 1.2%.

The result speaks for itself and provides a strong validation of JD's underlying earnings momentum. Our free cash flow was a negative RMB9 billion during the quarter, mainly due to two reasons. One is the RMB5.2 billion inventory buildup for the November 11 promotion season, which is largely a timing issue. And two is the much anticipated CapEx, including RMB4.4 billion in new building -- in new land use rights for more headquarters space and the new warehouses. As we communicated in the past, we normally acquire land use rights at a very attractive economic terms, given our contribution to the local economies. We expect such CapEx to be highly accretive to our shareholders. Even with the cash outflow in the third quarter, our cash position remained very strong. As of September 30, 2017, cash and short-term investments, mainly in money market funds, totaled RMB41.8 billion, up 71% from RMB24.4 billion at the end of last year.

Now let's discuss our financial outlook. We expect Q4 net revenue growth to be between 35% and 39% on a year-over-year basis excluding any impact from JD Finance for both current and prior year periods.

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

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Eddie Leung from Merrill Lynch. Please ask the question.

Q - Eddie Leung {BIO 15234642 <GO>}

Thank you for taking my question. I have a question on the product mix you are selling because we read from the (inaudible) press releases -- actually in our press releases, but there are some of your colleagues actually provided certain colors to the media. It seems like there has been an upgrade in quite some of the product categories. For example, we have seen your high-end products are selling at triple digit growth rates. So wondering how that could affect our margins going forward. Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

So I assume you're referring to some of the brand -- higher level brands in general merchandise category. They obviously have very healthy margins. This is also a result of our effort this year to reach out to global brands and because the overall contribution of those brands are still relatively small, while the impact will be positive, but it would not be very material in the near term.

Q - Eddie Leung {BIO 15234642 <GO>}

Got it. Sidney, may I have a follow-up on that front? Are we sticking to our previous full year margin guidance?

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, we would try to stay away from any single quarter guidance on the bottom line, so -- because this is the last quarter of the year, so we would try to stay away from any further guidance.

Q - Eddie Leung {BIO 15234642 <GO>}

Understood. Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

You're Welcome.

Operator

Thank you. Our next question comes from the line of Alicia Yap from Citigroup . Please ask your question.

Q - Alicia Yap {BIO 15274658 <GO>}

Hi. Good evening, Richard, Sidney and Ruiyi. Thanks for taking my questions. I actually have a follow-up question related to margins and specifically on the gross margin this quarter. So it does look like the strength is coming from the 1P business and just curious, is it driven by slow seasons that hence you don't have a lot of promotion or is that driven by the change of category mix like Eddie mentioned? And then in related to that, since you are retaining your full-year guidance, your net margins of 1 to 1.5, you're not changing it, but with the outperformance in the 3Q margins if this is the case that you are retaining your full year margin, should we assume that 4Q net margins will be much bigger, the sequential decline versus the 3Q? Any color you could provide us to think about the margin directions or assumptions for 4Q will be great.

A - Sidney Huang {BIO 20098238 <GO>}

Sure. So for the gross margin question, I think there three reasons. One is from our first party's business. The scale economies has been driving our procurement cost coming down on a consistent basis. So that has always been part of the contribution as I mentioned this in the past. And the second is that I mentioned earlier about our enhanced user engagement, also the brand engagement through better advertising products. Monetization has improved for our overall platform. So really those are the two key drivers. Clearly, without major promotions in the third quarter would also contribute to the sequential increase in the gross margin.

So related to that, to come back to your question on fourth quarter, I think if you -- while we don't guide for any single quarter, but if you want to take a benchmark, you should probably benchmark to the second quarter when we had also a very major promotion to the fourth quarter rather than comparing to the third quarter. But again, we are not providing any guidance on the bottom line for any single quarter.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) So over the long term, our commitment is to improve our profitability on an annual basis. And with that in mind, we do not manage earnings on a quarterly basis and if any certain quarter has out-sized profitability, we may decide to reinvest part of that excess return back into the business to pursue further growth. So that strategy has not changed. We do not intend to pursue very large out-sized increase in net margin for any single year, but we want to make sure that margin will increase steadily over a very, very long period of time.

(Foreign Language) Yeah. So if you look at over the long term, any excess return beyond our expectations will be reinvested, roughly 30% to 40% of those excess returns back into the business and half of that will be in technologies.

Operator

Thank you. Our next question comes from the line of Ronald Keung from Goldman Sachs . Please ask your question.

