Q1 2021 Earnings Call

Company Participants

- Lei Xu, Chief Marketing Officer, JD.com and Chief Executive Officer, JD Mall
- Ruiyu Li, Investor Relations
- Sandy Xu, Chief Financial Officer

Other Participants

- Alicia Yap
- Eddie Leung
- Ronald Keung
- Thomas Chong

Presentation

Operator

Hello, and thank you for standing by for JD.com's First Quarter 2021 Earnings Conference Call. At this time, all participants are in 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, Ruiyu Li.

Ruiyu Li {BIO 19135837 <GO>}

Thank you, operator, and welcome to our first quarter 2021 earnings conference call. Joining me on the call today are Mr.Lei Xu, CEO of JD Retail; and Sandy Xu, our CFO. For today's agenda, our CEO of JD Retail, Mr.Xu, will share his thoughts on the Q1 performance, followed by our CFO Sandy, who will discuss the financial highlights for the first quarter 2021. Both Lei and Sandy will join the Q&A session.

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, unless otherwise stated, all figures mentioned during this conference call are in RMB.

Now I would like to turn the call over to our CEO of JD Retail, Mr.Lei

Lei Xu {BIO 21705778 <GO>}

(Foreign Language)

Thank you, Ruiyu Li. Hello, everyone. This is Lei Xu, CEO of JD Retail. Thank you for joining us on this quarter's earnings call today.

This year marks the 18th anniversary of the establishment of JD.com. In the past 18 years, at the heart of the deep integration of China's real economy and digital economy, we have faced many opportunities and challenges. JD has created a unique business model whose core philosophy for success is about providing the superior customer experience, cost optimization and operational efficiency. These pursuits also constitute our core competitive advantages. Our long-held business principle of doing the right things and our unique business model have helped us to win greater trust from our users and partners, while enabling us to stay resilient through economic cycles and weather all risks.

As you can see, based on this, JD's business, logistics, has become increasingly open. We're enhancing our capacities to empower others, not only rising to the challenges we face, but also seizing opportunities for long-term growth. Here, I would like to share some key progresses that JD Retail achieved in the past quarter from the following three aspects.

First, high-quality growth of business and users. JD Retail's revenues maintained high growth in the first quarter with continued improvement in both operating efficiency and profit margins. Our CFO, Sandy, will elaborate on this later. This lays a solid foundation for our businesses in the following quarters. We are even more encouraged to see that many of our suppliers and partners achieved healthy and sustainable business growth and profitability expansion in the challenging market environment through their partnership with JD.

Coupled with robust operating performance, we are also inspired by the growth of our high-quality active users. By April 1, the number of our annual active users reached the 500 million mark. By the end of Q1, annual active users grew by 29% year-on-year. In the past 12 months, we gained 112 million new active users, with over 80% coming from lower-tier markets. Meanwhile, our unique consumer mind share for quality products and superior shopping experience resonates strongly with our customers as we see higher engagement from them. In the first quarter, we have seen all around improvement in terms of existing and new users retention rates, shopping frequency, purchases on a wider range of product categories as well as average spending per user. This shows that both the number of users and their lifetime value on JD platform are expanding. We still have much room to grow.

Second, online marketplace ecosystem. JD Retail's online marketplace business also made meaningful progress during the quarter. The growth rate of our online marketplace business exceeded our 1P business. Our online marketplace ecosystem also becomes increasingly abundant. In particular, the growth rate of apparels and beauty categories reached a three-year high. Moreover, not only have we made significant progress in long tail categories, but also categories such as home appliances and FMCG that are JD's 1P advantage categories, also showed accelerated 3P growth. With the development of our online marketplace ecosystem, its positioning in the consumers' mind share will continue to be enhanced.

As I mentioned on our last earnings call, the online marketplace ecosystem has always been an area of huge potential for JD. With several years of continued efforts, we have now established a sound foundation. Since the beginning of the year, we have seen meaningful improvement in existing merchants renewable rates and their engagement level as well as significant increased variety of brands and merchants available on our platform. This year, we have welcomed more and more leading brands and merchants from home and abroad to JD's platform, including Guozijian, [ph] Starbucks, Decathlon and a suite of fashion brands under BESTSELLER group and more.

