

## Q4 2020 Earnings Call

### Company Participants

- Lei Xu, Chief Executive Officer, JD Retail
- Ruiyu Li, Senior Director of Investor Relations
- Sandy Ran Xu, Chief Financial Officer

### Other Participants

- Alicia Yap, Analyst
- Eddie Leung, Analyst
- Ronald Keung, Analyst

### Presentation

#### Operator

Hello and thank you for standing by for JD.com's Fourth Quarter and Full-Year 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 would now like to turn the meeting over to your host for today's conference, Ruiyu Li. Thank you. Please go ahead.

#### Ruiyu Li {BIO 19135837 <GO>}

Thank you, operator. And welcome to our fourth quarter and full-year 2020 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, Mr. Xu will share his thoughts on the recent business trend followed by our CFO, Sandy, who will discuss highlights for the fourth quarter and full-year 2020. Both of them 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 may 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 the figures mentioned during this conference call are in RMB.

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

## **Lei Xu** {BIO 21705778 <GO>}

(Foreign Language) Thank you, Ruiyu. Hello, everyone. Thank you for joining our Q4 earnings call. This is Xu Lei, CEO of JD Retail. I'm glad to take this opportunity today to share with you JD Retail's 2020 review and our outlook for the new year.

(Foreign Language) 2020 was no ordinary year. We observed significant changes in the macroeconomy, the retail industry and the way our customers live their lives. The global pandemic greatly impacted society and everyone's life. It also brought many uncertainties to the global economy.

(Foreign Language) But great opportunities can be found amidst great challenges. With profound changes in consumers' mindset and behaviors during this period, China's online retail penetration continued to deepen. Consumers' needs, attention span, content form, and means of communication all underwent many changes.

(Foreign Language) Consumers' demographics and new cases became increasingly segmented and diversified. The lower tier market, consumer economy, the users who were born after 1990s and the year 2000, the community economy, the on-demand consumption, and many more engaging trends have presented us a wide range of growth opportunities.

(Foreign Language) In the face of these challenges and opportunities, JD's business model has proven to be resilient through different economic cycles. We adopted a more open approach to running our business and continuously enhance our ability to enable our business partners. Our longstanding business philosophy of noble principle of doing business served as our true north in navigating the uncertainties and changes.

All these efforts have helped us to gain the trust of many more users and business partners. Over the past year, we have not only successfully withstood the challenges, but also seized the opportunities for further growth and iteration.

(Foreign Language) JD.com delivered a strong set of financial results in 2020. This is mainly attributable to our continued investment, improving our users experience and also always put our customer first in running our business.

(Foreign Language) By the end of Q4, we hit new high with annual active customers for the past 12 months reaching 472 million. We saw accelerated user growth and added 110 million new active customers compared with a year ago. This is the largest expansion in our history. We continue to see exciting user growth in the lower-tier cities, which contributed over 80% of our new users for the first time in Q4 2020.

(Foreign Language) We're even more delighted to see increased engagement from our customers. For example, ARP value of the art from our 2015 customer cohorts increased

more than 5 times by 2020 and we also see a very active engagement of our JD Plus members.

(Foreign Languages) In 2020, we maintained healthy growth in our core businesses and achieved a significant progress in new business initiatives. JD Retail is JD's earliest and most mature core business. It plays a fundamental role in JD achieving its long-term strategic goals. We are pleased to say that, in the past year, JD Retail realized high quality and accelerated growth and meaningful and sustainable innovation.

(Foreign Language) Looking ahead, in 2021 and beyond, as a supply chain-based technology and service provider, JD Retail will continue to focus on three key strategies -- enhancing our middle platform capacities for supply chain and technology, our omnichannel strategy, and our online marketplace ecosystem.

(Foreign Language) First, on the middle platform for supply chain and technology, JD has been investing intensively in the building of supply chain infrastructure for a long time. At the end of 2020, we managed more than 7 million SKUs of our direct sale products in over 900 warehouses across China.

(Foreign Language) During COVID-19, supply chain has impacted the development and cooperation among industries and enterprises around the world. The need for a reliable supply chain is all the more imminent in an environment of increased uncertainty. What JD aspires to do is to build a middle platform ability that can be applied in more diverse new cases and channels.

