Q2 2019 Earnings Call

Company Participants

- Jia Dong, Investor Relations Associate Director
- Lei Xu, Chief Executive Officer, JD Retail
- Richard Liu, Chairman & Chief Executive Officer
- Sidney Xuande Huang, Chief Financial Officer
- Zhenhui Wang, Chief Executive Officer of JD Logistics

Other Participants

- Alicia Yap, Analyst
- Andre Chang, Analyst
- Eddie Leung, Analyst
- Grace Chen, Analyst
- Jerry Liu, Analyst
- Natalie Wu, Analyst
- Ronald Keung, Analyst
- Thomas Chong, Analyst
- Tina Long, Analyst

Presentation

Operator

Hello and thank you for standing by for JD.com's Second Quarter 2019 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'd like to turn the meeting over to your host for today's conference Jia Dong.

Jia Dong {BIO 16469954 <GO>}

Thank you. Welcome to our second quarter 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, CFO; and Jon Liao, our Chief Strategy Officer.

For today's agenda, Richard Liu, will discuss highlights for the second quarter 2019 followed by Sidney Huang, our CFO. Other management 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 that, unless otherwise stated, all figures mentioned during this conference call are in RMB.

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

Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

Thank you, everyone, for joining this call. I believe you will pay much attention on this conference call of our earnings, especially looking forward at our future results.

(Foreign Language)

As you have seen that in the past quarter one and quarter two, we have achieved quite positive results, and these are mainly contributed to two factors. Number one is through our years of our commitment in our business plans, and you have seen a lot of business have broken even and even gained some profits.

(Foreign Language)

And for example, our JD Logistics, after years of efforts, we have reached our breakeven point.

(Foreign Language)

And also, some loss making categories start turn profitable after years of investments.

(Foreign Language)

And secondly, for the past four years, JD logistics have invested in lower tier cities. At the beginning, the cost of our logistics keeps relatively high due to lower order density.

(Foreign Language)

The fulfillment expense ratio continue to decline after years of expansion. Thanks to our open strategy and improving order economics.

(Foreign Language)

So what we achieved today, it's not because of those reduction of our investment or shut down loss making business.

(Foreign Language)

And on country, our commitment for our long-term investment never changed. We will continue to make our efforts for the growth of our business and to return and benefits for our shareholders.

(Foreign Language)

And that we will continue our investments on the technology in terms of AI, Big Data, cloud and new format of business like fresh produce and grocery.

(Foreign Language)

And as we have done from -- like -- as we have done from the past, we strongly confirm you that we will continue our efforts in growing benefits, profits for our shareholders.

(Foreign Language)

As we are gaining more profitability in various of our business, I believe our revenues will continue to grow and our profits in the long run will continue to grow.

(Foreign Language)

Since our IPO, we believed our growth will be mainly driven by our economies of scale and our advantages in operating efficiencies, and the day has come to fulfill our promises.

(Foreign Language)

And in the future, we'll continue to enhance our user experiences and also gain more potential customers from third to six-tier cities. We'll continue to invest in our technologies and improve our management to reduce costs and improve profitability.

(Foreign Language)

And that we'll continue to build up our organization's efficiencies and optimize on our operation to bring more cash flow.

(Foreign Language)

It's never change in the past, and it will continue into the future. Thank you, everyone.

Sidney Xuande Huang {BIO 20098238 <GO>}

Okay. Thank you Richard. And so let me continue to give you a quick quarterly update. We're very pleased to report a solid second quarter with strong results across all key metrics.

Our net revenues exceeded the upper end of our guidance and we achieved record high operating profit in a heavily promotional season. We are also encouraged by a healthy growth of 11 million net additional customers to a total of 321 million in the past 12 months. These strong results illustrate the solid fundamentals of our online retail business model, as well as the significant progress we have made to improve our R&D capabilities, operational processes and organizational design over the past few quarters.

During the second quarter of 2019, our net revenue growth accelerated to 22.9% despite market concerns about macroeconomic conditions and competitive dynamics. All major categories of electronics and home appliances saw double-digit growth during the quarter and the general merchandise categories grew by 34% led by FMCG products. Net service revenues grew by 42% year-over-year and contributed 11.2% of our overall revenues driven by strong momentum from third-party logistics and advertising revenues.

