

Q2 2020 Earnings Call

Company Participants

- Jon Liao, Chief Strategy Officer
- Lei Xu, Chief Executive Officer, JD Retail
- Ruiyu Li, Senior Director of Investor Relations
- Sandy Ran Xu, Chief Financial Officer
- Zhenhui Wang, Chief Executive Officer, JD Logistics

Other Participants

- Alex Yao, Analyst
- Alicia Yap, Analyst
- Eddie Leung, Analyst
- James Lee, Analyst
- Jerry Liu, Analyst
- Ronald Keung, Analyst
- Thomas Chong, Analyst

Presentation

Operator

Hello and thank you for standing by for JD.com's Second Quarter 2020 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'd now like to turn the meeting over to your host for today's conference, Ruiyu Li.

Ruiyu Li {BIO 19135837 <GO>}

Thanks, operator, and welcome to our second quarter 2020 earnings call. Joining me today on the call are Mr. Richard Liu, JD.com Group CEO; Mr. Lei Xu, CEO of JD Retail; Mr. Zhenhui Wang, CEO of JD Logistics; Sandy Xu, our CFO; and Professor Liao, our CSO. For today's agenda, our CFO, Sandy will discuss highlights for the second quarter of 2020 and other management will join the Q&A session.

Before we continue, I refer you to our Safe Harbor statements in the earnings press release which applies to this call as we will make forward-looking statements. Also, this call includes discussions of certain non-GAAP financial measures, please refer to our earnings release, which contains a reconciliation of the non-GAAP measures to the most

directly comparable GAAP measures. Finally, please note otherwise stated, all figures mentioned during this conference call are in RMB.

Now, I would like to turn the call over to our CFO, Sandy.

Sandy Ran Xu {BIO 20315444 <GO>}

Hello, everyone. Thanks for joining us today to discuss our second-quarter results and how we position our business. Stepping into the second quarter, we were facing a constantly evolving macro-environment with unprecedented complexity and opportunity. We are proud that JD played an important role to help our suppliers and users in this extraordinary times and contribute to the society. As the domestic consumption is still recovering from the disruption brought by the pandemic, both the release of pent-up demand and a structural shift as consumer purchasing behavior from offline to online have added to our strong performance in the quarter. More importantly, we came out of the quarter stronger than ever before. Our long-term strategy of investing in supply chain based technologies and logistics capability. Our long-term focus on customer experience and care for the employee, and our persistence to expand product offerings to all categories all have borne fruits and made our unique business model more sustainable and resilient. As a result, we delivered solid financial and operating results in the second quarter and achieved a number of important milestones. First, we successfully completed our secondary listing on the Main Board of Hong Kong Stock Exchange on June 18, our 17th anniversary with total post shoe gross proceeds of approximately HKD34.6 billion or USD4.5 billion. We trust that our secondary listing in Hong Kong marked an important step for us to provide favorable conditions, supporting the execution of our long-term strategy and further enhance our shareholder protection. Second, we recorded a record high anniversary promotion with accelerated growth.

Third, over 80% of our new users, added in the quarter came from lower-tier cities, the highest level on record. Our net revenue grew by 33.8% in the second quarter, the highest growth rate for the past 10 quarters above our previous guidance and internal expectations. It was provided by our successful June-18 anniversary promotion. Our general merchandise grew by 45% year-over-year, the highest growth rates for the past nine quarters led by our star categories such as supermarkets and healthcare, Electronics and Home Appliance recorded an encouraging recovery with 28% year-over-year growth and continue to gain market share amid the weak industry performance. This was supported by our ability to offer value for many products through the scale advantage of our supply chain and our ability to fulfill the pent-up demand.

Taking a deeper dive into the performance of different categories, we want to highlight the exciting shift our product category mix. Our supermarket category, including FMCG and Fresh Produce became the single largest product category by revenue in the first half of 2020, surpassing mobile phone, home appliance, and computers our former champion categories. We expect the leading position of our supermarket category to be further enhanced and accompanied by stronger user engagement. Once again this steady shift demonstrates our strengthened brand recognition and consumer perception, as an everything-store with increasingly broader selection, particularly consumer demand for fresh produce products continued to be robust in the second quarter leading to an

FINAL

over 140% growth in the number of sales orders year-over-year and strong top-line growth following Q1's jump. In addition, we are delighted to see that our supermarket category continued to realize scale benefits, improved operating efficiency with our in-house fulfillment capacity and collaborated effectively with third-party partners under our omnichannel strategy.