We also continue to collaborate with more brand partners through innovative models. For example, JD and Louis Vuitton launched an innovative collaboration in April with a groundbreaking online luxury shopping model that provide consumers with direct access to the brand's latest collections. It supplements luxury consumption scenarios currently available online, helps to further enhance JD users' luxury shopping experience and promotes further innovation of the luxury industry in China

All of these successful cases demonstrate JD's ability to provide unique value for our brands and merchants and serve as great examples for more business partners. With China's retail industry continuing to develop in a more beneficial direction, we expect more and more brands and merchants in all categories will come to JD's platform. The upcoming June 18 grand promotion marks the 18th anniversary of JD.com. We plan to help more than 230 brands achieve over RMB100 million in sales. Looking ahead, we will continue to innovate and explore various models that best suit JD's online marketplace ecosystem.

Third, omnichannel continues to advance. The challenges coming from the external environment and competitors these days all have validated JD Retail's forward-looking omnichannel strategy. In fact, JD Retail's current business model has already evolved far beyond an online B2C e-commerce model. Therefore, it's uniquely positioned in exploring the omnichannel field, leveraging our state-of-the-art supply chain management, digital operation and integrated marketing capacities. In various consumption scenarios, JD Retail is collaborating with suppliers and partners to build an adaptive model that can efficiently serve various types of consumer demand in any scenarios, anywhere and anytime.

For instance, we're actively collaborating with leading traffic ecosystems such as Douyin, Kuaishou, Zhihu and more in diversified online consumption scenarios, and provides our business partners with our strong supply chain middle platform capacities, omnichannel marketing and across the board user asset management solution. In this process, we achieved the unification of products and people in the increasingly diversified retail industry, propelling further optimization of cost efficiency and user experience.

JD Retail's vision is to sell goods from all over the world and to sell all kinds of goods to the world.

To conclude, despite all the challenges facing us right now, the accelerated growth we achieved last year and the long-term investments we are making to expand the total addressable market, JD Retail, as the core business of JD.com, will continue to strive for high-end healthy growth in 2021 and serve as the cornerstone for JD.com's overall development.

This concludes my remarks. I will now give the floor to our CFO, Sandy.

Sandy Xu

Thank you, Lei. Hello, everyone. We are excited to get off to a flying start in 2021 with robust operating and financial performance in the first quarter. As Lei pointed out, our unique business philosophy and model allow us to embrace innovation and take advantage of structural changes that are taking place in China.

Before going through the financial results, I will touch upon a few highlights from the first quarter. This year marks the 18th year since the launch of JD.com. Along the way, we have been able to build a comprehensive set of supply chain, fulfillment and technology capabilities to serve customers and business partners. Our business model has evolved from being the largest retail company in China by revenue to a supply-chain-based technology and service provider. We are rolling a snowball on a very long slope and continue to gain momentum.

Some of these capacities that we have been building for years are turning into promising growth opportunities and achieving important milestones. And a number of our younger businesses are seeing exciting developments and rapid iteration. At this stage, the most notable among them include: first, JD Logistics, which has published its prospectus on May 17 and expects to list on the Hong Kong Stock Exchange on May 28, 2021; second, JD Property, which completed its Series A preferred share financing by end of Q1; third, our international businesses that grew triple digits in Q1; and fourth, our Jingxi business, which aims to synchronize our efforts and resources in lower-tier markets.

To help the investors better understand the different growth trajectories of our expanding business lines and how they are evaluating from the management's perspective, starting from Q1 2021, we restructured our segment presentation. The changes in segment reporting mainly include. First, JD Logistics is presented as a standalone segment. Its revenues include revenues generated from both JD Retail and external customers from JD Group's perspective. The eliminations at the group level are presented in the line of net revenue intersegment.

Second, operating results of JD Property and Jingxi business, which includes our social e-commerce platform, Jingxi; convenience store business, Jingxitong; and community group purchase business, Jingxi Pinpin, have been carved out from the JD Retail segment and are reported under the New businesses segment.