Logistics and other service revenues grew 98% thanks to the team's focus on product innovation and a superior service quality. Gross margin in the second quarter was 14.7%, up from 13.5% in the same quarter last year. The margin expansion was contributed by both JD Retail and our third-party logistics business. JD Retail gross margin improved by 76 basis points, driven by economies of scale from our 1P business better economics of advertising and certain one-time benefits of the VAT tax reform, which took effect on April 1, 2019. This marks the 21st consecutive quarter of JD Retail's gross margin expansion on a year-over-year basis in spite of intense competition from existing and new industry participants. It validates the resilience of our business model and the long-term margin trajectory that we have communicated since our IPO.

On the other hand, JD Logistics also delivered a stellar quarter as its capacity utilization and staff productivity reached the normalized level during a seasonally busy quarter. The third-party logistics business saw its gross margin further improve and as Richard mentioned also reached past the breakeven point on the non-GAAP operating income level in the second quarter. By the same token our fulfillment efficiency was benefited as well. During the second quarter, fulfillment expense ratio was 6.1%, the lowest level in our history as a public company since the second quarter of 2014. As Richard mentioned, our fulfillment expense ratio first began to rise in 2014 as we started to expand our logistics network into the lower-tier cities, creating short-term headwinds on our fulfillment expenses.

In 2015, we expanded aggressively into the FMCG categories where the average basket size was much smaller than our average order size at the time, creating further short-term headwinds on our fulfillment expense ratio. We then began expanding our capacity and service offerings in 2017 to drive scale while serving external business customers, which created an additional short-term increase in our fulfillment expense ratio. Now, five years later, when all the dust finally settled down, we emerged as a much stronger and a more efficient, modern logistics operator that can fulfill six and a half times more daily orders than five years ago.

The greater scale, coupled with sophisticated supply chain technologies, have brought operating leverage even as we fulfilled more and more small orders, further enhancing our structural advantage over our major retail peers and bringing more quality to our core economic level. Our marketing expense ratio was 3.7% in the second quarter, reduced from 4.3% in the same quarter last year, mainly due to our redesigned marketing strategy and innovative marketing tools with better position and ROI. Our R&D expense ratio was 2.5%, up from 2.3% in the same quarter last year. The R&D expense amount, on the other hand, has stabilized sequentially from the last quarter as the key talent and IT infrastructure are largely in place.

G&A expense ratio also improved to 2.9% in the second quarter, down from 1.1% in the same period last year. As a result, we achieved another record in both GAAP and non-GAAP operating income in the second quarter with the operating margins improving 2.4% and two percentage points, respectively, from the same quarter a year ago. The significant margin expansion was supported, in some, by three key elements; one, JD Retail's gross margin expansion; two, effective marketing programs with better ROI; and three, significant improvement in JD Logistics' operating efficiency, which improved both its third-party operating margin and JD Retail's fulfillment expense ratio. Our GAAP income attributable to ordinary shareholders in the second quarter also set a new record at RMB3.6 billion with a 2.4% net margin, up from 0.4% in the same period last year.

Our free cash flow improved 39% year-over-year to RMB18.3 billion during the quarter, driven by a healthy operating profit in a seasonally strong quarter for cash flow. Now that the one-time impact of the marketplace settlement change has phased out for four quarters, our free cash flow for the trailing 12 months has returned to a solid RMB7.4 billion. Let's turn to our third quarter outlook. In light of the accelerated growth momentum in the second quarter and July, we expect net revenue to grow between 20% and 24% on a year-over-year basis. We remain optimistic about the Chinese consumer market and JD.com's competitive market position despite uncertainties with the macro environment.

Finally, I would like to comment on our full year earnings outlook. Our non-GAAP net income attributable to ordinary shareholders in the first half of 2019 was RMB6.8 billion with a 2.5% net margin. In addition to economies of scale from JD Retail business and the rapid improvement in Logistics operating efficiencies, we also benefited from the newly enacted VAT Tax Reform as well as a couple of other items under other income, which totaled RMB1.8 billion during the first half that may be non-recurring in nature. We intend to reinvest these extra gains back into the business in the second half to drive our lower-tier cities strategy. Therefore, we are revising up our 2019 full year non-GAAP net income guidance to be between RMB8 billion and RMB9.6 billion, which reflect our second half investment strategy and our anticipation for continued macroeconomic uncertainties.

The new margin guidance is above the historical peak level in 2017 and we believe our reinvestment strategy in the second half will help drive sustained growth and continuously rising profitability into 2020. Overall, we are proud of the first half results, which speak for the success of the series of strategic and organizational changes we have implemented over the past several quarters. We hope you share our confidence in our unique supply chain capabilities and the deep competitive moat around our scale and technology-driven business model.