(Foreign Language) With this goal in mind, we have been investing unswervingly in supply chain and technology to help merchants, both online and offline, big and small, including brands and factories, to improve their operational efficiency, to enhance their customers' experience, and to improve their risk-resistance capacity. This will also help promote high quality growth of the whole industry and create value for the entire society. For JD, this endeavor will further diversify our revenue stream and drive our service revenue in the future.

(Foreign Language) Second, in face of a broad range of business channel and new cases, our omnichannel strategy aims to increase the overall retail efficiency to satisfy customers' diverse needs to provide people with immediate access to products and services and to create value for merchants and customers.

Our omnichannel business is complementary to JD's platform main retail model. Omnichannel is not only a key strategy for JD, but also a new trend that all the retailers must address. The penetration rate of this model is still quite low among offline businesses. We believe that there is a huge potential to integrate omnichannel and on-demand fulfillment elements with many industries in the future.

(Foreign Language) Today, JD's omnichannel business has already covered various offline scenarios ranging from franchise stores, convenience stores, car maintenance stores, fresh groceries and fresh flowers to pharmaceuticals, connecting with millions of offline stores.

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In the future, based on our unique supply chain and technology ability, we will develop LBS space technology tailored to the on-demand consumption market. We will also continue to build-up our omnichannel supply chain, omnichannel marketing and offline store digitalization abilities to support their applications in many more industries, businesses and scenarios.

(Foreign Language) Meanwhile, we will work on cultivating customers market share of on-demand fulfillment through innovative measures, such as our omnichannel fulfillment initiative and cooperation with external partners, such as the partnership between JD DJ and Dada Group in 2021, we will expand our coverage to more retail verticals and drive the quality growth of our omnichannel business. This will provide us additional monetization opportunities.

(Foreign Language) Third, on the building of an online market ecosystem, this is an area of great potential for JD. With several years of development, we have now established a good foundation for the online platform ecosystem. Notably, we have made good progress in building a healthy platform environment and improved merchants' quality and users' experience.

(Foreign Language) We are pleased to see that NPS, Net Promoter Scores, of our online marketplace continued to improve over the year. So far this year, our merchants' renewal rate is much higher than in the past, reflecting a significant improvement in merchants' satisfaction and recognition of our platform.

Looking ahead, capitalizing our healthier industry environment, we will continue to experiment with new models and strategies to find the optimal strategies for JD's online marketplace. These attempts will still be guided by JD's ultimate business purpose, to improve customers' shopping experience and provide an open and empowering platform for merchants.

(Foreign Language) While adhering to these strategic directions, we will continue to underpin our business foundation, keep an open mind, incubate new business and use innovation to face change. Whether it is our first growth curve represented by our established business, such as consumer electronics and consumer goods, or our second growth curve represented by our growing business such as healthcare and MRO categories, or the third growth curve represented by emerging business such as retail innovation, service and technology initiatives, JD Retail can always identify and incubate new growth opportunities.

(Foreign Language) Here I would like to emphasize JD's strategic positioning as a supply chain-based technology and service provider. We uphold our long-term business philosophy since day one of JD's business, we chose to tackle the hardest, but most valuable problems in the industry and society. No matter how far we have come, as long as we remain committed to our customer first core value and supply chain based value creation, we'll always be able to go full steam ahead. This attitude embodies our long-standing business philosophy that is the noble principle of doing business.

(Foreign Language) The road ahead is long and winding, but taking one step ahead, we will persevere. We believe the core values and mission that JD has been abiding by are relevant to the new microenvironment and industry developments. JD will continue to innovate and invest in these strategic directions. We will constantly and continuously deliver our ability and create value for society, industries, our partners, and our customers. And in turn, achieve long-term high quality growth at JD.

(Foreign Language) Thank you for the time. I will now give the floor to our CFO, Sandy.