As a result of these changes, we now report three main segments: namely JD Retail, JD Logistics and New businesses. New Businesses segment primarily include JD Property, Jingxi business, international business, JD Cloud and AI business. The prior period segment information has been retrospectively revised to conform to the current period presentation, and these changes have no impact on our consolidated results.

On another note, as the transaction with JD Technology, formerly known as JD Digits, was completed on March 31, 2021, we deconsolidated the cloud and AI business starting from March 31, 2021. The updated segment presentation reflects not only our current organization structure, but also the different development stages of various business lines.

JD Retail's revenues grew 35% year-on-year to RMB186 billion in Q1. This is a robust

growth on top of our relatively higher base compared to the industry in Q1 2020, as we largely maintained operations during the COVID outbreak.

That said, internally, we evaluate our retail business performance by looking at the two-year CAGR, i.e., the compound growth rate of our businesses in Q1 2021 over Q1 2019, which smooths out the disruption caused by the pandemic, therefore, better depicts the underlying growth momentum of our businesses.

Our core JD Retail business clearly remains in a buoyant growth trajectory after 18 years of operation, with a 27% two-year CAGR of revenues in Q1, nearly doubled the growth rate of China's total online retail sales of goods over the same period.

We continue to see successful category expansion. General merchandise revenues reported 36% year-on-year growth and a two-year CAGR of 37% in Q1 2021, continuing the strong momentum on top of the high growth in Q1 last year, boosted by the structural pickup in demand and enhanced consumer mind share of JD general merchandise categories.

This was led by our supermarket, health care, home product and cosmetics categories. Our electronics and home appliance revenues increased 34% year-on-year and a two-year CAGR of 21% during Q1, a clear recovery from last year and continuing to significantly outperform the industry.

More notably, the fast revenue growth of our core retail business was accompanied by even faster profit growth. The operating profit of JD Retail grew 45% year-on-year and a two-year CAGR of 46% in Q1, considerably outpacing its revenue growth during the same period in spite of intense competition.

Operating margin of JD Retail improved by 27 basis points year-on-year and reached 4.0% in Q1, driven by increased fulfilled gross margin and technology-led operating leverage. This was the second highest operating margin level of JD Retail in our history, only slightly below 4.2% achieved in Q3 2020 with the social security benefit.

Once again, we continue to maintain margin improvement, even as our product mix shift towards the high-frequency but small, medium-sized consumer staple categories that are yet to fully realize earnings potential. All in all, while maintaining healthy growth, our core retail business is well on track to expand margins over the long term. Our JD Logistics business, JDL, is at a high secular growth stage, while it continues to invest in infrastructure and capacities to expand its total addressable market and drive future growth.

JDL's revenues reached RMB22 billion in Q1 with year-on-year growth accelerated to a historical high of 64% from 34% in Q1 2020 and the two-year CAGR was 48%. Starting second half of 2020, JDL started to reinvest the benefit from social security reduction and other supportive measures by the government it received in logistics, infrastructure and technologies to expand market potential. As a result, its operating loss ratio widened to 6.6% in Q1 from 3.1% in the same quarter last year. JD Logistics currently operates over 1,000 warehouses with an aggregate gross floor area of over 21 million square meters.

Under the New Businesses segment, we recorded fast growth across the board from all sub-business lines during the quarter. Total revenues of New Businesses grew 56% year-on-year to RMB5 billion in Q1 on an apple-to-apple comparable basis with a two-year CAGR of 42%. As we are seeing many exciting developments, our new businesses are in very early stage of incubating that require investments.

In Q1, we invested and incurred RMB2.3 billion operating loss in new businesses compared to an operating loss of RMB1.4 billion in the same period last year, mainly due to our investments in the newly formed Jingxi business group. Jingxi business' day 1 mission is to serve price-sensitive consumers and business partners in lower-tier markets and create value to the society through leveraging JD's technology and supply chain capacity, as well as fulfillment infrastructure.

That said, in the first quarter of operation, Jingxi Pinpin's services have covered 17 provinces, recording record order volume growth by offering differentiated user experiences. We are committed to driving forward our strategies to serve the lower-tier markets under Jingxi brand.