Turning to our JD Health business, not only our online pharmacy sales showed strong top-line growth in Q2, but also the online medical consultation service volumes delivered over 400% growth year-over-year in the first half 2020. More and more users are getting to know and accustomed to this new service on our platform. Overall, we are encouraged to see customers are converting to our platform for a broader selection of products and services, especially those they used to purchase offline and we note the customer behavior shift has been largely sustained in the post-pandemic period.

Our top-line growth was backed by sustained improvement in user engagement, especially from the lower-tier city users. Our annual active customers in the past 12 months, reached a total of 417 million up 30% from a year ago, the highest growth rate in the past 11 quarters. We obtained more than 30 million net additional customers, the largest increase in our history. I am particularly encouraged to see that we attracted over 80% of the new customers in Q2 from the lower-tier cities, a step-up from the previous quarters.

In the meantime, our mobile DAUs grew 40% year-over-year in June. Our fulfilled good gross margin came in at 8.3% for the second quarter of 2020 compared to 8.6% in Q2 last year. Excluding the impact of one-time benefits from the VAT Reform resulting in a lower cost of sales in Q2 2019. The fulfilled gross margin would have improved by over 20 basis points in Q2 compared to the same period last year. This margin improvement was a result of improved operating efficiency by JD Logistics, the nation-wide relief of social security contributions for corporates, partially offset by the top-grade revenue shift.

With our effective cost control measures and continuous improvement in operating efficiency, our marketing, R&D and G&A expense ratios in the second quarter improved by 36 basis points, 69 basis points and 19 basis points respectively compared to the same quarter last year. As a result, our non-GAAP operating income grew 74% to RMB5.6 billion and non-GAAP operating margin was 2.8%, up 64 basis points from the same quarter last year. On segment basis, non-GAAP operating income of JD Retail Group increased by 41% to RMB5.7 billion in Q2, with operating margins further improving to 3%, up 17 basis points from the same quarter last year. We also saw meaningful improvement in profitability from new businesses, especially JD Logistics, which turned profitable on a non-GAAP basis in the quarter driven by higher volumes, higher-order volumes in the peak season and our technology-driven productivity gains that we are able to continuously generate from our best-in-class fulfillment capacity.

Overall, the margin improvements were recorded in both Q1 and Q2 this year not only give us a glimpse of what we can deliver as we effectively execute our long-term user-centric strategy with our scale driven business model, but also provided a solid foundation for us to continuously reinvest in new categories that could become our future winners, and our productive user growth.

FINAL

Moving to the bottom line. Our non-GAAP net income attributable to ordinary shareholders in Q2 grew to RMB5.9 billion from RMB3.6 billion in the same period last year. The increase was mainly driven by the improvement of operating income of JD Retail and JD Logistics. Given the strong growth of our net profit and financial discipline, our free cash flow for the second quarter improved to RMB26 billion, as compared to RMB18 billion in the same quarter last year. CapEx was RMB3.4 billion in the second quarter. The spending was mainly for the development properties by JD Property offset by RMB500 million proceeds generated from the sale of development properties.

As of June 30, 2020, cash and shortly investments, added up to RMB126 billion in total, our liquidity position is stronger than ever. As a newly-listed company on Hong Kong Stock Exchange, we need to comply with the regulations and follow the common practices adopted by public companies in the Hong Kong market.

Therefore, we will no longer provide guidance on net revenue growth or net income going forward. That said, we remain committed to deliver sustainable growth, with steady improvement in profitability in the long-term and create long-term value for our shareholders.

Let me close, where I began by emphasizing the resilience of our unique business model. We are now better equipped with stronger user mind share and engagement, higher operating efficiencies and strengthened financial position. We will build on the momentum and continue to invest in our customers and employees, technology, and supply chain capabilities for future growth.

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

Questions And Answers

A - Ruiyu Li {BIO 19135837 <GO>}

Operator, we can start Q&A. Thank you.

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Eddie Leung from Bank of America Merrill Lynch. Please ask your question.