### **Sandy Ran Xu** {BIO 20315444 <GO>}

Thank you, Lei. Hello everyone. We're pleased to finish 2020 with the exceptional business and financial performance in the fourth quarter. We outperformed our expectations with accelerated user and top line growth and exciting progress in multiple new businesses, while maintaining solid bottom line performance and strong cash flow during the fourth quarter and throughout the full-year 2020. These results were driven by our relentless focus on customer experience and investments, in supply chain capability, technology and logistics infrastructure over the past years, which has become a hallmark of JD.com.

As we embrace change and position our business for the long run, JD has been at the forefront of many innovative initiatives and structural shift that are taking place in China.

In addition to the exciting developments at JD Retail that Lei just discussed, I would like to further elaborate on some operating and financial highlights. First, let me add more color on our user base. At the end of Q4, we hit a new high watermark for our annual active customers in the past 12 months at 472 million. We saw accelerated user growth to 30% year-on-year and added 110 million new active customers from a year ago.

In addition, we managed to grow our user base while continuing to reduce our marketing expense ratio in 2020. This improved marketing efficiency was driven by our long-term user-centric operating philosophy and technology-driven marketing efficiency improvement, paving the way for our sustainable future growth going forward. Let's turn to a number of our new business initiatives, which are making exciting progress.

First, on JD Logistics, began as JD Group's in-house logistics department in 2007, JD Logistics has been building logistics infrastructure and technology as well as operational and industry know-hows for over a decade. It has become the leading technology-driven supply chain solution and logistics services provider in China and operated over 900 warehouses, with an aggregate gross floor area of 21 million square meters. On February 16, 2021, JD Logistics submitted a listing application form to apply for the listing of its shares on the main board of Hong Kong Stock Exchange. Please note that there is no guarantee as to whether and when the proposed listing will take place.

Some of our smaller businesses are also experiencing rapid growth. For example, JD Property recently launched the first logistics property development fund, with some prestige strategic investor. So far, total AUM of JD Property core funds and the

development fund has exceeded RMB 19 billion. JD Property also entered into a definitive agreement for its Series A financing. The total amount expected to be raised is approximately \$700 million.

We also restructured some business units recently to better coordinate our internal resources and capture market opportunities. For example, we established Jingxi Business Group recently to further strengthen our supply chain capacity as we serve customer and empower SMEs in the lower-tier cities. To achieve better synergies, our social e-commerce platform, Jingxi, convenience store business Jingxitong, formerly known as Xintonglu, and community group purchase business, Jingxi Pinpin were consolidated under the Jingxi business group banner.

And in December, we announced that JD Cloud & AI business will merge with JD Digits, subject to the Board and regulatory approvals. The proposed reorg was designed to drive synergies in the development of innovative technologies and product solutions. This will allow JD.com to focus more on core retail and logistics business and gain more flexibility in allocating resources for new business.

Within our retail business, JD Health achieved an important milestone with the successful listing on the Hong Kong Stock Exchange on December 8th, 2020, with a gross proceeds of approximately HK\$1 billion. As a technology-driven platform centered on the supply chain of pharmaceutical and healthcare products and healthcare services, JD Health aims to provide easily accessible, convenient, high quality and affordable healthcare products and services covering our users' full lifespan.

JD has demonstrated a proven track record of successfully incubating, developing and growing new businesses from our core B2C e-commerce business. We believe this is enabled by our relentless focus on superior customer experience and our efforts in building and investing in supply chain capabilities and technology infrastructure. This creates a better cycle, allowing us to identify new opportunities to empower external business partners and grow beyond our core e-commerce business. Therefore, we will continue to invest in exciting new initiatives that can drive long-term sustainable growth for our group.

Our financial performance reflects the trajectory of our long-term development. Our net revenues grew 31.4% year-on-year to RMB224 billion in the fourth quarter, continuing our strong growth momentum with a successful promotion season. More importantly, we are driving our top line in more expansive ways.

Our electronics and home appliance categories increased 25% year-on-year during Q4, continuing to outperform the industry by a large margin. General merchandise revenue continues to grow faster at 34% year-on-year in Q4, led by the FMCG healthcare, cosmetics and home product categories. Order volume for the supermarket category grew by 45% year-on-year in Q4.

Another key metric shows that we are growing our top line in a more diversified way is our net service revenue growth, which accelerated to 53% year-on-year in Q4, the highest

growth we had in the past 11 quarters. This is mainly driven by the strong growth momentum of JD Logistics external revenue as well as our advertising revenue.