Now turning to our traditional review of our financial performance. Total net revenues grew 39% year-on-year and 29.5% two-year CAGR to RMB203 billion in Q1. It is worth highlighting that our net service revenues growth reached 73% year-on-year, highest growth rate in the last five years. The two-year CAGR of net service revenues in Q1 was 50%, significantly outpacing the 27% two-year CAGR of net product revenues during the same period. This is mainly driven by the triple-digit year-on-year growth of JD Logistics' external revenue and over 60% year-on-year growth of our advertising revenue in Q1.

As a result, net service revenues contributed 13.7% of our total revenues in Q1, up from 11% a year ago and 10.3% in Q1 2019, boding well for our diversifying revenue growth potential.

Our non-GAAP operating margin was 1.7% in Q1, 50 basis points lower year-on-year. This was largely a result of our continued investments in new capacities of JD Logistics, and to a lesser extent, our investment in new businesses, namely Jingxi, cloud and AI.

Non-GAAP net income attributable to ordinary shareholders was RMB4.0 billion, with non-GAAP net margin remained stable year-over-year at 2.0%, even as we resumed marketing efforts and increased investments in our logistics and new businesses opportunities to position for the long term.

It's worth highlighting that we continue to generate operating efficiency and further shortened our inventory turnover days to 31.2 days in the last 12 months, while we expand the total number of SKUs directly managed by us under the 1P model, which exceeded 8 million in Q1 2021.

As of March 31, cash, cash equivalents, restricted cash and short-term investments added up to a total of RMB139 billion. Our free cash flow for Q1 was an outflow of RMB9.7 billion as compared to an outflow of RMB3.0 billion a year ago. Besides the seasonality factor, decreased quarterly free cash flow was also due to our early payments or prepayments to certain suppliers to secure some sought-after merchandises, especially amid a global shortage of supply of consumer electronics components and increase of CapEx in the quarter. And free cash flow for trailing-12-months was RMB28 billion, up from RMB15 billion a year ago.

Lastly, we repurchased approximately 10 million ADS for approximately $800 million year-to-date under the $2 billion share repurchase program approved by the Board in March 2020.

In summary, we managed to continue our strong user and top line growth momentum with diversified growth drivers, maintained solid bottom line performance while continuing to invest for the long term. Once again, we demonstrated the resilience of our unique business model. With the robust performance of our core business and our long-term approach of building core competence with new businesses, JD is at a position of strength.

That concludes my prepared remarks. Let's now move on to Q&A. Thank you.

Questions And Answers

Operator

(Question And Answer)

The question-and-answer session of this conference call will start in a moment. (Operator Instructions) Your first question comes from Eddie Leung from Bank of America Merrill Lynch.

Q - Eddie Leung {BIO 6723262 <GO>}

Good evening. (Foreign Language) So I have two questions. The first one is about omni-channel strategy. So would like to hear from the management team about their thought on the competitive environment as well as the differentiation of JD in community group buy and new retail?

And then secondly, just want to get a sense on the average order size, because we know that in the first quarter the growth of large ticket items are such as home appliances had a very strong growth. But on the other hand, we continue to see the growth of small ticket items like JD supermarket and grocery? So, these are my two questions. Thank you.

A - Sandy Xu

Thanks, Eddie. This is Sandy. Maybe let me take the Jingxi related question first, and Xu Lei can comment on the omni-channel strategy. So on Jingxi strategy, first of all, we believe this social group purchase model is definitely a long-term initiative. There is a structural opportunity for JD to further penetrate down to the larger market to provide the price sensitive consumers with more product selections and services. In particular, the products within the relatively low price range, and we have strong commitment and desire to explore the huge addressable market opportunity with our Jingxi brand as I just mentioned.

Even though the existing players in the market focus more on traffic operation at this stage, we believe by end of the day, the key to win the game would be the supply chain capability and logistic infrastructure driven by technology. Because only these core -- with this core capabilities, we can provide our users with better shopping experience and quality products with better pricing. These are the areas where we have unique advantages and experiences through our one key business, and our logistics business.