Q - Eddie Leung {BIO 15234642 <GO>}

Good evening. Thank you for taking my questions. Number one, could you share more color on the competitive landscape of the industry, especially given the past promotional season, and then the upcoming promotional season. How should we position JD against some of the competitors? And then secondly, just a quick follow-up on -- you're mentioning about improving technologies helping your business, I'm just wondering if you could talk a little bit more on the momentum of growth like I have seen in your advertising/marketing services offering clients? Thank you

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language) This is Xu Lei from JD Retail to answer your questions.

(Foreign Language) And first of all, for the questions about our 618 Grand Promotion, we held mid of the year, and for this year this is the most successful shopping festival we held in the past few years. We have not only seen a strong growth on our business side but also we have improved a lot in terms of users' experiences which has been summarized since we have done a lot of our researches and interviews with our users. At the same time, during these shopping events, we have further strengthened our relationship with our brand partners and suppliers and all these has resulted in very successful grand promotion event in June.

(Foreign Language) Together with our brand partners, we have invested a lot of resources in promoting this 618 Grand Promotions and we have done a lot of great marketing activities, not only in our main sites but also in a lot of decentralized traffic platforms. We've invested a lot on these. So the sales results is actually beyond our expectations. At the same time, a number of new methods have been taken to boost our sales though live streaming and of our Plus membership et cetera.

(Foreign Language) And in terms of the competition, we have seen that the users are growing on all the industry and top players in this e-commerce industry. This has been shown in some industry reports. And we also noticed that there is a very high overlapping of users across different e-commerce platforms and there will be less and less users who only choose to use only one platform in the future. So, I see this as a very normal situation. And in this process, we at JD, we are very confident that there's still a very large space for us to grow our users, and our core abilities and core competitiveness in growing our users, existing our very strong supply chains and our good quality services and our unique business model.

(Foreign Language) And in terms of our advertising strategies, we will see in the longer-term, we will continue to maintain a sustainable growth on the advertising side to continuously provide better value to our brands and suppliers to provide them more ROI for our budget based on our advertising technologies and advanced algorithms.

(Foreign Language) And a closer look at the performance of our advertising revenues in Q2 become more and more active and with higher growth rates than the last quarter and we expect that this situation will continue.

(Foreign Language) We will not make a very dramatic resources opening of advertising resources on our main site. However, we will invest further on technology and inventing new advertising products on the condition of ensuring the advertising efficiencies to drive advertising revenues on our main site.

(Foreign Language) And we will also like to share with you that we have also carried out some offline digitalized advertising explorations with our partners and the result is pretty good so far. So in the future, we'll continue to build up our digitalized advertising ecosystem with the combination of our online-offline, inside and outside resources.

(Foreign Language) Thank you for your question.

A - Sandy Ran Xu {BIO 20315444 <GO>}

This is Sandy. I want to add on one point. Actually, if you look at our Q2 advertising revenue, the growth is faster than our product revenue, so really there was some attack from the third-party commission revenue because the third-party merchants, their resume of work were a little bit slower than the 1P business and in the early April -- in April and early May.

Operator

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

Q - Ronald Keung {BIO 15432736 <GO>}

Thank you. Thank you, Xu Lei. Thank you, Sandy, and thank you, Ruiyu. So congratulations on the strong results and it's amazing to hear that FMCG and fresh has become the single largest category. Could you just share more on your supermarket kind of growth initiatives, your targets there, and particularly want to hear about the margins because the JD Retail margin was 3.0% and I believe a lot of mature categories are mid-single-digit, just how are we seeing the margin profile for supermarket and as we aim to grow the scale further, I believe we are not in a rush to aim for margins? Where do we see kind of ultimate margins could be, particularly for fulfillment and logistics side, what are the initiatives to drive further improvement in margins for this segment? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language) This is Xu Lie from JD Retail.

(Foreign Language) And indeed in the category of FMCG and fresh produce, we have seen some major profit improvements.