For the full year of 2020, net revenue reached RMB746 billion, with year-on-year growth accelerated 29.3% from 24.9% in 2019. Electronics and home appliance revenues recorded solid growth of 22% year-on-year amid challenging market conditions, while our general merchandise revenues grew 38% year-on-year in 2020.

Net service revenue grew by 42% and accounted for 12.6% of our total revenue in 2020.

Our non-GAAP operating margin improved by 13 basis points year-on-year to 0.5% in Q4 and up 52 basis points year-on-year to 2.1% for the full-year 2020. JD Retail's operating margin came in 1.5% in Q4 and reached 2.8% on a full-year basis in 2020, up 28 basis points from 2019, mainly driven by improved operating efficiency and, to a lesser extent, the relief of social security during the COVID-19 pandemic.

The margin improvement in 2020 was realized even as we shift our category mix towards the high frequency, but small ticket size consumer, staple categories that are still in the early stage of realizing earnings potential and proactively reinvest some of our social security benefit in value creation for our users and the logistics infrastructure. We are well on track of our long-term margin trajectory.

Moving to the bottom line, our Q4 non-GAAP net income attributable to ordinary shareholders was RMB2.4 billion and non-GAAP net margin improved 59 basis points year-over-year to 1.1%.

Our full-year 2020 non-GAAP net income attributable to ordinary shareholders reached RMB16.8 billion, up 57% as compared to RMB10.7 billion last year. Non-GAAP net margin for the full year 2020 improved 39 basis points year-over-year to 2.3%. Again, our profitability has improved meaningfully in 2020 even as we incurred additional expenses related to COVID-19 and exclude the benefit of the social security relief, which had about 25 basis points impact.

It's worth highlighting that we continue to strengthen our financial position while stepping up support to our business partners. Our inventory turnover days further reduced to 33.3 days in the last 12 months, one of the lowest among the top global retailers and our own historical record again despite of the continuous expansion of total SKUs directly managed by us. This is achieved through the continuous improvement of our technology and operating efficiencies.

Our free cash flow for the trailing 12 months hit a new record of RMB35 billion, grew 80% from a year ago. As of December 31, 2020, cash and cash equivalents, restricted cash and short-term investments added up to a total of RMB151 billion.

We believe our solid profitability and financial position provide us with a strong foundation for investments in a range of growth opportunity.

In summary, JD.com capped off a challenging year of increased uncertainties with a remarkable performance. We further improved our technologies and tools, enhanced our ability to serve users and ecosystem partners, which paved the way for our future growth. We continue to witness the deepening of online penetration across many categories and the technology-driven transformation in many aspects of consumers' daily life and the society in China. We expect to maintain the growth momentum that we generated in 2020 on multiple fronts in 2021 in spite of continued macro challenges and the high comparable base impact.

We also expect our long-term margin trajectory will continue. However, we do not forecast short-term margins as we believe JD.com still in a fast growth stage in an evitable growth market with many exciting opportunities.

With our core regional supply chain and logistics capabilities, JD is well established with convincing value proposition to benefit from secular trends and drive the long-term sustainable growth of our business in 2021 and beyond.

This concludes my prepared remarks. Let's open the call for questions. Thank you.

## Questions And Answers

### Operator

(Operator Instructions)

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

#### Q - Eddie Leung {BIO 15234642 <GO>}

Hey, everyone. Good evening. Just a couple of quick follow-ups after your presentation. Firstly, your user growth is pretty impressive, very strong. Wondering if there is any impact on the ticket size, if the ticket size is coming down because of new users. Does it affect the operating leverage of your Logistic business. It seems like the fulfillment cost as a percentage of sales are a bit higher than our expectation. So, just wondering your thought.

And then, I think Xu Lei mentioned that the renewal rate of your platform merchants are improved at last year. So, just wondering how quickly is the number of our marketplace merchants are growing because of the improved up renewal rate. Thank you.