On one hand, we could leverage our existing supply chain network to our B2C e-commerce business. Our long-term relationship with the brands to provide our users with more SKU selections. On another hand, we see this is a business heavily rely on a local supply chain, especially, for the fresh produce products. It is possible that, our platform can quickly build up a nationwide service network, but if it cannot provide the users with competitive pricing and good shopping experience, it can easily be replaced by other platforms as well.

So as a supply chain driven platform, we would not compete on speed with other platforms, but taking a long-term approach through investing in infrastructure, focusing on building our own teams, and supply chain, only the traffic driven platforms would compete on speed through heavy subsidy. So we will enhance our collaborations with JD's -- within JD's various business lines to satisfy our users' different shopping demands and under the different scenarios, leveraging our existing technology and infrastructure as much as possible.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language) And this is Xu Lei, I will comment on the omni-channel business and of our FMCG and some high-value products.

(Foreign Language) As you can see from the government release that the online retailing will take a mid -- will take a greater part of the overall social retail.

(Foreign Language) And we have all seen that the decentralized trend continued to grow online and more and more traffic platforms are being more active online. And also we see the digital transformation is happening quickly for our -- for the offline businesses.

(Foreign Language) For the goal of JD Retail is to integrate in these trends and continue to promote the overall development of China's retail industry.

(Foreign Language) And in terms of our omni-channel businesses, the leveraging of our strong capacity since supply chain, our digital -- digitalization capacities and our integrated marketing capacities, we will put all of these capacities in the use of different consumption scenarios to give support to our merchants and partners to help them to adapt to the changing market environments, and to help them to achieve all kinds of shopping scenarios to satisfy the needs of the customers anytime and anywhere.

(Foreign Language) And based on our unparalleled capacities in supply chain and fulfillment, we can better serve our partners in this very complicated industry environment to help them to enter more emerging new traffic -- in traffic platforms, so these have already been welcomed by more and more of our customers -- our partners.

(Foreign Language) And for our offline partners, they have also very welcome our methods to empower them with other capacities and resources rather than just taking advantage of the traffic. So, in this way, we can better serve our business partners and also our consumers in more diversified shopping scenarios.

(Foreign Language) And the comment on the FMCG categories, we can see that these category achieved a accelerated faster growth last year due to the pandemic, thanks to the strong supply chain of JD.Com. And this year, it continued a steady growth especially during the Chinese New Year grant promotion.

(Foreign Language) And in this category FMCG and the supermarket related product categories, JD.com has become the go-to or the number one image and branding in consumers' mind share.

(Foreign Language) At the same time, we also realized the trends of consumption upgrade and the penetration of the sales channels, especially for categories like baby and maternal products.

(Foreign Language) And for this quarter due to the Chinese New Year, shopping festival, the alcohol products, the perform -- the sales performance of alcohol products has been very outstanding and based on our very close collaboration with our brand partners and reputations of a trustworthy and authentic product, we have imbued in consumers' mind share. JD has become one of the largest sales channel for most of the alcohol brand on the Chinese market.

(Foreign Language) And also this year, we will pay attention to help the development of the new emerging brands and high-quality Chinese brand and to recruit more new brands on our platform to meet the needs of more and more young costumers.

(Foreign Language) And in the electronics and digital products, this is our advantage to categories makes us keeps a very steady growth in Q1.

(Foreign Language) For the electronics product categories, the key strategies for us this year is to help the industry and more partners to embrace the omni-channel expansion to improve the consumers' shopping experience and also to support of our -- to support our offline partners in their digital transformation through our premier services and our upgrades and toward some transformation of our sales channels.

(Foreign Language) Also I just want to raise these observation that the personal computers and mobile phones these industries, it might be affected by the shortage of chip supplies this year. This might be a bottleneck for the supply chain for these categories.

(Foreign Language) So I want to share three points upon that, first, is that based on our close collaboration with our suppliers and our outstanding supply chain management capacity, JD will be less affected a platform because of the supply chain bottleneck next year.

(Foreign Language) Second, we have made very precise predictions on the supply chain projections, so we can join hands with our partners to address this supply tension together. And in this process, we even strengthen our collaboration on the supply chain with all our partners.

(Foreign Language) And thirdly, we also see, become function on the upward trends for those consumer electronics and home appliances categories.