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

Questions And Answers

Operator

The question-and-answer session of this conference call will start in a moment. (Operator Instructions) Your first question comes from the line of Ronald Keung from Goldman Sachs. Please ask your question.

Q - Ronald Keung {BIO 15432736 <GO>}

Thank you. Thank you Richard, Xu Lei, Wang Zhenhui, Sidney, Jianwen Liao. Congratulations on the strong beat and growth acceleration, even in this rising bigger revenue base. So my question will be more on the investments and also your long-term margin commitments.

Given that, Sidney, you've said the full year guidance has been lifted, and the implied second half margin will be roughly between, calculated and implied will be 0.3% to 0.9%. So what do we see as the major investments in the second half? And particular, you mentioned about -- Richard, you mentioned about fresh, AI, cloud, big data. I just wanted to see what are the key moving parts that we expect would be spending higher in the second half, leading to this more conservative sequential margin outlook into the second half.

And given the full-year commitment around 1.4% to 1.7% net margin, how are we seeing the longer term, normalized margin potential of the business, particularly given the very strong first half, if we see the net margins of Walmart of between 3% to 4%. Do we see this moving up to these sort of trends in the next two, three years or normalized margin potential of the business? Thank you.

A - Sidney Xuande Huang {BIO 20098238 <GO>}

Sure, Ronald, let me try to answer this. Well, first, I mentioned earlier that the first half, we had a couple of one-off items that we intend to reinvest roughly RMB 1.8 billion. So that would have an impact, which will be invested mostly in the lower-tier city initiatives, not only on the new WeChat platform but also on logistics that we actually intend to further penetrate down into those lower-tier cities areas, to enhance customer experience.

And this is also -- the intention is to position ourselves for stronger growth or sustained growth into next year and the years beyond. Our margin commitment has been quite clear that we want to improve our margins consecutively on a year-over-year basis.

And as Richard also mentioned earlier, we now are -- we are in a much better position to generate these steadily improving profit, because some of our major investment areas have now bearing fruit and are turning profitable. And the logistics and fulfillment expense ratio example that I highlighted was just one of them, where we actually went through a series of investment phases.

Some of them are really overlapping on top of each other. So for quite a few years, we couldn't tell whether we are ever going to have operating leverage or we just simply continue to increase the expense ratio. So by this quarter, it's a good illustration that the fulfillment expense ratio actually went back to a historical low level since our IPO.

And clearly, we still have room to further improve because JD Logistics is still in investment phase. That's why it just broke even with a slight profit. Obviously, it will -- going forward, as it completes its investment cycle, the business should be much more profitable, which will in turn also drive further operating leverage on the JD Retail side.

So just coming back to your question on long-term profitability. We maintain our position that over the long term, our first-party retail business should generate 1 to 2 percentage point higher net margin than the best run offline retailers. And we are -- layering on top of that, we'll have our marketplace business, which generate a much higher accounting margins. So combining the two, we should be generating somewhere in high single-digit in combined net margin for the business. So that -- as also mentioned by Richard earlier that, we have always committed to a long-term margin trend that will ultimately reach that level.

Q - Ronald Keung {BIO 15432736 <GO>}

Thank you.

Operator

Your next question comes from the line of Eddie Leung from Bank of America Merrill Lynch. Please ask your question.

Q - Eddie Leung {BIO 15234642 <GO>}

Hi. Good evening. Thank you for taking my question. Just a follow-up question on lower-tier city investment and expansion. Could you elaborate how you will compete in the lower-tier cities including how to position JD Pingou versus your more traditional JD Mall business as well as versus your key competitors which arguably using it different strategy, especially from -- sourcing from the manufacturers? Thanks.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language)

Xu Lei, CEO of JD Retail. Regarding the lower-tier city questions, as I have shared in the past, the first question we need to address in this matter is to find the most fitted products for our lower-tier city customers. Admittedly, in the past years on JD platform, we offer more selections of products that better fit our first and second-tier city customers. And so this year, we have stepped up efforts to select products that fit better to the lower-tier cities. We are working with our brand partners to build up the supplies of our products, for example, the BOM the more cost-effective products and also work with the industrial factory producers to produce, the most fit product to sell to our lower-tier cities. At the same time, we also diversify our businesses on the exclusive sales and exclusive products and more customer products. These are all the efforts we want to diversify our offerings to our different segments of our customers.