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

Thanks, Eddie. This is Sandy. Let me take your first question regarding the profit margin. I think for gross margin, we would look at 1P and 3P separately. If we look at the pure B2C gross margin in Q4, it went down a little bit. But if we include the advertising revenue in relation to our 1P products, that is how internally we manage the operating results. The



gross profit margin for 1P actually slightly increased. So, this is after considering all of our reinvestments in Q4 for the additional profits that were generated from the first nine months in the year.

As I mentioned at our earnings call last quarter, we plan to reinvest some of the additional profit generated from the first nine months in the fourth quarter to really provide value to our customers and also to reinvest to build our logistics infrastructure. So, again, to -- as I said that the gross margins for 1P actually slightly increased compared to the same quarter last year.

And if you look at the fulfilled gross margin for 1P, there is also a slight improvement from last year compared to the Q4 and we see very meaningful improvement for the full year compared with last year by about 20 basis points. So, this is driven by the steady improvement of gross margin by many categories, including the category mix shift towards lower margin supermarket category.

So, the relief of social benefit has no impact on the improvement for the full year of fulfilled gross margin as we had the one-time VAT benefit in 2019. So, the amount is almost the same.

Really, what's dragging down total fulfilled gross margins for our group is the 3P revenue contribution. We can see that the contribution for -- on the 3P revenue went down a little bit in the fourth quarter, even though the 3P contributed more GMV in Q4 as compared to Q4 last year.

We were quite encouraged by the healthy performance of our marketplace business model, but the category mix within the market risk-resistance model also changed slightly. The healthcare, supermarket, electronics and home appliance categories outperformed the apparel and home products. So, that means the categories with relatively lower take rate are growing faster than categories with higher take rate under our market risk-resistance model. Again, we believe this is a healthy move and a good indicator of our effort in building a better marketplace ecosystem, particularly for our historically strong 1P categories.

**A - Lei Xu {BIO 21705778 <GO>}**

(Foreign Language) And to answer your second question, you have all known that JD's reputation is strongest in terms of the consumers' impression of our service experience.

(Foreign Language) And through the year you can see that a number of merchants on our platform has enjoyed a steady growth.

(Foreign Language) As consumers have a higher expectation from our service, they will also have a higher expectations on the qualities and the products from our merchants on the platform.

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(Foreign Language) So in the last year, we have done some screening work over low efficiency and low operation merchants. And still, we see the overall number of the merchants on the platform is steadily growing. And this year, we have been recruiting more high quality merchants. They are more experienced in running their business in a more efficient way.

(Foreign Language) So, we will pay close attention on the efficiency of our internal platform and also the operational efficiency of our merchants on the platform and how well they are running their stores. And for this year, the cut-off time for merchants renewal is on March 30. So, we have seen the renewal rate is much higher than in the past, and we also have seen that improvement of our merchants' satisfaction rate on our platform. Thank you for the question.

## Operator

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

### Q - Ronald Keung {BIO 15432736 <GO>}

Thank you. Thank you for taking my question. Thank you, Xu Lei, Sandy and management. And congratulations on the strong 2020 performance. I think my question would be on both Xu Lei and Sandy. You mentioned about a lot of new business, which are very exciting. And I could see you've launched Jingxi, also other different initiatives both in kind of new businesses. How should we think about our kind of plan to invest in these? I think because, of course, JD Retail is very strong in itself. But given some of the exciting initiatives, could you go through these initiatives maybe one by one or the biggest key and how should we think about how commitment or the plan to invest in terms of magnitude? Thank you.

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

Thanks, Ronald. This is Sandy. Maybe let me take the question regarding Jingxi and then Lei can comment on some other new initiatives.

So, in Q4, as I mentioned, we did a restructuring for our Jingxi Business Group to really try to generate synergies from the three separate business units. We see there is great opportunity in this group purchase business -- or group purchase industry or fresh produce category.

So, we firmly believe there's a structural opportunity. The huge market size and highly fragmented supply chain with lots of opportunities and its potential to improve the operating efficiency through technology and innovative business models.

And we also see that the group purchase business model works better for smaller ticket size items in the lower tier market as it can generate better procurement efficiency through short chain logistics and be more efficient in inventory management and

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marketing, especially for perishable and non-food product and provide users from the lower tier markets with better experience.