(Foreign Language) Yes. Thank you.

A - Sandy Xu

Yes. And Eddie to respond to your question regarding the average order value, this is now a key operating metric that we manage on a daily basis. But in Q1, our total order number actually increased slightly faster than our top line -- than our GMV growth. So that means the average order value remains largely stable compared to same period last year.

Q - Eddie Leung {BIO 6723262 <GO>}

Thank you very much.

Operator

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

Q - Ronald Keung {BIO 15432736 <GO>}

Thank you. Thank you, management. Thank you, (inaudible) Sandy and team. My question is mostly on our investment and how we see the balancing between in the growth, our core profitability and investments given quite a lot of our peers have been saying reinvesting a lot of their profits or all of their profits, incremental profit. So in our case, we've seen a very good balance in the first quarter that we have delivered basically still growth in EBIT, but quite big investments into logistics and new businesses that you have now disclosed separately. So how should we think about that trend, say, into the next few quarters? And how should we -- how do we think about that balance? And maybe for logistics and new businesses in the Jingxi business unit, if a management could share some of those strategies, and likely the trends in investment and how do we think about that? Thank you.

A - Ruiyu Li {BIO 19135837 <GO>}

Thanks, Ronald. Let me take this question first. I think first of all, we prioritize growth above the importance of profitability, because across all of our business lines, we are still in high growth stage, but each segment or each business line is actually in different development stage, so we have kind of a differentiated investment strategy. So for JD Retail, we still -- you can see that for the first quarter, and in the past few quarters, they continue to maintain high growth rate. And we -- as I mentioned at the call last quarter, we expect that in 2021, our retail business will largely maintain the strong growth momentum from 2020, but with that because of the scale benefit and operating leverage that we are gradually realizing from our core retail business.

We -- our expectations for the longer term margin expectation for retail remain unchanged. So that means we still expect over a longer time period our JD Retail's net margin will maintain a steady growth trend. So really the underlying margin drivers for JD Retail are the scale economy as well as the improvement of our 3P ecosystems.

I remember I discussed this before, our procurement cost for many products within the supermarket categories still 3% to 5% higher than the offline retailers. So there is great potential for margin improvement as we grow our scale for this particular category. And we actually have similar situation in many other categories. And our 3P business as everyone knows, our apparel category was under abnormal competitive pressure in the past few years. So if the marketplace business performs better, that will definitely be a driver for margin improvement.

But having said that, the longer term profitability will be affected by the category mix and service revenue contribution. And when you build your financial model for the 2021 retail margin, you should also take into consideration that the disrupting factors last year including the social security benefit, right, as well as the lack of marketing and promotion activities in the first half of 2020. So this is for JD Retail.

And then for JD Logistics, as you can see that JD Logistics is still in a hyper growth stage and they continue to invest in infrastructure and network to expand their service offerings and growth potential. So similar to the largest e-commerce platform in the U.S. and other industry peers, the logistic capacity needs to be expanded periodically to support the growth of transaction volume. And our JD logistics is not only building infrastructure to support our 1P businesses, but also expanding their service scope and capabilities for external customers, where the external revenues actually grew much faster compared to internal revenue. So -- but if you look at the margin trend, you should also consider that the logistic industry has relatively higher fixed costs compared to our other business lines. So, their profitability would present stronger seasonality due to the promotion of our 1P and the -- their other retail customers.

And then last on the new businesses. As Jingxi Pinpin is still in early development stage, is quite difficult to depict accurate investment expectation. But we focus on building core capabilities and infrastructure rather than getting short-term traffic through subsidy. Based on our existing supply chain and logistic infrastructure, we require our business teams to deliver a better financial model than the competitors when they were in the similar scale or development stage. So far, our Jingxi Pinpin business has been growing as planned with footprinting over 17 provinces and we are satisfied with the overall ROI.

The future investments will depend on the progress of building the capabilities we need for this business and whether we can provide our users with adequate level of customer experience. So for the reasons that we can deliver good customer experience, we will invest more resources and further expand the scale. And for the regions where the customer experience cannot meet our minimum requirement, we will be more focused on improving the product and service quality, before we invest additional resources. So it's very dynamic. And we actually assess the budget for spending on a monthly basis, because this is such a new business model, and it's very different from the mature business clients where we can relatively manage the profitability on longer term period.

