

## Q3 2020 Earnings Call

### Company Participants

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

### Other Participants

- Alicia Yap, Analyst
- Eddie Leung, Analyst
- Eddy Wang, Analyst
- Gregory Zhao, Analyst
- Han Joon Kim, Analyst
- James Lee, Analyst
- Jerry Liu, Analyst
- Jialong Shi, Analyst
- Jin Yoon, Analyst
- Ronald Keung, Analyst
- Thomas Chong, Analyst

### Presentation

#### Operator

Hello, and thank you for standing by for JD.com's Third Quarter 2020 Earnings Conference Call. At this time, all participants are in listen-only mode. After the management's prepared remarks, there will be a question-and-answer session. And 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. Please go ahead.

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

Thank you, operator, and welcome to our third quarter 2020 earnings conference call.

Joining me today on the call are 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, Sandy

will discuss highlights for the third quarter 2020 and 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 earnings call, as we will make forward-looking statements. Also, this call includes discussions of certain non-GAAP financial measures. Please refer to our earnings release, which contains a reconciliation of non-GAAP measures to the most directly comparable GAAP measures. Finally, please note that, unless otherwise stated, all figures mentioned during this conference call are in RMB.

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

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

Thanks, Ruiyu. Hello, everyone. Thank you for joining our earnings call today.

We are pleased to report a strong set of financial results for the third quarter of 2020. We delivered a solid performance in a seasonally light quarter and set new record for any operating and financial metrics. JD leads by example in contributing to the society and supporting the recovery of real economy. We have opened up our retail ecosystem, our self-build supply chain infrastructure, and technology capacity to empower our suppliers, our merchants, and our business partners.

We run our business with a long-term philosophy and pursue long-term sustainable growth. Our mission is to improve operating efficiency for the supply chain through technology innovation, and we share growth opportunities and economic benefit with our staff, business partners and society.

Our unwavering effort in supporting society and our users continue to gain positive recognition and win trust from more and more consumers. This has been reflected in our solid growth of active users and improvement in user engagement, across different tier cities.

Our annual active customers in the past 12 months reached 442 million, adding more than 100 million customers, up 32% from a year ago, the highest growth rate in the past three years. We obtained more than 24 million net additional customers compared to last quarter, the largest expansion in the seasonally light September quarter in our history. This once again validates our long-term operating philosophy to run our business with a customer-centric focus.

We continue to generate traction in the lower-tier cities, which contributed about 80% of our new users this quarter. We are also inspired by the further enhanced consumer loyalty and engagement of our core users, who appreciate the consistency of products and service quality we deliver every day. Our core users are buying products from more categories from us and more frequently.

We have become a part of many users' daily life. It's worth highlighting that our JD PLUS members exceeded 20 million in October, an important milestone for our paid membership program. JD PLUS was the first paid e-commerce membership program in China designed to better serve our core users. Besides the benefits offered on JD app, such as shopping rebates and free shipping coupon, JD PLUS has partnered with over 600 industry leading brands to provide our members with comprehensive privileges in sectors such as movie tickets, travel, hotel bookings, fitness, education, dining and entertainment.

Our data shows that JD PLUS has effectively improved the engagement and retention of our core users. As our PLUS members shop more frequently with an ARPU, average revenue per user, that is multiple times higher than that of non-PLUS members. By integrating with the resources of our brand partners, JD PLUS has also created an industry benchmark in the paid e-commerce membership.

Our Q3 financial results actually reflect our quality future growth with enhanced user engagement. We reported net revenue of RMB174 billion for the third quarter, a year-over-year growth of 29.2%, maintaining strong growth momentum even on the back of Q2 peak season and over last year's high base. General merchandise revenues grew by 35% year-over-year, led by the supermarket and healthcare categories.

Net service revenues grew 43% year-over-year, led by the accelerated growth of JD Logistics and strong performance of our advertising business. Our net service revenues contributed to over 13% of total net revenues, making another historical record. As the economy gradually return to normal from the peak of COVID-19 outbreak, JD Logistics continued to gain trust from its business partners and delivered an accelerated revenue growth.