(Foreign Language) As for the reasons of the improvement of the profits, I think there are mainly three reasons. And first of all, it's our increasing market share in these categories and in certain brands. This has been brought by our strengthened cooperation with our partners. And secondly, I believe the scale effects has been taking effect and we have been working very closely with our -- we have been also improving our fulfillment expense rates. So the fulfillment expenses continue to be going down. And thirdly, thanks to our omnichannel development, we have been moving some products that fit for our offline sales channels, we are giving them to our offline partners and all these three factors contribute to the improvement of FMCG category's improvements.

(Foreign Language) And in the future. we will continue to step up our efforts to build our JD Super, the online supermarket at JD.com, so far JD Super has become the largest retailer in this category online and offline in China and we will step up our effort to build our supply chain ability that will help us to provide better services and at a competitive

price to our customers and these will enable us to have a better performance in various sales scenarios and in different platforms.

(Foreign Language) And also with our joint hands with JD Logistics to continue our collaboration and investment in the nation-wide warehouse network construction and in terms of the cold chains and in all the aspects to bring down our fulfillment cost.

(Foreign Language) And we will also strengthen our work on the construction of our omnichannel solutions, no matter it's our self-operated that platform or our offline stores and other hundreds of millions of our partners offline to provide our supply chain ability to create more value to all of our partners. This is also the main reason for more and more brand partners, which do central collaboration with JD.

A - Zhenhui Wang {BIO 21020367 <GO>}

(Foreign Language) This is Wang Zhenhui from JD Logistics. Just to add on a few words about our omnichannel solution with JD Logistics.

(Foreign Language) And for this year, we will put our online sales at JD supermarkets business, at the core of our development, especially in building more warehouse networks in the lower-tier cities to bring more high-quality products to our customers in the lower-tier cities and let them to enjoy the superior service experience with JD.com.

(Foreign Language) And besides those of our popular services, including the same day and next day deliveries this year JD Logistic will continue to collaborate with different cities to provide more faster delivery services, for example, the delivery within one hour depends on different product categories.

(Foreign Language) Thank you.

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, thank you. Good evening management. Thanks for taking my questions and congrats on the strong results. I have a question on the seasonality. So, wondering if you could describe any difference of the seasonality pattern that you have observed over the past 1.5 months right into the 3Q, in terms of this year's situation versus the previous year. So, have you seen any abnormal strength of these FMCG or even appliance category into the 3Q, despite the strong 618 already or strong first half already? If this 3Q is a bit different seasonality pattern than the previous year.

And then quickly any colors in terms of the ASP and the category purchased for those that are coming from the lower-tier cities, especially those that you newly acquired this quarter

in terms of the basket size and order frequency? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language) This is Xu Lei.

(Foreign Language) And indeed as you will see the impact because of the coronavirus situations we are facing -- uncertainly situations in the first half of the year. In the first quarter a lot of the consumption demand has been suppressed because of the pandemic, and entering the second quarter. Thanks to the mid-year grand promotions, the 618 Shopping Festival, we have seen consumption demand is coming back. Entering the third quarter, we also see that across the industries some categories are not performing well. For example, the air conditioning, and the main reason is due to the weather, as well as the real estate industry's performance -- industry's development. However, under these circumstances, JD has been taking the leading position and larger market share in categories and industries.

(Foreign Language) And at the same time, we also see some categories that have been experiencing some strong growth, especially the consumer goods, fresh produce, health-care products and household supplies, et cetera, and we have seen that on the overall in China's e-commerce market, the e-commerce shopping penetration rate is going up. This enables more and more customers -- although some of them haven't used Internet or online shopping before they've all shifted their shopping online and thanks to strong capacity and advantages in our supply chains, our superior services and our commitment to provide trustworthy and straightforward services and products for our customers are helping acquiring an increasing number of new customers on our platform. And at the same time, we also see more active engagement from our existing customers on JD's platform.

(Foreign Language) And by looking at the consumption categories from the lower-tier cities customers, they are buying more consumer goods and fresh produce on our platform. In these categories their up value are relatively lower than the average up value.

So also we have realized that the new customers coming from the lower-tier city account for very big percentage in the overall new customers we acquired in this quarter. And we believe that through more precise operation of this business to increase their shopping frequencies on our platform by our superior quality services and products and giving more benefits to these customers, we will gradually improve their retention rate and the market size on JD.

Operator

All right. Thank you. Our next question comes from the line of Alex Yao from JP Morgan. Please ask your question.