(Foreign Language)

Secondly, based on the efforts we have done in the first half of the year, we will launch a upgraded WeChat first access point around October. And this is efforts, we're going to build-up the WeChat ecosystem to tackle lower-tier cities, especially for the female users and we're going to also carry out policies with some lower take rates to attract the best products and the sellers to fit the need of the lower-tier customers.

(Foreign Language)

And thirdly, we will also leverage the advantages of the 1P platform business to reach our lower tier city customers and together with our abilities in our logistics, we are able to provide an all-around solution plan to our merchants. And at the same time, we keep the premier users experience, we believe we're going to win our merchant trust. And at the same time, with our opening strategies and open platform to penetrate in to lower-tier cities.

(Foreign Language)

And also I am going to share a few datas with you. According to our statistics so far, the users' growth on our platform from the lower-tier cities, that is third to sixth tier cities, the growth rate is much higher than the first and second tier cities.

(Foreign Language)

And secondly, nearly 70% of our new users coming from the lower-tier city.

(Foreign Language)

And if you filter by the recipients address about 50% of the users are coming from lower-tier cities now.

(Foreign Language)

And lastly the performance of lower-tier city customers are really exciting and internally we believe they can do better in the future. Thank you.

Operator

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

Q - Alicia Yap {BIO 15274658 <GO>}

Hi, thank you. Good evening management and congratulation on the strong result. Thanks for taking my question. I have some follow-up questions on -- Sidney, when you mentioned about, this one-off profit is RMB 1.8 billion that you plan to reinvest into the second half. Can you maybe clarify a bit to us in terms of -- in the first half, how much of it, the one-off is recognized in the first quarter versus the second quarter? And then how much of this RMB 1.8 billion it is more the onetime in nature that is not recurring?

And for the second half when you try to spend this reinvestment amount, how should we think about the 3Q versus the 4Q level? Like which quarter will be more heavy weighted? And with that, as we go into the next year as JD commitment to continue to improve margins on a year-over-year basis, how should we think about the first half margin in 2020 versus the second half? Thank you.

A - Sidney Xuande Huang {BIO 20098238 <GO>}

So Alicia, for the RMB1.8 billion, you could roughly divide them equally into the first two quarters, so roughly RMB0.9 billion each. So -- but for the second half, we are already implementing some of the reinvestment strategies. And also as Ronald was quick earlier in back-calculating the ratio, I think in terms of the guidance, it's very hard to just back-calculating into exact amount because we still have to anticipate, how the competitive environment will be, how the macro environment will be and also provide enough flexibility for the business leaders to react and jump onto good opportunities to put capital to work.

So obviously, we will have to build in some room for all of these factors. So if you want to do a rough allocation then, I would think Q3 should somewhat better than Q4 as -- one is that, we will introduce the new WeChat platform somewhere towards the end of Q3, and also Q4 will have our Double 11 promotion season. But again, this is very preliminary guidance for the second half and we do hope that we can -- we will give you more clarity as we move into the fourth quarter.

Operator

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

Q - Tina Long {BIO 21068620 <GO>}

Sure, thank you. Hi, good evening management. Thank you for taking my questions and congratulations on the good results. I have a question more on the logistics side because in your segment reporting that we have new business that the operating loss was about RMB 2 billion in the quarter. So I want to have a little bit more details on the loss breakdown by logistics, by technology and also probably overseas investments?

And in the meantime, still on the logistics side, because I think you just mentioned that in second quarter, we have achieved GP margin breakeven for Logistics. So I want to know for the full year outlook and also probably will we have a further improvement like operating margin breakeven in 2020? And also, how we're going to achieve that? Thank you.

A - Sidney Xuande Huang {BIO 20098238 <GO>}

Okay. So let me take the first question and then Zhenhui can maybe address the second one. So, the first one on segment reporting, it's a half-year data. So the number you saw is for the first half. The largest operating loss from the new businesses now is in the technology initiatives, followed by logistics, which still had meaningful non-GAAP losses in Q1, but improving.

And Q2 was roughly around breakeven. So -- and then, followed by the overseas business. But overall, you have seen the loss ratio has come down significantly from the first half of 2018. And then, also note that the revenue for new businesses has grown quite tremendously over the first half as well. So we are seeing significantly narrowing loss ratio on these new businesses.