Q - Ronald Keung {BIO 15432736 <GO>}

Thank you, Richard, Sidney and Ruiyu on the very strong set of results. I think on the 3P revenue, Sidney, you've mentioned it's very strong 67%, that makes me think about the 3P business given the challenges in the apparel brand. Can you just share how the merchant number, which has seen a massive increase on a quarter-on-quarter basis to 160,000 merchants? So if we think about apparel and other marketplace merchants by category. Can you say just the strategy from now on given the exclusive contracts or competition that we've seen, what is the strategy into marketplace business and specifically for apparel moving to high end with top LIFO, just want to share here your thoughts on the 3P business by category. Thank you.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) So let me quickly translate. You may have read from the media that we are experiencing some headwinds. Over 100 merchants in the general merchandize category has withdrawn from our platform due to certain competitions practice in the market and leading to some of the merchants going to one platform rather than going to both. So those brands, all of them are Chinese brands. They are relatively smaller. And so it's -- we actually haven't seen any large global brands in this way.

(Foreign Language) So we have throughout our history experienced many of this competition where our competitor would force the merchants choose one out of two platforms, almost every two to three years. In the earliest days that our digital IT products, we faced this competition and then later within the books and the media segment for two years and then in the home appliance with our major competitors for almost three years. and we have overcome all those competitive pressures and have become the largest category leader in all of these categories. So, today out of the 14 major categories, we are the leader in 12 of them and with only two remaining. So we do believe that while this is not the first time we're facing this kind of competition, this should be the last one.

(Foreign Language) So the key for us to overcome the competition was because we have always worked very hard to help our brands to grow and help our brand partners to make profit and in which in return would also help us to grow with these brands. So today, maybe in the apparel segment, we are only one-third to one-fifth of our major competitor's size, but over time if you actually check with these brands, the brand's profitability on JD -- net profitability on JD's platform may not be actually any less than their profit on the larger platform.

(Foreign Language) So throughout our history, in any category and every category, we've always encountered this competitive tactic and it's almost inevitable, but it's also -- you can always be overcomed. And so we believe this is the last category and the fact that we are facing this competitive tactic again is also suggesting the competition may be running out of -- it's really the last resort in terms of competitive tactics. Another interesting fact that for the global brands that stayed on our platform during the most recent November 11 promotions, all of them grew over 200% and which really validated the power of the platform.

(Foreign Language) Another point I want to add is that over the past few quarters, the categories which are mostly targeting female customers are growing the fastest. All of them have been growing in a relatively -- in an accelerating fashion and this demonstrate really our platform has been offering the female customers great value proposition.

A - Sidney Huang {BIO 20098238 <GO>}

I just want to add one more point that Richard mentioned earlier is that, even though our current quarter actually saw a stagnant growth in the apparel category and which could also last two to three quarters, but we are confident that past -- beyond the next two to three quarters, we will see growth resume again. And just as we saw in other categories, reach inflection point.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) When we have more and more female consumers on our platform, the growth from the apparel segment will be almost inevitable.

Operator

Thank you. Our next question comes from the line of Jerry Liu from UBS. Please ask your question.

Q - Jerry Liu {BIO 17515547 <GO>}

Hey, thank you. My question is relating to the cash flow statement. Sidney, I wanted to get your view on cash conversion cycle and how quickly that can improve without JD Finance and whether as you gain economies of scale you can see further improvement even excluding this benefit from the financing business. Thank you very much.

A - Sidney Huang {BIO 20098238 <GO>}

Well, there is no impact from JD Finance at all. As I mentioned earlier, the cash flow, negative cash flow this quarter was, one is the timing issue for inventory buildup. We did stock up a higher inventory level than the prior year as we focused trying to overcome some of the merchants withdrawing from our platform. So we reverted to the first-party for those products. So this is really a timing issue post November 11 and also in December there may be another promotion, then the inventory will be digested. And another factor was the CapEx. So none of these are related to JD Finance. In fact, we are supporting JD Finance, not the other way around.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) So on a full-year basis, you can be assured that our free cash flow will always be positive from JD Mall alone. In fact, if you look at the last 12 months, the free cash flow was still very, very strong.

Operator

Thank you. Our next question comes from the line of Grace Chen from Morgan Stanley. Please ask your question.