Q - Alex Yao {BIO 16818860 <GO>}

FINAL

Thank you management for taking my question and congrats on a fantastic quarter. So I understand that you guys will no longer give financial guidance given the Hong Kong listing, but can you at least qualitatively, help us understand your second half, particularly, third-quarter financial outlook. For example, should we expect revenue to decelerate meaningfully into second half given the positive benefits from the COVID-19 and also a high comp into second half? And then from a margin perspective, how should we think about the second half outlook given the things will normalize, the merchant activity will further recover, so advertising revenue potentially will grow faster than first quarter, I mean first half. So, any color on the second half, particularly third quarter will be appreciated? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language) This is Xu Lei. Let me share with you some key working areas we're going to focus on in the second half of the year.

(Foreign Language) First of all, we will continue to strengthen our opening up of our supply chain abilities. You have seen a number of collaborations on the opening of our supply chains with partners this year and this will continue.

(Foreign Language) And the second is, we will continue to deepen our development in the lower-tier cities. This is more customer-focused, as well as deepening our collaboration with our industrial belts in China. This is more Phase-II buying more suitable products for the customers and nowadays in China, there are over 200 industrial belts across the country and we're identifying some suitable partners with these industrial belts and to help them with their digital transformation, with the empowerment of our supply chain and to design more suitable and value for money products together.

(Foreign Language) We will further strengthen our construction of our omnichannel solutions, reposition omnichannel as an ability or an ecosystem rather than a mere business. So building up the omnichannel solutions will be helpful for our customers and to help them to -- when they are shopping, they can shift freely among different platforms no matter, it's online or offline, no matter whenever and wherever they shop, they will enjoy the same quality services from JD.com. And for our brand partners, the omnichannel will be beneficial for them to increase their sales opportunities and this will also in the long run be helpful for strengthening our collaboration in different fronts.

(Foreign Language) And fourthly, we will continue to invest in our technology service businesses and strengthen our collaboration with more business partners, enterprise partners, and these will open new market opportunities through our close relationship with more enterprise partners to increase the revenues, of course, before that these long-term investment.

(Foreign Language) And we're working to strengthen our investments in the new categories such as the healthcare, fresh produce et cetera and we will also invest further into our traffic platform both online and offline and to perform more disciplined investments to ensure ROI. Thank you.

A - Sandy Ran Xu {BIO 20315444 <GO>}

And I can add some color on the outlook for the second half. As we mentioned earlier, we had stronger controls over spending in the first half of the year given the uncertainty in the macroeconomics. So given the COVID-19 situations, is now largely stabilized in China, we kind of go back to our original business plan for the second half. So I would say this growth -- the top-line growth and the bottom line margins will be largely in line with our original plan at the beginning of the year.

So looking at second half in Q3, I would say, we see stronger seasonality this year and we believe the trend will continue in the second half. And don't forget there were some pent-up demand released in the second quarter, especially for large home appliance. So the average growth for the first half, which was 28%, I would say, it is more comparable when considering the outlook for the second half subject to the healthy recovery of our overall consumption.

And -- there were actually some non-recurring sales of the COVID-19 related prevention and protection products in the first half such as face masks and thermometers. So we truly hope these are non-recurring business. So taking all these factors into consideration, you can then model an apple-to-apple outlook for the second half. Having said that, we see very strong demand and user engagement continue in the supermarket and consumable products in July, as Xu Lei just mentioned, even without any sizable promotional activities. So we can clearly see the trend of shifting from offline to online is ongoing, especially for the supermarket category and consumable products. So we entered into Q3 with good momentum for user growth and we will continue to focus on user engagement and the new user acquisitions, particularly in the lower tier market.

This will form a good basis for the upcoming Q4 promotion season. So looking at the profitability, I want to emphasize that our commitment to steadily improving margins has not changed. But we will continue to invest in new initiatives for future growth.

Operator

All right, thank you. Our next question comes from the line of Thomas Chong from Jefferies. Please go ahead.