A - Zhenhui Wang {BIO 21020367 <GO>}

(Foreign Language)

Wang Zhenhui of JD Logistics. And on your second question, as we show on this financial report, our external delivery orders, non-GAAP operating profit reach broken even. And this year, we'll continue to optimize our operations and especially to continue our plan of a lower-tier city market and improve our users' experience in the first to third-tier cities. So we will make other efforts to ensure this year's operating profit margin will be compared to last year.

Operator

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

Q - Thomas Chong {BIO 21155199 <GO>}

Hi. Thanks, management, for taking my questions. I've got a question about our user growth trend. How should we anticipate the use growth in the next couple of quarters or in the coming years, as we penetrate into lower-tier cities? Should we expect a reacceleration in the user growth? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language)

Xu Lei of JD Retail. As I shared in the last quarter, the growth of users are mainly split into two parts. One is the new user's growth, which will be our emphasis to work on in the following time. At the same time, we also pay attention to the repeated frequencies of the buying activities of our existing users. You can see for the first half of the year we have seen increase of our new user acquisition. At the same time, the existing users are becoming more and more active and their overall ARPU continues to go up.

And secondly, since earlier January this year, in the JD Group and also JD Retail, we have emphasized our efforts on the users' experience and making NPS and et cetera indicators as important performance indicator. And for the first half of the year, we have seen the NPC value growth significantly. This is the major approach for us to ensure JD's reputation and the brand image in the industry and continue to win our customers' hearts.

As is early this year, we came up with the concept of quality growth. So, we want to make sure no matter is the new customers or the existing customers; they will have sustainable interactions with us. We are reluctant to use some short-term measures and subsidies to drive a short-term customer shopping behavior. We don't think it's sustainable and will be a good investment for the long-term.

And just one more observation I want to add on. We do realize the customers from the lower-tier cities, their first engagements with the e-commerce may start with some very small ticket size, but in the longer run, as they get more accustomized to the online shopping behaviors, they will have a stronger pursuit for more high-quality products. This has been shown on the data on other platforms and also some external data. So, we strongly believe that this is a value JD will stick to and create for our potential customers in the long run.

Q - Thomas Chong {BIO 21155199 <GO>}

Thank you.

Operator

Your next question comes from the line of Grace Chen from Morgan Stanley. Please ask your question.

Q - Grace Chen {BIO 2548665 <GO>}

Hello. Hi. Thank you for taking my call. Congratulations on the strong results. My question's about the online advertising business growth potential. This business has obviously been growing very fast and has been one of the key drivers of JD's margin expansion.

I wonder whether you can help us elaborate a bit more on the details about the online advertising business such as the overall pricing customer mix. And especially, how do you compare yourself with other e-commerce peers in terms of the growth potential in the online advertising business? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language)

Xu Lei of JD Retail. For the first half of year, our advertising revenue is mainly driven by our improved technology mainly the AI and big data. And in Q2, we have revamped our main app and continue to optimize our algorithm. And the rate of merchants who are using our advertising system continue to grow and their ARPU value also grows.

At this stage, we don't plan to increase our advertising inventory because we believe that though the updated user interface will gave us this possibility, but we'd rather to keep a balanced relationship between our advertising revenue growth and our users' experience and retail operations.

And we do realize that because of the overall macro environment, China's advertising market is under great pressure. But the JD as a retail platform, we are aiming to provide our advertising products to serve our advertisers and the merchants. And we do have the competitive advantage to get back some direct benefits and the ROI and conversion rates, which give us another hand in this difficult time. And this has been reflected in the number of new advertisers and the feedback from other merchants.

Q - Grace Chen {BIO 2548665 <GO>}

Thank you.

Operator

Your next question comes from the line of Andre Chang from JPMorgan. Please ask your question.

Q - Andre Chang {BIO 6967739 <GO>}

Thank you management for taking my question. A follow-up question on the reinvestment into the second half. After the reinvestment and the potential impact on the bottom line, which of the segment will face more pressure into the second half, is the retail business, the logistics or the new technology part? And also will that affect our capex to reaccelerate into the second half? Thank you.

A - Sidney Xuande Huang {BIO 20098238 <GO>}

Yes. So the overall investments, they're more in the operating OpEx or gross profit as we give back to consumers through promotions and also as we launch the new platform at the new marketplace we would not charge much of a take rate. So -- and it will take some time for the advertising to catch up. So these will be the main investment areas. And also mentioned on the logistics side, it's also through penetrating down to more lower-tier cities and -- so that we can improve the user experience and create unique logistics experience for our new lower-tier city customers.