A - Sandy Xu

So let's move on to the next question.

Operator

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

Q - Thomas Chong {BIO 21155199 <GO>}

Hi, thanks management for taking my questions. My question is more about user growth as well as a penetration to lower tier cities. Can management share about our strategies on how to further grow our users for this year, after we change the 500 million milestone. And on that point, can you also comment our strategies in lower tier cities penetration this year? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language) And this is Xu Lei, Thomas. Questions on the users, we will adopt more flexible approach this year from two aspects. First, we will increase -- we will diversify the channels and the approaches for our new user acquisition. At the same time, we will manage more high quality -- we will manage our cost -- the quality of the cost in the new users acquisition.

(Foreign Language) And overall both the number of users and the users' operating efficiency continue to grow and users' conversion rate is also better compared with the performance in 2019 and 2020.

(Foreign Language) And on the new users, we see the qualities of the new user continues to be improved in terms of their repurchase rates and retention rates as well as their average spending of our platform.

(Foreign Language) And for our existing all the users, their performance is on the right track and with a across-the-board good performance in terms of their shopping frequencies, the variety of our products, they choose our platform, their average spending and retention rates. We will continue to improve their shopping experience on JD.com to improve their order engagement with us.

(Foreign Language) And in terms of the categories contribution to new customers acquisition, our consumer goods such as food, FMCGs, they made the biggest contribution to new user acquisition, and for mobile and home appliances also attracting more new users this quarter. And for our makeup, beauty and clothing categories, which has a weaker appeal in the past, they also did a better job in acquiring new users this quarter.

(Foreign Language) For the lower tier market, it continue to be the main source of our new users. In this quarter, the new users coming from the lower tier markets for the first time reached 81%.

(Foreign Language) We will continue to expand our touch points with the customers in the lower tier markets by leveraging a various sales channels and interfaces with our customers to reach the new users and also through providing more tailored supply chains and the product mix to have them to offer more precise matching of products to the lower tier market users.

(Foreign Language) And we estimate that the new users growth trend will continue in the following time of 2021. Thank you.

A - Sandy Xu

Next question, please.

Operator

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

Q - Alicia Yap {BIO 15274658 <GO>}

Hi. Thank you. Good evening, management. Thanks for taking my questions. Congrats on the strong result. I have a questions regarding how should we be thinking about for the second quarter trend? I believe, I think Sandy you previously mentioned, we should look at on the first half growth rate as comparable to the first half last year. So given such a strong performance in the first quarter, are we still implying the first half this year will be similar to last year? If that's the case then it will be implying second quarter only growing at 20% year-over-year but then given your upcoming 18 years anniversary of this June 18 promotion is also doesn't sounds reasonable. So any color you can give us in terms of the second quarter trend that we should be thinking about? Thank you.

A - Sandy Xu

Thanks, Alicia. During the COVID outbreak had a very significant and very different impact on the performance of our various categories last year. For example, I still remember that the home appliance category was extremely weak in Q1 last year, but was extremely strong in Q2. When the pent-up demand were released in April and May, so when we manage our business internally or think about the trend of our retail business, as I just mentioned, we would either look at the two year CAGR or all look at the year-over-year growth for the entire first half.

Of course, there was also impact from the non-recurring sales of the COVID related protection products such as face masks and thermometers last year. So, I think your understanding is largely correct. We expect the whole year for retail business to largely maintain the growth momentum from 2020. So this includes well, when we both to look at from the two-year CAGR perspective and look at it from the first half year perspective, we expect to see that the category shift -- category mix shift will continue, general merchandise category to grow faster than the electronics and home appliance. And in particular the supermarket, healthcare categories, advertising revenue will also grow faster than product sales. And -- but this is only for the retail business. If you look at our group as a whole, the other business lines are less affected by the COVID impact last year. So you should also consider the growth of services revenues, in particular, the logistic services now contribute quite significant portion of our total revenue.

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, operator. Thank you for joining us on today's conference call. Please feel free to contact us if you have any further questions.

Operator

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