Q - Grace Chen {BIO 2548665 <GO>}

Hi. Thank you for taking my call. We can see that JD has been delivering very good margin improvements, but at the same time we also see that you are accelerating investments as well. I think Richard has mentioned that JD in general will reinvest the excess return, so if we presume the excess return and half of that will be in technology, but as you can see we have many other investments, including we are investing in FMCG, branding, logistics, overseas expansion as well. So what would be the priority of these other investments and also can you help us rank them, (inaudible) investments in terms of size? Thank you.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) Yeah. So most of the items we mentioned earlier are actually part of our regular businesses, so which will see continued investments. What Richard mentioned earlier was any excess return beyond that and we will reinvest a part of that, and technology will be the most important element for those reinvestments.

Operator

Thank you. Our next question comes from the line of Jin Yoon from Mizuho Securities. Please ask your question.

Q - Jin Yoon {BIO 16293072 <GO>}

Hi, good evening, guys. Sidney, the 100 merchants or so that left the platform or allegedly left the platform, is that a net number or gross number of additional merchants that you have added on during that period? And second of all, on the -- just going back to the CapEx, are we pretty much done with the CapEx spending for this calendar year or should some of that that land rights investments should -- that trickle into the fourth quarter as well? Thanks guys.

A - Sidney Huang {BIO 20098238 <GO>}

So for the 100 plus merchants that left the platform, essentially they actually -- they are ones closed the shops at least for the recent promotion period. So there is no consideration on the new ones. So these shops had a specific act of closing the shops at -- in a very short period of time. So this is clearly by no coincidence and they are all major domestic apparel brands. So all around the same time.

On the CapEx, clearly there won't be as much in the fourth quarter, but, as I said, if we do get invest in new land use rights, we normally get them at a very attractive economic terms. So it is something that's very good for our shareholders. Just to reiterate that point that we could always turn around and get a third party to pay a much higher dollar amount for those and we can lease them back. So they can be easily monetized and it's actually very scarce resources that only JD and very, very good really [ph] economy companies can have the privilege to acquire them.

Operator

Thank you. Our next question comes from Natalie Wu of CICC. Please ask your question.

Q - Natalie Wu {BIO 19852429 <GO>}

Hi, management, thanks for taking my question. Richard, you've just mentioned that as long as the net profit margins would be improved at similar level scale every year, so you are happy to invest the extra money into the R&D, growth, et cetera. So can it be interpreted as margin guidance, let' say, next year could be 1% higher than this year?

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) So I can promise you that net margin would increase every year, but as I said earlier that we can't give you more specific guidance, but improvement should be meaningful.

Q - Natalie Wu {BIO 19852429 <GO>}

Great. Thank you.

Operator

Thank you. Our next question comes from the line of Chi Tsang from HSBC. Please ask your question.

Q - Chi Tsang {BIO 16351634 <GO>}

Good evening. Thanks very much for taking my question. I am wondering if you can comment a little bit on your M&A strategy, both internationally and domestically. I know you've been exploring expansion in ASEAN and sort of domestically what is your appetite for consolidation to increase your market share? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

So we are -- as we mentioned in the past, we are taking quite conservative approach in terms of international expansion. We had an earlier joint venture with a partner in Indonesia and we also recently announced our partnership with Thailand Central Group. In both cases, we have similar equity interest with our joint venture partners and the rationale is that we wanted to leverage our technology and e-commerce know-how and then at the same time leverage local partners' local expertise and their local consumer insight. So it is a relatively conservative and -- but also we believe a very effective way to expand in the international market. And at this point, our focus is in Southeast Asia before -- until we gain some valuable experience, so we will pretty much stick to this region.

For domestic investments, it's been also quite consistent that we wanted to invest in the companies in our ecosystem where we can create the synergies between us and investees. So we obviously have a great channel, distribution channel. We are also developing our technologies to empower the partners. So some of those potential investments could be also in technology. So not only from in-house R&D development point of view, but we will also take a minority stake in other leading technology companies so that we could leverage their technology as well.

Operator

Thank you. Our next question comes from Alex Yao from JPMorgan. Please ask your question.

Q - Alex Yao {BIO 16818860 <GO>}

Hi, good morning and good evening, everyone. Thank you for taking my question. I have a question regarding customer growth. You guys grew the customer base by 34% in this quarter, actually in the past 12 months. I'm just wondering, can you share with us what is the key driver for the user growth? Is it the sales and market effort? Is it the price of subsidy or is it more because of category expansion into female oriented categories such as FMCG? And also would you like to share an update in terms of traffic contribution from Tencent? Was there anything that you guys can do such as data exchange, product integration et cetera to drive more user growth from Tencent's social platforms and how should we think about the user growth trend in the next couple of quarters? Thank you.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) Yeah, so two customer segments we are seeing the greatest growth, one is female customers and two is customers from the lower tier cities.