We do not see a major increase in capex, but we have mentioned in the past that capex will be -- has been broken into two categories; one is for the properties build for sales, and one is for the other regular capex. So, on the first category we do see good opportunities. For example in Tier 1 cities, we will clearly take the opportunity. So that -- on that part it's less predictable. But overall capex should be under control.

Operator

Your next question comes from the line of Natalie Wu from CICC. Please ask your question.

Q - Natalie Wu {BIO 19852429 <GO>}

Hi, thanks for taking my question, and congratulations on a very solid quarter. My question is regarding the JD Retail GP margin. It has a very robust 76 bps improvement in the second quarter. Just wondering if we exclude the contribution from the VAT tax reform what will the number be?

And if we try to break it down, how much of the improvement comes from the 1P business and how much from the contribution of the marketplace and advertising business? And looking forward, which one will be the larger driver for the GP margin improvement of JD Retail in the future? Thank you.

A - Sidney Xuande Huang {BIO 20098238 <GO>}

Okay, sure. Sure. So the VAT tax rebate is actually not very easy to separate out even though when the tax was enacted at the beginning of April. So there will be -- the existing inventory will have some benefit and then also the new purchases.

But the issue is many suppliers and clients will also adjust their pricing strategy. Many of them actually demand a lower official price. So it's actually hard to quantify exactly how much is the one-time of benefit, but we clearly recognize there's a meaningful element in Q2, especially from the existing inventory side.

But because it's not a very clear cut benefit, it has a lot of -- it's a result of a lot of interaction and discussions between the retailer and also the brand and also our promotion strategy. But even without this one-off benefit internally we have analyzed that our 1P business should continue to -- no -- still have margin improvement in Q2.

And over the longer term we mentioned that both 1P business gross margin and advertising should contribute quite significantly to our future margin expansion. And if you look at the margin analysis we did, especially the one that's comparing our operating expense ratio with the top offline retailers, and also the gross margin with the same large retailers you will see our gross margin was substantially lower roughly 10 percentage points more lower than the offline players.

So, there's plenty of room for margin expansion as we continue to increase our scale and realize better and better purchasing price and also more customized product offerings. We are actually seeing improving mix in terms of customized products from our leading suppliers. So this will all help both offering our customers to lowest price, with everyday low price, but at the same time continue to improve our margin.

Operator

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

Q - Jerry Liu {BIO 17515547 <GO>}

Hi. Thank you very much. Two questions for me. I think the first is on electronics and home appliances. In the first half of this year we saw a reacceleration in the growth rate there. So I just wanted to see, if there are any specific drivers that helped that and also whether the VAT or income tax cuts anything like that helped. And second just on Pingou. Could we talk a little bit about the strategy to make that an independent unit? Thanks.

A - Sidney Xuande Huang {BIO 20098238 <GO>}

Okay. So I'll take the first one. Maybe Xu Lei will take the second one. So on electronics we mentioned actually, the macro headwind started in the second half of last year. So we already saw some slowdown. So the current growth rate in our mind is actually rather normal. We have always maintained that as market leader, we should be able to continue to grow well -- way above the industry average as we continue to take -- changing the benefit from the outsized consumer mind share and also our superior customer experience. So, yeah -- and on the other hand, the VAT tax does also help in terms of providing better value to our customers.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language)

Xu Lei of JD Retail. Let me add a few more things on the category of electronic and home appliances. And we have realized the few factors that will contribute to the growth of these categories such as the real estate market is recovering, especially, in the third to fourth-tier cities and there are also some regional reasons as well as the government policies for the subsidies. These are all conducive for this category's growth.

And secondly in terms of the products, before we -- our platform we have more mid-range priced product that are more suitable for the first and second tier consumers. And in this year, we continue to enrich and diversify our product in terms of the high-end and low-end product to meet the different needs of our customers. For example, during our 18th June Shopping Festival, we have collaborated with a number of high-end brands and we found the sales result is very good.

And thirdly this last year we have also exploring some off-line business models either our 1P platform or our strategic collaborations. And all these various forms of off-line collaborations also conducive for this category's growth.

And lastly in these categories we -- by leveraging our 1P platform abilities, we are gradually opening up our abilities in data and services with our brand merchants. And we're going to continue to strengthen the collaboration with the brands and improve our supply chains. And these will be the direction we'll continue to improve to drive the growth of this category. Thank you.

Operator

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.