So, even though at present, most players in this market built their group purchase business model primarily driven by traffic, we believe, by end of the day, it will go back to the basis of retail business, i.e., platforms will compete on cost of product, operating efficiency and customer experience.

So, we see this to be a long-term initiative and ultimate goal is to improve the operating efficiency of supply chain, the wholesale and retail business in the lower tier market through technology and improved people's living standard. JD is fully dedicated in this initiative and we will take a somewhat differentiated approach to be more focused on supply chain and logistics network, and try to leverage our existing capabilities. So, we launched our ticket business in certain cities from January and it's still in a very early stage.

When entering into the group purchase business, we need to build localized supply chain, short chain logistics network as well as technologies and tools to support the operation. We also need to recruit group leaders, business development teams, and educate our new users step by step, city by city. So, there are lots of areas need investments. But we are now starting entirely from the scratch. We tested -- we have been testing the group purchase business model for a while in a very small scale.

For our convenience store business, Xintonglu, now renamed Jingxitong, we already established some B2B supply chain, primarily in the FMCG category, including some localized supply chain. We also have existing B2B logistics network and localized business development team in certain regions of the country. Jingxitong now has over 1 million SME customers. And some of these convenience store owners can naturally be turned to the group leaders of our Jingxi Pinpin business.

Our existing centralized procurement platform, the middle platform mentioned by Lei just now for FMCG home products or other categories can support Pinpin's segment and provide users of Pinpin with more product selection, at the same time as we generate scale benefits for core retail through sales from Pinpin's channel. So, we are working with various business partners, including China Daily, and the manufacturing bases for agricultural products to strengthen our supply chain capabilities further upstream and try to sort the best value products for our users.

At the same time, helping the existing market players on their supply chain with digital transformation, including the agricultural product wholesale market.

Our Jingxi e-commerce platform aims to serve the users from the lower-tier cities. And they have accumulated a lot of loyal users since its establishment. Based on our initial test in a small group of users, we are pleased to see a good conversion of Jingxi users to Pinpin users. So, we believe JD Group's existing capabilities in the lower-tier cities form a good basis to start our Pinpin business, although not sufficient to support the growth of

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that new business, but we can quickly replicate, adjust and apply our existing superlative industry know-how and capabilities to the new model.

Pinpin can also help increase the engagement of users and merchants from the lower-tier markets, including convenience stores for our Jingxi and Jingxitong business, as well as supporting our main app. So, these are also the logic of reorganizing and consolidating the three business units into one business group. Most importantly, JD is fully dedicated in this initiative. We sent our best people to this new business group. And they've also got supply chain support from our core retail and logistics business groups.

So, talking about the investment, we have put aside sufficient budget to start and grow the business as we move to invest in many areas as I just mentioned. And we will evaluate the ROI for the investment and to make accurate adjustments based on the market situation. It's pretty difficult to accurately predict at this stage how much we are going to spend on this new initiative. As you can see, the market is very dynamic with many, many players.

What I can tell you is, our strategy is not to acquire users through short-term and creating subsidies, but to really invest in building the hardcore capabilities and technology to run the business and create long-term value for our users and business partners and to the society. So, this is also consistent with our group's operating philosophy.

To improve the transparency of our communication with investors, we plan to pick out the operating results of Jingxi Business Group from JD Retail segment and report under new business, starting from Q1 this year. We are excited about this business opportunity and we look forward to sharing more with the investors as we develop the business.

#### **A - Lei Xu {BIO 21705778 <GO>}**

(Foreign Language) Let me add something on the new business.

(Foreign Language) And not only for the e-commerce, but essentially for all the retail business, we will focus on the customers' products and the platform.

(Foreign Language) So, since the beginning of JD Retail's development, we started from our products and we start to expand our product selections. So, we do our first party and then the third-party product offering. And for the next step, we focused on our customers and we start with providing products to the targeted customer cohorts who are interested in the consumer electronics and digital products, and then we will continue to expand our consumer base to more people in the lower-tier cities and female users, et cetera.