(Foreign Language) Yeah, so these are also the two segments where JD was historically having a lower penetration and we have been making a lot of efforts to increase our penetration and we've seen very encouraging results in the recent quarters.

(Foreign Language) So we've had a very, very good partnership with Tencent over the past three years. We are seeing the relationship deepening and more recently we are also planning to extend our partnership not only online, but also to offline where we can create synergies between the two companies.

Operator

Thank you. Our next question comes from the line of Shi Jialong, Nomura Securities. Please ask your question.

Q - Jialong Shi {BIO 18647437 <GO>}

(Foreign Language) I will translate the questions into English myself. I have two questions here. My first question is, I just wonder if there will be any changes in the terms of the new business agreement JD will renew with Tencent next year. My second question is, the management mentioned earlier, they expect the apparel business to recover from 1Q next year. So I just wonder what strategies management may have to turn around the apparel business. Thank you.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) Yeah, so first our agreement with Tencent will not expire until 2019, so it's still quite early before we will start discussions with Tencent.

(Foreign Language) Yeah, so we believe we'll have clearly priorities in getting new support and if we can reach agreement, that would be great. If not, we will also have great options.

(Foreign Language) Yeah, so maybe the type of collaboration could be different, but we are very certain that the two companies will cooperate closely together.

(Foreign Language) Yeah, so in terms of apparel, obviously this is in the midst of intense competition. So, for trade, for confidentiality reasons, we would rather not share anything further at this point.

(Foreign Language) But if you look at our promises in the past 10 plus years, all of our promises were always realized in the end.

Operator

Thank you. Our next question comes from the line of John Choi from Daiwa. Please ask your question.

Q - John Choi {BIO 16529883 <GO>}

Good evening. Thanks for taking my question. I have a question on your others, on services and other revenue. Could you give us some more color, especially given that the third party JV might have slowed down quite a bit this quarter. So should we assume that advertising revenue and logistics revenue have been down a bit more this quarter? Any color will be appreciated. And secondly, if you just give -- could let us know the current status or the relationship with Walmart, given that it's been about a year since the Yihaodian deal. So where have you guys achieved and how do you think this relationship will evolve into? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so on the service revenue, as I mentioned earlier, advertising revenue definitely led the growth in the category, followed by logistics. And so the business has been growing overall at a pretty healthy rate. So advertising is really the stand out within that service revenue category. As far as Walmart, we mentioned in the earnings that we actually -- one of the recent initiative is to promote a joint membership between JD's JD Plus and Sam's Club membership. So we definitely -- this is just one example. We're definitely seeing a lot more collaboration going on between the two corporations and there will be lot more exciting news in the near future.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) Yeah, so we are exploring additional collaboration in our online, offline effort.

(Foreign Language) Yeah, so another point I wanted to add is, even though we are facing some headwinds for the apparel category, we may lose some commissions GMV. But because our platform continues to offer many different kind of value to the merchants, so you actually see these merchants still utilizing JD platform for other services, such as advertising and marketing services.

(Foreign Language) Yeah, so we have in the most recent quarter 266 million active customers and these are all very, very valuable middle class and upper middle class consumers. So this definitely creates a great platform for the brands and the merchants. Any smart merchant would clearly not walk away from our platform in the over extended period.

Not only smarter, but also (inaudible)

Operator

Thank you. Our next question comes along from Wendy Huang, Macquarie. Please ask your question.

Q - Wendy Huang {BIO 15034507 <GO>}

Thank you. I have two questions. First, just to follow up on Richard's comment about the female users and also penetrating into the lower tier cities, can you give us the breakdown of your 266 million customers by genders as well as the different tier cities. My second question is about JD's B2B strategy. I noticed that in the past one year, there has been a lot of players in the market start to revamp their B2B product to connect with hundreds of thousands of mom and pop shops in China. For example, Alibaba has Ling Shou Tong and Best is also doing similar stuff. Sard also launched a B2B sourcing platform and JD I think also has a product also called (inaudible) So can you share with us about your thinking behind your B2B strategy and also what's your view of the JD's competitive advantage industry card? Thank you.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) Yeah, so let me answer the second question first. We do have a new business unit called (inaudible) So, we are targeting the mom and pop shops and we've now opened over 10,000 of them with JD brand and on the singles day alone opened 1,111 new stores on one single day.

(Foreign Language) So we have two key competitive advantages. First is our supply chain resources, because many of the suppliers to the convenience stores are already our biggest partners such as P&G.

(Foreign Language) So we will help these brand partners to penetrate and reach those convenience stores as part of their channel expansion.

(Foreign Language) Yeah, the second advantage is our logistics network. By the end of this year, we are already covering 1% of the provinces and counties and we can also serve even the rural areas.

In each village we will have a dealer now.

(Foreign Language) Yeah, so -- because we already have our own logistics network extending to every counties and every villages, so in order to serve the convenience stores in those regions, there is no incremental cost to us.

(Foreign Language) Yeah, so without the existing logistics network any third-party, any other players who wanted to reach these stores in the rural areas will be highly, highly costly.

A - Sidney Huang {BIO 20098238 <GO>}

And on the users, we don't disclose specific breakdowns, but what we can tell you is, our female customers has been growing much faster than male customers and also the lower tier city customers have been outgrowing the tier 1, tier 2 cities.

Operator

Thank you. Our next question comes from the line of Thomas Chong from Credit Suisse. Please ask your question.

Q - Thomas Chong {BIO 21155199 <GO>}

Hi, thanks management for taking my questions. I have a quick question about JD Logistics. Can management give us some update about business outlook given we see our competitor also stepped up in their logistics business over the next couple of years and how we can differentiate from our peers? Thanks.

A - Richard Liu {BIO 16875132 <GO>}

(Foreign Language) Yeah, so as you know, JD's logistics network is fully integrated covering all the steps and processes in the logistics workflow, so we do that over the past 10 years

(Foreign Language) Yeah, so we will have three ways to improve our logistic network. First is through increased order numbers so that we can further enhance the order density and efficiency.

(Foreign Language) Yeah, so second is that we will make a great effort to expand our business serving third-party merchants and partners. So our objective is, in five years, the external revenue will be above 50% of the total logistics revenue.

(Foreign Language) So within the last two quarters, we already attracted over 100 major brands to our logistics platform.

(Foreign Language) Yeah, so in addition to the service level and great coverage, we will also innovate constantly in our logistics capability. One example is that we expanded our co-chain [ph] logistic capabilities and for products that require co-chain storage actually we can monitor the whole delivery process, the temperature of the products so that consumers can actually track those fresh products en route to their home. So you can see the temperature movement throughout the delivery process.

(Foreign Language) We will also expand the same city delivery services through our partner New Dada.

(Foreign Language) As we extend our partnership with Tencent towards offline retail network, we believe that in the future, maybe half of the products will be available in the same city from the merchants and retailers and the same city delivery network will be very critical to provide those services.

(Foreign Language) Yeah, so we have also launched the first ever unmanned sortation center covering the full sortation process without any single man. So this is definitely one of the first of its kind in the world. We have also had 170,000 testing hours for our joint [ph] delivery service and also in roughly 100 universities we have tested our automated delivery robots. So all of these great innovations will put us clearly as a leader in modern innovative logistic solution provider.

(Foreign Language) So another fact that I wanted to mention is that our automated self driving trucks we have tested that for 500 kilometers we only need human intervention two times -- less than two times.

Q - Thomas Chong {BIO 21155199 <GO>}

Great.

Operator

Thank you. Our next question comes from the line of Alvin Jiang from Deutsche Bank. Please ask your question.

Q - Alvin Jiang {BIO 17999944 <GO>}

Hi, good evening management. Thank you for taking my question. We noticed that JD has announced a series of cooperations with other Internet companies in addition to Tencent like Baidu, like NetEase. So my question is, what's the underlying reason to do that and how are expectation on these cooperations? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Yeah. So one of the key objectives of those partnerships is to leverage each other's unique consumer insight and unique consumer data to provide much better target marketing for our brands. So that's one of the reason and clearly two is that all these platforms have their own very large user base. So it also help us reach a broader consumer base.

Operator

We are now approaching the end of the conference call. I will now turn the call over to JD.com's Ruiyu Li for closing remarks.

A - Ruiyu Li {BIO 19135837 <GO>}

Thank you for joining us today. Please feel free to contact us if you have any further questions. Thank you for your continued support and looking forward to speaking with you in the future.

Operator

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