Q - Thomas Chong {BIO 21155199 <GO>}

Hi. Thanks, management for taking my questions and congratulations on a very strong results. I have a question relating to lower-tier cities penetration. Can management comment on our strategy in the second half? And on that front, I understand that we have a very strong user growth from our main apps but can you also comment about Jingxi in our strategy in the second half? And then a quick question is about our M&A strategies, how should we think about our acquisition strategies in the second half given that I think recently we have done some M&As? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

FINAL

(Foreign Language) Yeah, this is Xu Lei. I would like to share a little bit more about our lower-tier market strategy. This strategy has been working well in the first half of the year. So we're going to continue. The lower-tier market has been contributing a lot in our new customer acquisitions. These have been achieved in several different platforms, different approaches, for example, our Jingxi, a social e-commerce platform and also the light version, or the city version of our app, has been driving the new customers from the lower-tier cities to JD. And at the same time, as I just mentioned in the last question, we have a certain kind of categories that have been favored more by the lower-tier city users, such as the consumer goods, fresh produce, essentials, and these are also helpful on, beginning our new customers in the lower-tier cities. And in addition, the decentralized traffic platform has also played an important role to help us, again, to acquire more customers from the lower-tier cities. So these are in general, in total, the strategies we have been carrying out to going deeper into China's lower-tier cities.

(Foreign Language) And just a few more words about Jingxi. Jingxi is one of the channels, we acquire new customers, actually, our main site is also performing well in acquiring new customers. So here, I just want to share more about Jingxi.

(Foreign Language) And in Q1, because of the coronavirus situation, a lot of merchants cannot operate normally, so the Jingxi platform's performance has been flat, but coming to Q2, Jingxi has been showing strength in terms of the growth of the users and the scale has been taking off and being a main contributor to our overall GMV.

(Foreign Language) And at the time the users are growing on Jingxi, we have also seen their repurchase rates is growing, which is a very important indicator for the performance of Jingxi. We will continue to perform more precise user operations and some of them are making a transition over a period of shopping with JD, they are transitioning to our main sites already.

(Foreign Language) And the overall number of merchants on Jingxi platform are back and merchants on the main site. However, we've seen merchants on Jingxi are very active and they're also playing an important role, Jingxi's business is playing an important role to connect safely industrial belts, as I mentioned before, these industrial belts will bring us more and more merchants in the future on the JD and Jingxi platform. With rich industrial resources and products our goal is to present more good quality products to the customers in the lower-tier cities to cater to their needs.

A - Jon Liao {BIO 18782053 <GO>}

This is Jon Liao. I would like to make a quick comment on the JD strategic investment and environment. The first opportunity investment is to expand and extend JD's growth engine by investing in companies that are strategic and complementary to JD in terms of scale, scope, capability and transformative biz model. The purpose is to create long-term strategic value to both parties financially and strategically. In line with JD's strategic direction, we remain strong interest in our continuing investment in lower-tier cities, supply chain technology, service as well as retail infrastructure.

A - Sandy Ran Xu {BIO 20315444 <GO>}

Bloomberg Transcript

So you may see there are quite a number of investments or acquisitions announced recently. I guess, simply because a lot of these investment activities were delayed because of the pandemic in Q1. So, our strategy has not changed in terms of merger and acquisition.

Operator

All right, thank you. Our next question comes from the line of Jerry Liu from UBS. Please ask your question.

Q - Jerry Liu {BIO 21067478 <GO>}

Hey, thank you. I've heard quite a bit of discussion about partnerships and decentralized e-commerce just now. I wanted to ask specifically about the kind of partnership JD has with Kuaishou or maybe in the future, more in the live streaming area. I just wonder what does management think of the partnership so far and what can we do more of in live streaming? Have this driven good user engagement or GMV or anything like that? Just a few data points on the Kuaishou partnership? And then secondarily on logistics, could we see the profitability to the margin improvement sustain or could we see reinvestments in the next few quarters? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language) This is Xu Lei for the question about the cooperation with Kuaishou.

(Foreign Language) And this cooperation with Kuaishou is a typical case for JD's opening supply chain strategy. Actually, we have been working with a number of partners on this opening supply chain but Kuaishou is a very attention-grabbing platform in the current situation. So actually our cooperation with Kuaishou has gained a lot of attention.

(Foreign Language) We have started our collaboration with Kuaishou since a year ago. However, our collaboration on the supply chain was reached within a week's time.