(Foreign Language) And in terms of the platform, we started to build our platform in a centralized way. And then, now we are moving to a more decentralized format. And in the past two years, we have been exploring new formats with offline businesses and our omnichannel initiatives. So, this is the basic JD's business logic. And behind that, the most important thing is that we are thinking and doing things to see what are the pain points, what we can solve, the pain points about bringing down the cost and improve the

efficiencies and giving better shopping experiences for our customers. So, this you can see is the process. We are looking for some solutions for the pain points and also whether there'll be new ways to find -- there will be new or leading or advanced models or methodologies to do retail.

(Foreign Language) So, we have seen that, in the past years, JD Retail has incubated JD Health and JD MRO and all this has been created based on our principle to solving some pain points and create value for this industry. And we have seen that in JD's development history and this has happened to many other companies as well, when we are considering to enter a new market, we will first look at the scale of the market. However, we will think deeper and see whether this new business will truly create long-term value for the industry and for the society. So this is, as I mentioned, the basic logic when we are making our decisions to enter a new business or not. So, eventually, we would love to create a sustainable and constant value to the society and our customers.

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

And also supplement our businesses other than the Retail business. For JD Logistics, it will continue to build technology and infrastructure to further expand its product and service offerings. And we'll also have JD International. So, we have a small operation in Southeast Asia. They are in the hyper growth stage, but still in the investment stage.

**A - Ruiyu Li** {BIO 19135837 <GO>}

Next question please.

**Operator**

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

**Q - Alicia Yap** {BIO 15274658 <GO>}

Hi, thank you. Good evening, management, Xu Lei and Sandy. Thanks for taking my questions. And also, congrats on the solid results. Just very quickly, wonder, have you already generated any revenue from community group buy in the fourth quarter? Just wondering, your FMCG category, have you seen any impact given the rising intensity of this community group buy platform from the peers.

And then, just quickly on the first quarter Chinese New Year, so any qualitative color that you could share with us, given this year is also another -- a little bit special year, given the state and the city's measure. So, what have you observed in terms of the category demand as compared to the normal Chinese New Year period? Any category that you have seen abnormally strong this year? Thank you.

**A - Lei Xu** {BIO 21705778 <GO>}

(Foreign Language) This is Xu Lei. I will answer the questions related to FMCG and the Chinese New Year grand promotions.

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(Foreign Language) And overall speaking, we have seen the focus of the community group buying in the following areas. First is the fresh produce and also the FMCGs and some maybe related to the digital products, but mainly focusing on the first two.

(Foreign Language) We don't see quite a big impact. We don't see the JD's business has been having a big impact from the fast development of community group buying. I think this is mainly related to our customers' shopping behaviors and their mindset, mind shares and also their preference of our products.

(Foreign Language) It's also worth mentioning that some of our SKUs have been of some favorable items that some community group buying companies want to work with us through our supply chain enabling business format.

(Foreign Language) And regarding the question about Spring Festival, shopping festival. Compared with last year's COVID situation, this year there is some major changes on the consumptions. We do see a healthy consumption results and consumers' participation in this year's shopping festival.

(Foreign Language) We have seen some categories are enjoying very faster growth rates during this year's Spring Festival grand promotion, such as gifts, beauty products and food and also home appliances. The home appliances suffered from the pandemic the most last year. And this year, the demand is coming back fast. And in contrast, some categories, which had a good sales performance last year, such as home cleaning, healthcare and masks, they are coming back to the normal level. So, generally speaking, we do see this as a very healthy consumption trend.

(Foreign Language) And one more point to add is that because the governments encouraged people to stay at their working place to celebrate the new year, we do see a surge of remote orders among our platform. The remote orders are those orders suppliers make the order and sending to the receipt living in another city. And the sales of the remote -- the numbers of remote order actually doubled on our platform. And also because of the staycation, a lot of merchants continue to operate their business on the platform during the grand promotion and even expanded their working hours there. So, we do see they are very engaging and very active in participating in this sales event.

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

Yeah. And on the revenue contribution from community group people purchase in Q4, we only experimented in very small scale in the fourth quarter in lower tier cities. So, you can ignore the revenue contribution.

**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>}

Thanks, operator. Thank you for joining us today on the call. Please feel free to contact us if you have any further questions. We look forward to talking with you in the coming months. Thank you.

## Operator

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

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