Besides our solid user and topline growth, there are few notable operating and financial performances, we want to highlight. First, JD Retail's operating margin reached 3.9% in Q3, a record in our history, and an improvement of 56 basis points compared to the same quarter last year. What's notable is that, our operating efficiency continued to improve, even as our product mix shift from the large ticket size, but low frequency categories such as 3C and home appliance to the small ticket size but high frequency consumer staple categories.

Order volume for the supermarket categories grew by over 48% year-over-year in Q3. Another key metric illustrating our operating efficiency improvement is our inventory turnover days which further reduced to 34.3 days in the last 12 months. This is one of the lowest among the top global retailers and our own historical records, despite the total number of SKUs managed by us continue to increase with our category expansion. Once again, this validates the power of our scale-driven business model and our long-term margin trajectory.

Secondly, our 3C and home appliance categories continue to outperform the industry tremendously, and we continue to gain market share. Our unparalleled supply chain capability better position us, in particular amid the absence of new flagship products from

the leading electronics brand starting in Q3. As we mentioned before, our 3C and home appliance categories have significant operating and cost structure advantages over our peers, enabling us to provide the best value and service to consumers. We continue to expand our supply chain capability further (Technical Difficulty) bringing more customized products to different consumers and create value for our business partners.

Certainly, JD Logistics is another prominent example of our long-term investment in user-centric experience and supply chain infrastructure. Since we opened our service to third parties in 2017, JD Logistics has made notable progress in providing its customers with integrated logistic services to improve their warehouse management and fulfillment efficiency.

As JD Logistics gains more consumer, customer recognition, revenue generated from third-party customers contributed nearly half of JD Logistics' total revenues in September. JD Logistics also supports the growth of our 3P merchants on our e-commerce platform. Products marked as delivered by JD Logistics come with more transparency and more reliable services, and therefore, are open to preferred shopping choices of customers and help generate more organic traffic.

Moving down the line, our fulfilled gross margin improved to 8.7% this quarter compared to 8.4% in Q3 last year. This was mainly driven by the margin improvement of JD Retail and JD Logistics.

With our continuous improvement in operating efficiency, our marketing, R&D and G&A expense ratios in the third quarter improved across the board, by 16 basis points, 30 basis points and 8 basis points respectively compared to the same quarter last year. As a result, our non-GAAP operating income grew 77%, RMB5.3 billion and non-GAAP operating margin was 3%, up 82 basis points from the same quarter last year, the highest level in our history.

Moving to the bottom line, our non-GAAP net income attributable to ordinary shareholders in Q3 grew at 80% year-over-year to RMB5.6 billion from RMB3.1 billion in the same period last year. Non-GAAP net margin was 3.2%, up 90 basis points from a year ago and again a historical record.

Excluding the temporary relief of the social security benefit, the margin improvements we recorded in the first three quarters have clearly demonstrated the snowball effect that we continue to generate with our scale-driven business model. With our healthy profitability as a basis, we plan to invest in fast-growing businesses, specifically the supermarket category is a key growth area that we are very committed to continuing our investment -- to further strengthen our consumer mindshare and market leadership.

As our online B2C supermarket operation continues to generate growth momentum, we have been exploring various new business models in different markets to better capture the growth opportunity in this category. Our aim is always to better serve the diverse needs of our customers with quality products and services. Logistics infrastructure is another strategic area we will continue to invest in to expand our integrated service

capacity for the long-term growth. We will also continue to invest in our users and our people. All of these investments truly reflect our long-term operating philosophy.

Free cash flow for the quarter improved to RMB7.5 billion as compared to RMB63 million in the same quarter last year. Free cash flow for the last 12 months reached over RMB30 billion grew by 93% year-over-year. As of September 30, 2020, cash and cash equivalents, restricted cash and short-term investments added up to a total of RMB127 billion. We have a strong liquidity position.

In conclusion, JD showed remarkable resilience again in Q3 as China emerges from the pandemic. We delivered both robust topline growth and year-over-year improvement of profitability. We are investing in our capabilities in strategic areas. It's quite clear that these achievements were driven by our unique business model and operating philosophy, but more importantly JB's resilience is underpinned by our relentless focus on offering true value for our consumers and unreserved empowerment for our business partners through our technology and infrastructure. Many users are still shifting from offline to online and the e-commerce penetration is really accelerating in many categories. JD is well prepared to capture the secular trend and we will continue to invest for the long term.

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

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, the question-and-answer session of this conference call will start in a moment. (Operator Instructions) First question comes from the line Ronald Keung, Goldman Sachs. Please go ahead.

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

Thank you. Thank you, Richard Qiangdong, Lei Xu, Sandy, Ruiyu and team, and congratulations on a very strong results. My question was around your supermarket strategy. Sandy you just mentioned about further investments into supermarket, could you just share how are we sort of thinking about the strategy of your mega warehouse, your stores at Home [ph], where are we in the progress of natural selection initiatives? And would you be able to share some -- any thoughts on emerging models like the pre-order and next day self pickup model where most people talk and mentioned as the community group purchases. How do we think about these given we do have a lot of strong users and supply chain capabilities? Thank you.

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

Thanks, Ronald. On your question regarding supermarkets and fresh, I think first of all, this is a huge market and we have seen structural opportunity for this category. And so this will definitely be a strategic priority for outlook and we have -- as I mentioned just now, we have demonstrated or proved to the business model for our traditional B2C operations

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and now we have -- we are experimenting and we are also exploring different business models or initiatives in this area, covering top-tier cities and the lower-tier markets. So because this is a huge market, we understand that there are many companies entering into the market, but we believe by end of the day, there will be quite a few players, and we don't have to compete head-to-head at this stage.

So, the fact is fresh produce is even more tough category for e-commerce of retail due to the low ticket size and high loss ratios during the production and fulfillment process. So we don't believe subsidy is a competitive advantage. The key to (Technical Difficulty) find a way or solution to improve the operating efficiency of the existing business processes and reduce operating cost. So this is exactly our mission or our operating philosophy. So we will continue to invest in infrastructure and our supply chain capability to build our core advantages in this category or this area.

## Operator

Thank you.

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

So, just to supplement, for the various new business models we are experimenting that would include, you know the 7Fresh store warehouse business model, the community group purchase model or the distribution warehouse models.

## Operator

Thank you. Next question is from the line of Thomas Chong of Jefferies. Please go ahead.

## Q - Thomas Chong {BIO 21155199 <GO>}

Hi. Good evening. Thanks management for taking my questions and congratulations on a strong set of results. Given our strong user growth trend, can you comment about how we should think about the user outlook in 2021 and in particular our strategies in lower-tier cities' penetration? And on that front, can you comment about the competitive landscape in the online shopping space next year? Thank you.

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

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

(Foreign Language) Due to the impact of the coronavirus in 2020, we see the overall growth on online shopping, online consumption has been growing rapidly. And JD is a beneficiary in this process. And our penetration rate into the Chinese consumption market has been going up, especially in the lower-tier cities and among the users above 45 years old. So we believe people's shopping behaviors online has been growing and is here to stay.

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(Foreign Language) And at the same time, we do some different performance on the different categories. For example, there is a very strong demand in the categories of healthcare products, household products and fresh food et cetera, but for some other categories, due to the impact of the international supply chain, the growth is slower than expected. But overall for JD.com, we are a comprehensive platform that offer all kinds of categories, so these ensure we're going to have a very sustainable and stable growth this year. And at the same time, we will also leverage our strength in supply chain and our reputations and mindshare we have among Chinese customers to keep our leading position on this market.

(Foreign Language) And at the same time, we will also continue to explore a new traffic field both online and offline, and we'll continue to strengthen our need and capacities in terms of supply chain and our omnichannel strategies. And we believe based on these unique strength of supply chains and our special competitiveness will continue to better position on this market.

(Foreign Language) And we have seen that over these quarters, we have a very healthy growth in terms of the users. We do see our existing users are shopping more frequently on our platforms and for new users because that they already been educated and having cultivated through other platforms. When they become more mature and more customized online shoppers, they will shift to a better platform that can provide better services for them. As you know, that JD is a platform with the strength of supply chain and services, we have a better competitiveness to match the shopping criteria of more and more customers. So we would rather (Technical Difficulty) long-term perspective to see a sustainable growth of our user space.

(Foreign Language) And either in the past or now in the future, I would like to give four keywords for our long-term development. The first is, focusing on our user experience; second, we'll keep open and we will develop our omnichannel strategy and strengthen our team and capacity building, focusing on supply chain. Those four key areas will be in the long run offer strategy and foresight.

(Foreign Language). Thank you for the questions.

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

Let me add a little bit. We have demonstrated that our lower-tier city approach will be effective. As I mentioned at the opening remarks, around 18% of our new users were coming from lower-tier cities in history, and also want to add up that, our marketing expense ratio was also decreasing. That means, we can acquire users and retain these users more efficiently. These were driven by our improved technology and algorithm behind the front platform. So far, we have seen very healthy user trends. So users are shifting from the high ticket size and low frequency items to the low ticket size but high frequency purchasing.

#### **Operator**

Thank you. Next question is from the line of Jin Yoon of New Street Research. Please go ahead.

**Q - Jin Yoon** {BIO 16293072 <GO>}

Yeah. Good morning, good evening, and thanks for taking my question. So I know that last quarter that you guys announced like you're not going to provide guidance going forward. But given the fact that we're seeing a pretty profound seasonality with second and fourth quarter promotions kind of where they are perhaps [ph] can you give us kind of a directional view of how we should look at the fourth quarter, if it's kind of the similar trajectory that we should look on a year-over-year basis compared with other second quarters. So any kind of color there would be pretty helpful?

And then even on the margin side, we've seen a pretty significant operating margin leverage in the first nine months of the year. And just, is there any reason why we can't see the same kind of a step-up function in the fourth quarter as well. So any kind of directional view on the margin as well as kind of on the revenue side, color would be great? Thanks.

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

Sure. This is Sandy. Let me respond to your question. So for future trend, in Q3, we continued the great moment from the first half year on user engagement and new user acquisition, particularly in the lower-tier markets. So this formed a very good business for our Q4 promotional season.

In the past Double 11 promotion, our performance fitted our internal expectation, and the user number and traffic were very healthy so far, as I just mentioned. So, I think the trend of users shifting from offline to online continues, and we will continue to invest and focus on user acquisition and engagement, in particular, for our fast growing categories.

But we also want to emphasize that, we see stronger seasonality this year as the users are now better educated by the e-commerce platform. So this is a generic trend for topline, and then for top -- bottom line, and you can now see that the scale benefit of our Retail business and Logistics business have been quite gradually (inaudible). So we now see opportunity for accelerated penetration of e-commerce in China. To catch up this opportunity, we're going to reinvest the extra profit that we generated in the first nine months of 2020 and in user experience, and in some of our fast-growing categories, or new business initiatives, if this can happen gain market share in the long run. So you might see similar pattern of margin seasonality in Q4 as in last year.

**Operator**

Thank you. Next question is from Gregory Zhao of Barclays. Please go ahead.

**Q - Gregory Zhao** {BIO 18710278 <GO>}

Hi, management. Thanks for taking my question, and congratulation on a strong quarter. So my question is about at the onset that a group of ASEAN countries who made the trade -- the free trade agreement over the regional and a comprehensive partnership, so

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a lot of products and services will be covered in the agreement and we know some free tax terms will also be introduced. So, would you please help us understand opportunities from RCEP to China e-commerce and also our cross-border e-commerce market and how do you kind of take the opportunity? Thank you.

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

(Foreign Language) This is Xu Lie from JD Retail to respond to your question. Regarding the growth of our cross-border business, it has been growing steadily this year, and we also see that our NPS score, which is our net promoter scores to show that our user's experience is also growing rapidly. We pay highest attention to the field of duty-free products and the cooperation on the cross-border in these aspects.

(Foreign Language) And I think this is a newly announced news recently, just one day ago, with you following the news and to understand the implications of these new regional cooperation and will easily impact these -- very positive news for both the production and consumption in ASEAN and Asian region.

(Foreign Language) And of course, we will take full advantage of our strength in our cooperation with international brand and also our supply chain capacity to catch these opportunities. So we will watch closely on the development and to see the opportunities to further develop our business, and thanks for your questions.

**Operator**

Thank you. Next question is from the line of Eddie Leung of Bank of America Merrill Lynch. Please go ahead.

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

Good evening, (foreign language). I'm just a bit curious on your gross margin. So we see your gross margin and fulfilled gross margin both improved in the quarter. However, we also noticed that your marketplace and advertising revenue actually grew slower than your direct sales pieces. So I'm just wondering, what was the big news behind the gross margin improvement? Does it mean, our 1P revenue gross margin actually improving? Thank you.

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

This is Sandy. Thanks for the question, Eddie. Your question regarding gross margin, and I think for JD Retail, the gross margin improvement was mainly contributed by the change of product mix. As we mentioned that the customer's purchase behavior is shifting from higher frequency to -- low frequency to high frequency, and also the scale benefit that we realized from all categories, so the gross margin is gradually improving for all the products.

And then talking about for fulfilled gross margin, so again this is contributed by the scale benefit and partially contributed by the relief of the social security benefit by the government. But the majority of the benefit was realized in the first half year with a small

amount left in Q3. So advertising revenue actually grew faster than the topline product sales, but this is -- the growth of advertising revenue is kind of upsized the slower growth of the commission revenue become for the 3P business, although the GMV actually grew very healthy, but the GMV of the product categories with lower commission ratio grew faster than the categories with higher commission ratio.

## Operator

Thank you. Next question is from Alicia Yap of Citigroup. Please go ahead.

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

Hi. Good evening, management. Thanks for taking my questions, and also congrats on the solid results. My question is related to the growth trend for the general merchandise. I think this quarter the growth rate 35% is still very solid, but just a little bit more interested to get management view on any elaboration you could provide in terms of a slight decelerated growth from the second quarter achieved for these general merchandise. I think you mentioned, the supermarket actually grew about 48%, so just wonder which category actually experienced a bit more seasonal slower growth than before? And then just very quickly on the Singles' Day GMV performance, how do you rate and compare that with your expectation versus June 18, since that is actually stronger than June 18. And is that driven by pricing or any reasons for the strong Singles' Day? Thank you.

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

That's a very good question. So for general merchandise, I mentioned earlier that, we saw robust order volume growth in Q3. The order volume grew by 48% in the quarter. So what happened is at the -- so if you compare with the second quarter, you will see that the growth rate slowed down a little bit and I mentioned that growth rate you will remember there were some COVID-related sales in the first half, including the cleansing product, the disinfectant, liquid soap et cetera. So the sales volume dropped for this product in Q3 as the users they already had sufficient inventory stored at their home.

And also in Q3, the fresh -- If you look at fresh produce category, its largest sub-category is seafood. So was a drag of our overall growth due to a few COVID cases reported during the quarter were in relation to the important people. So the other subcategories, as the fresh produce, were continued to grow very strong during the quarter, but they were with relatively lower ticket size and revenue contribution. So overall, we see the order number, the user growth and the traffic at the general merchandise continue to be very strong during the third quarter.

Sorry, what was your second question?

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

(Foreign Language) This is Xu Lei to answer question related to the Singles' Day grand promotion.

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(Foreign Language) As we have -- in order to answer that, we were not only looking at (inaudible) Singles' Day, if we look at the grand promotion period from November 1st to 11th, we are very pleased with our growth results.

(Foreign Language) And for this year because of the pandemic impact and so on, we would like to drag the time spent even longer because this time of our brand partners also pay high attention on these activities. So if we drag the timeline on October the 1st to November 11th, for one and half-month time we are achieving a much better results than expected.

(Foreign Language) For the reasons why the Double 11 performance is even better than the 618 Shopping Festival, I think there are two reasons. And one reason is, on the consumer side, as we understood that by the end of the year, a lot of consumers, they have a bigger shopping plan to purchase more stuff.

(Foreign Language) And on the supply side, in addition to the brand partners, we also see that for the small and medium-sized businesses, they are better recovered than in June from this epidemic. So they are in a more comfortable and more ready position to prepare their products and to do their operation. This also contributes to a better performance of the sales growth.

(Foreign Language) Thank you for the questions.

## Operator

Thank you. Next question is from Jerry Liu of UBS. Please go ahead.

### Q - Jerry Liu {BIO 17515547 <GO>}

Hi. Thank you, management. Yeah, my question is on the Logistics business. We saw in the third quarter, revenue growth year-over-year accelerated versus the last couple of quarters. So just wanted to get an understanding what are some of the things we did, maybe services or new initiatives, especially for the third-party merchants where we saw the revenue mix come up?

And similarly, we've also heard that from our checks that some of the brands are more and more willing to work with JD Logistics as some of the traditional logistics infrastructure was not yet able to handle the demand post-COVID. So just wanted to check with you and see if you have any comments regarding that kind of a situation? Thank you.

### A - Zhenhui Wang {BIO 21020367 <GO>}

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

(Foreign Language) Thanks for your question. As you mentioned, indeed we have been accelerating growth of our business in Q3. There are several reasons, but first, I think it's

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attributed to our long-term commitment to our improvement of new business experience.

(Foreign Language) On JD Logistics, our value proposition is to provide the best user experience and driven by technology and win from our efficiency improvements. So we have always increased our investments in our capacity building to provide more services and infrastructure to cater to the need of our customers. And no matter, in during the COVID period, or in the normal times, we'll always ensure we provide the best supply chain services to our customers to provide value for them. I think this is the key reason they choose us from our competition. Thank you.

## Operator

Thank you. Next question is from James Lee of Mizuho. Please go ahead.

### Q - James Lee {BIO 15949362 <GO>}

Thanks for taking my questions. Two questions here. First on online pharmacy. Can you talk about some of the key frictions you are trying to resolve to drive higher online adoptions? Should we think about you as more supply constrained or demand constrained? And maybe can you update also on the margin profile long-term, I think previously you mentioned maybe two times higher than offline pharmacy chains? And also second, can you talk about the implication of the new anti-trust regulations, how does that impact e-commerce and JD? Thanks.

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

So, we apologize that for any question in relation to bidding costs [ph], we cannot respond at this call, because they are in the middle of IPO process. If you have any questions, you may reach out to the Investor Relationship team.

### Q - James Lee {BIO 15949362 <GO>}

Yes, this is Jon Liao. I would take the second question regard to the antitrust. Totally different from typical C2C platform. JD is mainly a B2C retailer, where it picks all merchandising, inventory markings, sales and logistics, that's first point I would make. And the second, so JD continue to expand into other categories beyond 3C like fashion. Actually JD has been victimized by anti-competitive behaviors where merchants are being asked to do, you know -- pick one out of two.

So the third point I would make is, JD fully support the antitrust regulation, which we believe is very important for healthy growth and innovation of the business ecosystem in particular and the country's economy in general. And lastly, which is most important is, since day one, our Founder, Richard Liu, has subscribed to a business principal according to \$0.35, out of which if we make \$1 profit, \$0.30 goes to e-commerce and \$0.35 for our employees and the remaining \$0.35 for JD's continuing growth. As such a JD is fully committed to a healthy ecosystem that is relying on cooperation, coexistence, and coevolution.

## Operator

Thank you. Next question is from Jialong Shi of Nomura. Please go ahead.

### Q - Jialong Shi {BIO 18647437 <GO>}

Thanks. Good evening, management. Thanks for taking my questions.

(Foreign Language) I have two questions. The first question is about the grocery e-commerce business. Management mentioned earlier, JD is a pilot in some of the fresh grocery models, including 7Fresh and community group buying model, et cetera. Could management provide some colors on the strengths and weakness of each of the models? And which model in the management's current view has a potential to become the dominant model in the future for the online fresh grocery business?

And the second question is about the guidance for Q4. Sandy mentioned JD will reinvest the extra profits earned in the first nine months into improving user experience in Q4. So could management give some -- give us some colors, what is the size of the actual profits you guys are aiming to invest in Q4? Thank you.

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

(Foreign Language) This is Xu Lei from JD Retail. I will answer your first question about the fresh food's community group buying.

(Foreign Language) So the fresh food market is indeed a very huge segment, and you have seen that there are many participants is like pricing and exploring in these areas, including those traditional retailers and Internet players and also some emerging companies.

(Foreign Language) And I want to address that for the Chinese fresh food market, it's very different, the landscape is very different from European and the U.S. market. It's more complicated. In China, the traditional retailers in fresh food categories, the top 10 players, top 10 supermarket brands only take about 5% of the overall Chinese market. This is a much smaller amount compared with the Western markets.

(Foreign Language) In general, we can categorize the fresh foods market into five segments, where we call it -- we call it a racing tracks, namely first, is the B2C; second, is the warehouse stores; and third is, the community group buying; and fourth is the B2B; and fifth is (Foreign Language) yeah, it's a front distribution center, FDC.

(Foreign Language) And so as JD we have started our exploration and investment in these categories, in these racing tracks including the B2C model and warehousing store model, and we will keep our eye open and look for the new territories. Actually for each different categories, the business models and the profitability methods are very different.

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(Foreign Language) We also noted that the many companies in these competitions, they are using these channels as a traffic flow field. However, for JD, we would rather use our (Technical Difficulty) and our primary services to create a more sustainable ecosystem to the growth of the fresh food areas. So we'd rather not use this as a short-term opportunities and using subsidies to boost development of the fresh food market rather than to develop in a more sustainable and stable business model in this field.

(Foreign Language) And for some of these business models, it has to be focused on these regions and to fully localized services and to perform in the long run.

(Foreign Language) So in addition to our B2C and warehousing stores models, we'll continue to be alert and continue to explore and invest in the new models. So we value the most sustainable and stable business models. So we'll continue to focus on our core strength of supply chain to make sure these models are working, stable and provide value for our customers.

(Foreign Language) Thank you.

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

So regarding your second question as to reinvestment of our net income, so if you remember that at the beginning of the year, we expect the target for this year is that we are going to -- we were going to deliver steady growth in net margin. So at this stage, we can see that, we are confident we have delivered that on an annual basis. So that means, we have sufficient resources for reinvestment in the fourth quarter. But because the market situation is changing already rapidly, so we are going to make economic adjustments to our investments in the varying initiatives based on the ROI. And some of the initiatives, that we talked about just now are actually for the long term projects. So that means the investments may last till next year. So for that reason, we are still in the middle of our budgeting process. So we will then share our thoughts on the resource allocation order traffic for next year at our next quarter's earnings call.

#### **Operator**

Thank you. Next question is from Eddy Wang of Morgan Stanley. Please go ahead.

#### **Q - Eddy Wang** {BIO 19169337 <GO>}

Hi, management. Thank you for taking my questions and congratulations on the good results. So I have a very quick follow-up on this online fresh grocery. So if you look at next year, given that a lot of the players, they actually tend to be very aggressive in penetrating though these unlike fresh grocery. So what's your thoughts of the market share? Are we still taking all these players to taking the market share from offline to web market or supermarket? Or have you seen any signs that you know -- players are just starting to -- taking market share from each other? Yeah, just a very simple follow-up. Thank you.

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

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

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(Foreign Language) And indeed, in this year 2020, JD Super, our online supermarket platform has been benefited from the fruitful impact of the epidemic. A lot of customers who used to buy things offline have shifted to our online platforms and their behaviors stay with us. And also this is a result of our years of investment and our product selections and our cooperation with our brand partners and our superior fulfillment capacities and all these have contributed to the faster growth of JD Super.

(Foreign Language) And indeed, we do see a strong growth in terms of sales and the market shares in our JD Super category. However, because the shopping behaviors for these product categories are very different from consumer electronics products, actually for the fresh groceries, their online shopping penetration rate is still relatively low. There's still space to grow.

(Foreign Language) Though you have seen that JD has become the global number one or the key accounts or many -- a brand where many products both international brands or domestic brands, but actually for these categories, the market is very huge and the penetration rate still are expected to grow.

(Foreign Language) And we do see actually wider set of brands for JD to operate. We do have to go through several phases. For Phase 1, the brand see JD as a very effective sales channel to help them to bring down the cost and increase sales opportunities.

(Foreign Language) And for Phase 2, with that to work with our brand partners to do more marketing and to manage their members and the spend to help them to increase their digitalization capacities to engage with their members.

(Foreign Language) And for Phase 3, we are continuing to build more C2M products, mainly, the consumer to manufacture products to tailor to the needs of different corporates of consumers from the lower-tier cities, who have special preferences, et cetera. So currently more than 30% of our sales on JD Super are coming from the differentiated products we collaborate with our brand partners. And these achievements are based on our vast data and advanced algorithm. So this is very close and deepen cooperation with our customer, with our brand partners in this space.

(Foreign Language) And for Phase 2, under our omnichannel strategies and JD Super is doing a great job and been very welcomed by multiple players with us. JD Super entered this omnichannel. JD Super's brand partners both online and offline would look at their business performance both online and offline through our data to our systems and tools. So these formats are very well performing and well received by our brand partners' platforms and also benefit our customers.

(Foreign Language) And I'd also like to share with you this ambition that I believe JD Super in future will become the number one category on JD's overall platform. Thank you for questions.

**Operator**

Thank you. Our last question comes from the line of Han Joon Kim of Macquarie. Please go ahead.

**Q - Han Joon Kim** {BIO 21310553 <GO>}

All right. Great. Thank you for your time today. I wanted to follow up on live streaming, and yeah, I guess your partnership with Kuaishou and so forth. Are there still kind of experimentation going on there, and the outlook for next year as well? Thank you.

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

(Foreign Language) This is Xu Lei. I just want to share you a few points about live stream.

(Foreign Language) First of all, we believe in the long-term live streaming will not only be a sales channel, it will become a standard operating tool for many platforms, not only the video platform, but a very standard tool for all the sales and marketing stores.

(Foreign Language) And so now a lot of people go to live streams in pursuit of its price discounts. But in the future, we think live stream will be able to do or provide more functions like giving more detailed introductions of the products, or being the platform for new products release. So there will be multiple functions it can explore.

(Foreign Language) And for JD Live, we do see the live stream data is going very well, and more and more merchants are engaged on this platform. The difference between JD Live and other platform is that because of -- our customers are different structures, customers would like to see more professional content on our platform. So (inaudible) our platform, we always advocate more rational consumptions. So we want to provide more professional information and invite the CEOs of the big company to introduce your products on our JD Live platform, and also invite those amateur or the specialists of certain products to give professional introductions on JD Live.

(Foreign Language) And also we're now increasing our co-operations with other MCN channels and artists [ph]. And one another thing I want to share with you is that, the orders -- sales orders achieved on the live stream on JD's main sites, it's much higher than our third-party live stream. I think this is highly related to the customers' trust and qualities and healthy behavior on JD platform.

(Foreign Language) And just to briefly comment our cooperation with Kuaishou, Kuaishou look forward to cooperate with JD because of our superior supply chain in terms of our products and services and also admire Kuaishou as a very unique platform that provides traffic flow into a very big amount of consumer corporates. So this is a very natural complementary for this cooperation.

(Foreign Language) And for this cooperation, not simply that JD will post a price on Kuaishou for sales, but more, there is a lot behind the supply chains and our services to support this corporation. So there is still a lot of work we are doing to further connect our system. And at the same time, I believe that we will provide better values for this cooperation, and yeah in the long run. Thank you.



## 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>}

Thank you, operator. Thank you for joining us today and your continued support. Please feel free to contact us if you have any follow-up questions. 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. Have a good day.

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