(Foreign Language) Kuaishou value the most of JD's platform because we can provide a superior supply chain ability and high-quality products and services, which are very beneficial for their e-commerce development. So they see us as a very important partner.

(Foreign Language) And also Kuaishou has been a favorite traffic platform for lot of brands. These brands have already conducted a lot of marketing and sales events on Kuaishou. With JD joining, they prefer to work with Kuaishou through JD's platform because we can provide our overall quality, our services and after-sales services and fulfillment abilities and all of these reduced the difficulties for these brand partners to work on this new live streaming platform.

(Foreign Language) Our corporate agreement was reached just fortunately before our 618 Grand Promotion. So our 618 cooperation with Kuaishou focused on two categories. One is the consumer electronics, and other is general merchandise. These categories have

been supplementary to what Kuaishou's platform already has and Kuaishou is pleased to strengthen their supply chain in these areas.

(Foreign Language) And we see that the conversions of the users on Kuaishou really are quite different. So this is also a good platform for us to acquire a lot of new users and in June our collaboration focused on those the self-operated products we have offered 400 SKUs products on Kuaishou platform of the cooperation with very favorable prices and in the future we'll continue to open our SKU selections and more activities with Kuaishou.

(Foreign Language) And in terms of system integration between JD and Kuaishou there is still a lot of work, we will continue to do to connect the two systems for us to improve efficiency and experiences together. There are two modes, we will continue our collaboration. One is, joint promotion, similar to the 616 live stream events we did with Kuaishou. And the second is more a daily sales model, we will be leveraging Star Hopes on the Kuaishou platform to promote more normalized marketing activities together.

A - Zhenhui Wang {BIO 21020367 <GO>}

(Foreign Language) This is Wang Zhenhui from JD Logistics.

(Foreign Language) And I would just emphasize that we will always put the customers' experiences and our operating efficiency at the core of our business development.

(Foreign Language) We have seen in the past few months, because of our increasing users' experience and operating efficiency and our continued investment in technologies and number growth of the users, our revenues and scale continued to rise and we believe this will all drive the profitability of our business in the long run.

Operator

Great, thank you. Our next question comes from the line of James Lee from Mizuho. Please ask your questions.

Q - James Lee {BIO 15949362 <GO>}

Great. Thanks for taking my question here. My question is related to online pharmacy here. Can you talk about general demand that you see in the market. Is it fair to think that most of the demand is happening in the top tier markets and maybe can you guys talk about plans to expand into lower-tier markets? And is it too early to think about that?

And secondly, related to that, any new learnings here in terms of user behavior? Any new product or services you plan to roll out to take advantage of the market? And also, lastly, maybe a little bit reminder about your differentiation versus other online peers here? Thank you so much.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign Language) And this is Xu Lei. I would like to introduce a bit about our JD Health business, and also as far as we know JD Health is the largest pharmaceutical retailers in the health-care industry in China and more than that JD Health is a front-runner or a first mover in the Internet led health-care area.

(Foreign Language) And the positioning of JD Health is a health-care management system that is built on our advantage and chain and focusing on providing medical services and will provide more tech-driven solutions for all the customers in their health-care related process in the whole lifecycle and all stages and the scenarios when they need health-care services. So this is the vision and positioning of JD Health.

(Foreign Language) After the outbreak of the coronavirus, our JD Health is growing rapidly, especially in terms of the users' penetration and engagement on the platform. And this high engagement continues at a high level in the second quarter. And especially in the first half of the year, the Internet online medical consultation volume has increased over 400% compared year-on-year as the consumers are becoming more and more active on the JD Health platform.

(Foreign Language) And in terms of the consumer structure, the JD Health consumer structure is similar to our e-commerce platforms. However, in terms of the online medical consultation services, we have seen that people from the higher tier cities, first and second-tier cities, and young people have a much higher level of acceptance.

(Foreign Language) And what was mentioned is that for this quarter JD Health and China's Nankai University has established the first Internet hospital model together and this will provide fully integrated medical services, as well as Internet platforms including the online payment of medical insurance, I believe that we will have more and more partners and the new models on this health-care sector to provide better user experience for the customers

Operator

Thank you. 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>}

Thanks, operator. And thank you for joining us today. Please feel free to contact us if you have any follow-up questions. We are looking 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.

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2021, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript