Q2 2021 Earnings Call

Company Participants

- Lei Xu, Chief Executive Officer
- Sandy Ran Xu, Chief Financial Officer
- Sean Shibiao Zhang, Director of Investor Relations

Other Participants

- Eddie Leung, Analyst
- Jerry Liu, Analyst
- Ronald Keung, Analyst
- Thomas Chong, Analyst

Presentation

Operator

Hello, and thank you for standing by for JD.com's 2021 Second Quarter and Interim Earnings Conference Call. (Operator Instructions)

I would now like to turn the meeting over to your host for today's conference, Mr. Sean Zhang, Director of Investor Relations. Please go ahead, sir.

Sean Shibiao Zhang {BIO 21615286 <GO>}

Thank you, Leslie. Good evening and good morning everyone. Welcome to our 2021 second quarter and interim result conference call. Joining on the call today are Mr. Lei Xu, CEO of JD Retail and Ms. Sandy Xu, JD.com's CFO. For today's call, Lei will kick off with opening remarks and Sandy will discuss the financial highlights. Both Lei and Sandy will join the Q&A session.

Before we continue, let me refer you to our safe harbor statement in the earnings press release, which apply to this call as we will make forward-looking statements. Also this call will include a discussion 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.

And now, I'd like to turn the call to CEO of JD Retail, Mr. Lei Xu.

Lei Xu {BIO 21705778 <GO>}

FINAL
Bloomberg Transcript

FINAL

(Foreign language) Hello, everyone this is Xu Lei, CEO of JD Retail. Thank you for joining our earnings call today.

(Foreign language) I believe you have all paid attention to and may concerned about the recent regulatory changes. As shared two months ago on JD's Investor Day. Our observation is that these changes are essentially adaptive efforts made by the government as the industry undergoes high speed growth. Regulators are working to bring platform economy-based enterprises into a standard regulatory framework, which can effectively rectify and regulate mis-contacts such as disorderly capital expansion, or monopolistic conducts and so on.

(Foreign language) Therefore, we believe these policies are not intended to restrict or suppress the Internet and relevant industries, but rather to create a fair and orderly business environment and to promote long-term and sustainable development of these industries.

(Foreign language) We believe that the regulatory goals are conducive to JD's long-term business growth. So far, our business maintained steady growth while committing to best compliance practices. Looking at JD's development in the past 18 years, our business model and strategy are proved to better position us, moving forward in line with the general direction of regulations in China and even global markets.

(Foreign language) First, JD's longstanding business principle of doing business the right way echoes the movement towards the principle of business for good. Since day one, our priorities have remained the same; we always put customers' needs at the core; respect every employee and provide them with all-round safeguards; open up our capabilities to fully empower our business partners to achieve win-win results. On this journey, we keep on creating and sharing value for our stakeholders, while doing our utmost to take on as much social responsibility as possible. Some of which is even beyond our scale, we believe these acts are worthy of recognition in China and across the world.

(Foreign language) Second, JD.com is a new type of industrial enterprise that has both the traits of real economy and the digital technologies, which inherently differentiates us from the platform economy model. JD creates value along the entire industry value chain from providing marketing and transaction technology support, delivery and aftersales services all the way to industry upstream of warehousing, inventory management, product selection, pricing and manufacturing. But opening up other various capabilities accumulated over years to the real economy offering one-stop solution, one-stop solutions and continuously housing enhancing supply chain efficiency. We can truly achieve a non-zero-sum value for co-creation with our users and business partners.

(Foreign language) At the same time, JD.com itself is part of the real economy, operating and managing more than 23 million square meters of warehouses nationwide and over 9 million self-operated SKUs. We also operate tens of thousands of offline stores including, franchise stores, of home appliances, digital products, pharmacies, 7 fresh omnichannel, supermarkets, convenience stores, JD auto car maintenance service stores and more.

Bloomberg Transcript

While, at the same time, leverage our omnichannel model and supply chain capabilities to connect with nearly 1 million brick and motor stores out there on the market.

(Foreign language) In addition, we have close to 400,000 employees, including those in our unlisted subsidiaries and affiliates, and a majority of them work on the front lines in delivery, warehousing, customer service positions and more. The services they provide cover over more than 550,000 administrative villages across China, enabling the country's 92% counties and 84% rural customers to enjoy same or next day delivery services.

(Foreign language) Take our delivery personnel as an example, different from many express delivery companies, we offer full-time jobs with formal employment contract to nearly 300,000 blue collar workers. In addition to social insurance and housing fund, we also provide accident insurance, subsidies for working under special environment, COVID, Insurance, employee relief fund and more. These demonstrate the vast social value that JD creates, which sets us apart from platform economy model companies and reap ultra-high profits out of traffic and transaction flow.

(Foreign language) JD's business philosophy is to promote quality products and rational consumption. We were providing best-in-class shopping experience, we are driving healthy growth of brands and merchants, which, in turn, helps to create stable and large scale high quality jobs. This enables us to form a virtuous cycle between commercial and social values. This is also fundamentally in contrast to driving the economy into a vicious circle in which normal market competition is disrupted by excessive price subsidies and merchants' profits and are unreasonably squeezed.

(Foreign language) With all that in mind, we believe JD's business model and strategy position us well to move forward in line with the general direction of regulatory policies, and will foster healthier growth in the future. Now I would like to walk you through some of JD Retail's business highlights in Q2.

(Foreign language) JD Retail continued high-quality growth in Q2. Not only did we achieve continued top line growth from a high base last year, but also maintained steady margin expansion on a comparable basis, thanks to our improved supply chain and operating efficiency. Despite the complex competitive landscape, we achieved a GMV growth of 27.7% year-on-year during the 618 Grand Promotion, sustaining the recovery momentum of the entire retail market and the upstream industries in China. In a challenging market environment, such result in solid proof of JD's writing recognition and much higher, and mind share among customers, suppliers and friends.

(Foreign language) This is also evident in the high-quality growth of JD active users in Q2 following the milestone of 500 million active users that we achieved on April 1. We are excited to see our annual active usage increased by nearly 32 million, setting a new record of single quarter net increment. At the same time, we see the quality of new users continue to improve on the aspects of retention rate, shopping frequency and more. Furthermore, the average revenue per user of existing users as well as all users blended continue to grow. This means that both the user base and their lifetime value on JD

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

increased. There are many other operating and financial highlights in the quarter that Sandy will elaborate on later.

(Foreign language) Second, we press ahead on the omnichannel strategy. I've shared during the Investor Day, that's the rationale behind our omnichannel strategy is to break the glass ceiling for JD's long-term growth. I'd like to reiterate that only JD's business model has the ability to truly run the omnichannel plan.

(Foreign language) This is because that the strategy is founded on JD's supply chain capabilities which we have built and honed over the past 18 years. With our supply chain digital operation and integrated marketing capabilities in various shopping scenarios both online and offline, we can synergize with suppliers and partners to effectively meet the customers' needs that cannot be met by a pure online platform or B2C model. Moreover, we have built an open platform to adapt to the ever-changing markets with ultimate go to sell products from all over the world and sell products everywhere in the world.

(Foreign language) As of Q2, through O2O supply chain solutions, omnichannel marketing and other models, JD's omnichannel business has covered millions of brick and mortar merchants. And our goal this year is to further expand our universal capabilities in omnichannel making breakthroughs in key areas and then introducing these capabilities into more business formats and region.

(Foreign language) Third, by empowering merchants on the third-party marketplace, we have been working to alleviate burdens and improve efficiency for merchants this year. We introduced a series of smart operation tools such a simple onboarding process, intelligent customer service management, simple advertisements placement, merchants growth center as well as our integrated supply chain solution, which helps to lower the entry barriers for new merchants and improve their operating growth efficiency.

(Foreign language) In this quarter, our marketplace business made progress in three main areas: First, the overall number and types of merchants grew both year-on-year and quarter-over-quarter. Second, merchants operating efficiency satisfaction level and retention rates further improved. And third, the Net Promoter Scores of our marketplace business continued to improve. This all speak to the increasing recognition of merchants and customers and healthy business growth.

(Foreign language) We're encouraged to welcome a number of new brands on JD.com including Bvlgari, menswear brands Berluti and other brands enter the LVMH Group as well as many returning brands including Victoria's Secret, eifini, Maniform and Erdos.

(Foreign language) I hope that by sharing, we can help you better understand that JD's business philosophy and model. Strategies and development are moving ahead in line with the general direction of the regulatory and market development. In the current market environment, we believe JD is set to have more strategic advantages and development opportunities over the long-term. Finally, I'd like to reiterate that JD is committed to delivering certainty and high quality growth in a time of uncertainties and living up to everyone's support and faith in us.

This concludes my remarks today. Now, I'd like to give the floor to Sandy for more details.

Sandy Ran Xu {BIO 20315444 <GO>}

Thank you, Lee. Hello everyone. Today JD is reporting a very solid quarter with healthy growth across many of our operation and financial metrics as well as many exciting progress, along our new strategic directions. This is particularly encouraging amidst a dynamic competitive landscape. I'd like to echo what Lei has said, that our persistence performance has clearly been guided from day one by our business philosophy of value creation for all and supported by our unique business model that is deeply rooted in the real economy. As you may recall, we demonstrated the resilience of our business model and execution a year ago at the height of the COVID challenge. I believe we will continue to show resilience and thrive in the current changing environment as well.

Before going through the financials, let me share a few convincing business progress we have delivered and some of the positive trends we saw during the quarter: First, I want to add some color on user trends. We are encouraged by the continued growth of our active user base, with our LTM total active users reaching 532 million in Q2, up 27% year-on-year on a high comp from last year. We are excited to welcome 32 million new users this quarter, which is the largest quarterly addition in our history. We are heartened by the fact that this was driven by the increase in trust and engagement from users with different demographics and diverse demand.

We continue to win over price sensitive users with our broad selection of value for money products and diverse services. Users from lower tier market not only continued to contribute nearly 80% of our new users in Q2, they also accounted for over 70% of our total active users in the last 12 months by shipping address. Along with the healthy growth of our new users, we are also encouraged by the higher engagement from our existing users.

More notably, the number of paying members in JD Plus program grew 30% year-on-year during the quarter further strengthening its position as the largest paid e-commerce membership program in China. As Plus members now enjoy a broader array of benefits on the JD app and in off-line stores, their ARPU continued to increase, reaching over 9 times that of non Plus users. So for our brands and merchants, JD Plus creates both effective engagement with JD's high value users and meaningful incremental sales. Overall, the improving engagement of our users was reflected in the higher average number of orders per user and the acceleration of total order volume growth to over 40% in Q2, which is faster than our LTM active user growth. We believe our strong user growth is healthy and sustainable.

Now let's turn to our financial performance in the second quarter. We set a new quarterly revenue record of RMB254 billion in the second quarter, up 26% year-on-year against a high comparable base from last year and maintained a robust 30% two-year CAGR. Our

FINAL

Bloomberg Transcript

FINAL

Bloomberg Transcript

net service revenues continue to grow rapidly at 49% year-on-year more than double the 23% year-on-year growth of net product revenues in the quarter.

Net service revenues were mainly driven by 72% year-on-year growth of logistics and other service revenues and 35% year-on-year growth of marketplace and advertising revenue. Note that within logistics and other services, the near triple-digit growth of JD Logistics' external revenues was partially offset by the deconsolidation of Cloud & AI business. Net service revenues contributed 13.4% of total revenues in Q2, up 200 basis points from a year ago, demonstrating the potential of our diversifying revenue growth.

Turning to the segment performance. Our core business JD Retail's revenues reached RMB233 billion in Q2, with 23% year-on-year growth. Our high comps (Technical Difficulty) 33% year-on-year growth in Q2 last year. The two-year revenue CAGR was 28%. We continue to see successful category expansion as general merchandise revenues grew 29.5% year-on-year and 37% two-year CAGR in Q2. This was led by our supermarket categories, including food and beverage, cleansing and personal care categories. Meanwhile, our electronics and home appliance revenues grew 20% year-on-year on the high comp with a two-year CAGR of 24%.

Furthermore, our third-party marketplace business continued to grow faster than our 1P business in terms of both year-on-year and the 2-year CAGR in the second quarter, especially during our June 18th anniversary sale, bolding well for the healthy improvement of our marketplace ecosystem. It's worth highlighting that JD Retail's long LTM active users grew 27% year-on-year and remained the predominant driver for our new user growth, thanks to its superior user experience and strong user mind share.

The solid revenue growth of our core retail business was accompanied by a remarkably resilient margin performance. In the second quarter, JD Retail fulfilled gross margin improved 30 basis points year-on-year and operating margin remained stable at 2.6% considering the one-off COVID-related impact resulting in less resources benched our marketing activities as well as social security benefit we received in the second quarter last year. The operating margin of JD Retail actually improved in Q2 this year on a comparable basis. Mainly thanks to technology-led overall operating efficiency improvement, our core retail business is set to maintain its trajectory of sustainable healthy growth and steady margin improvement.

Our JD Logistics business remains in a high secular growth stage. JD Logistics revenues grew 46% year-on-year and 45% two-year CAGR to RMB26 billion in the second quarter. It's worth highlighting that JD Logistics is a great example of JD's commitment to investing in long-term value creation for the benefit of society and taking on more social responsibility. This includes not only creating high-quality employment, but also providing sufficient protection and social as well as commercial insurance coverage for all of our frontline employees.

These genuine efforts deeply resonate with our employees, who then provide best-in-class services to and build personal connections with our customers. Our efforts have also resonated with the government and regulators evidenced by the social insurance

FINAL
Bloomberg Transcript

reduction benefits and other supportive measures from the government we received the last year. JD Logistics has reinvested these investments in logistics infrastructure and technology to expand its total addressable market and support e-commerce development in the less developed regions. While this long-term focused investments continue to weigh on near-term profitability, it's encouraging to see that JD Logistics operating loss has largely narrowed sequentially. JD Logistics currently operates over 1,200 warehouses with an aggregate gross floor area of 23 million square meters.

Our new business segment revenues reached RMB7 billion in the second quarter, with both year-on-year and the two-year CAGR accelerating to approximately 60%. The revenue growth of new businesses was primarily driven by triple-digit growth of Jingxi business and the partially offset by the deconsolidation of our Cloud & AI business. Operating loss in New businesses was RMB3 billion as compared to RMB2.3 billion in the first quarter, mainly driven by the investments in infrastructure and the capabilities in the lower tier markets.

Jingxi business is on track to meet its long-term goals of improving agricultural supply chain and retail infrastructure efficiency in lower tier markets, serving price-sensitive customers under the Jingxi brand and creating value for the local economies. During our June 18 anniversary sale, Jingxi sold a total of 22.5 million kilograms of agricultural products, with orders delivered from over 200 industrial belts. We are in a better position to empower local SMEs, including the mom and pops stores by providing supply chain support for their businesses and creating diverse revenue stream for them. Overall, we will continue to pursue new growth opportunities with financial discipline for the long-term sustainable growth for our business.

Now turning to the consolidated margin. Non-GAAP net income attributable to ordinary shareholders was RMB4.6 billion, with non-GAAP net margin 1.8% down from 2.9% in the same quarter last year, mainly due to the social security reduction we received last year and increased investments in our logistics and new business opportunities to position us for the long-term. Our inventory turnover days further shortened to 31 days in the last 12 months remaining at the lowest level, among leading global retailers, thanks to our continuously improving operating efficiency, even as the total number of SKUs directly managed by us under the 1P model continued to expand to over 9 million in the second quarter, up from 8 million last quarter.

As of June 30, 2021 cash and cash equivalents, restricted cash and short-term investments added up to a total of RMB178 billion, up from RMB139 billion at the end of Q1. Our free cash flow for trailing 12 months was RMB31.9 billion, up from RMB22.7 billion year-ago. In summary, we achieved healthy user and top line growth with diversified growth drivers, while maintaining solid profitability in our core retail business. Going forward, we will continue to balance growth and investments, while remaining committed to our business philosophy shouldering our responsibilities as a corporate citizen and creating long-term value for shareholders and the society.

With that, let's now open the call for Q&A. Thank you.

FINAL

Bloomberg Transcript

Questions And Answers

Operator

(Operator Instructions). We have the first question from the line of Ronald Keung from Goldman Sachs. Please ask your question.

Q - Ronald Keung {BIO 15432736 <GO>}

Congratulations on the strong results, Xu Lei, Sandy and Sean. My question would be on new businesses and we have seen the new business loss have widened sequentially. So I just want to hear, can the management share some of the latest developments in this segment, mostly, I believe, with the new business unit. Any user trends or overlap JD Retail that slightly on the user trends, just spend versus on JD Retail and the group and our expectations into, say, the second half of this year, particularly on our ROI focused investments. But also earlier, we commented in the past on a 6-month lag of the ramp up of investments versus some of the community group purchase peers. Let me translate my question, if that helps. (Foreign language)

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

Thanks Ronald. This is Sandy. Let me take this question. Jingxi is well on track of its long-term goals of better serving the price sensitive customers with value for money products. In Q2, we are seeing some initial results of our efforts, Jingxi Pinpin expanded by over 300 quarter-over-quarter in both daily order volume and GMV in the second quarter with active users growing even faster. I want to emphasize that we believe cost efficiency and customer experience are always the key to the long-term success of retail industry, which translates into the supply chain and logistics capabilities, rather than merely competing in subsidy to expand scale at whatever cost.

To reflect this, we made some strategic adjustments for this business recently, as you may have seen from the media. First, we focused on building capabilities in certain selected regions with strategic superiority i.e., in the regions that we can achieve better customer experience and operating efficiency, based on our Phase 1 business development result. We will continue to drive the efficiency in these selected regions through the increasing order density and enhance the local supply chain and logistics network.

And second on the supply chain side, we will collaborate with the local governments to better promote the Vegetable Basket Project and better integrate and leverage our existing retail supply chain. Third, we will explore to better integrate our customer's interfaces of WeChat Mini Program and our Jingxi app. And then we will also further integrate our logistic network for the long chain, short chain and B2B network to drive better efficiency and user experience.

We will also increase the penetration of Jingxi PinPin's business in the mom and pops stores that are already our customers for our B2B convenience store business, creating more traffic and value for these store owners. So last PinPin business is a good supplement of JD Retail's omnichannel strategy, which can provide users with different product selections and shopping experience. So we have more confidence in this

FINAL

business model under the current macroenvironment if everyone competes on building capabilities and driving efficiency instead of competing on subsidies.

On the investment side for this new business, as I mentioned in the opening remarks, that we will -- going forward, we will continue to balance growth and investments and drive -- find growth potentials for our long-term sustainable growth. At this stage, we will continue to focus on customer experience and service quality for the new business. The investment level would be somewhere -- relatively consistent with what we communicated with the market before.

Q - Ronald Keung {BIO 15432736 <GO>}

Understood. Thank you, Sandy.

A - Sean Shibiao Zhang {BIO 21615286 <GO>}

Operator, next question please.

Operator

We have the next question from the line of Thomas Chong from Jefferies. Please ask your question.

Q - Thomas Chong {BIO 21155199 <GO>}

(Foreign language) Thanks management for taking my questions and congratulations on a very strong set of results. In particular, JD Retail, that we are seeing the growth and the margin are very solid. Just want to get a sense of our JD Retail second half outlook on the revenue and margin side, given that we have seen the recent outbreak of COVID? Thank you.

A - Lei Xu {BIO 21705778 <GO>}

(Foreign language) This is Xu Lei from JD Retail to give you a brief introduction of outlook for the second half of the year.

(Foreign language) We have seen that in July, we have kept a steady growth momentum, which thanks to our years of accumulated capabilities on supply chain and services.

(Foreign language) At the same time, we also are going to see that, in Q3, we are faced with multiple challenges from the microenvironment, including some extreme weather, the reoccurrence of COVID cases and complicated international economic situation such as the commodity price fluctuations at a high level. So these are all the challenges we're facing. And we all see that for the government and all the companies we're making our efforts to face these adverse factors.

And for JD.com, JD's development is deeply rooted in the growth of the real economy. So for the second half of the year, we will continue to open up our capabilities in supply chain and services to provide more stable and certainty and support for our customers

Bloomberg Transcript

FINAL

and partners under a time of uncertainties. So on this point, we are optimistic on our performance in the second half of the year.

(Foreign language) Despite of all these uncertainties from the external environment, we also see some are coming back of the consumers are shopping demand and consumption power. So overall, I think the macro policy is in favor to support the domestic consumption and to encourage the digital transformation of all the industries to strike a balance of development, both online and offline, and to promote the capability construction of the modern industrial chain. So all this and as well as to promote domestic consumption. So overall, we think it's on the right track. However, we also noticed that for some consumption areas, such as those related to travel and physical contact-related areas, their coming back will be slower.

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

At the beginning of the year, we said that for 2021, we expect our retail business to largely maintain the growth momentum from 2020 on a apples-to-apples basis. That means we need to take out the impact of some COVID-related non-recurring sales. At this stage, our expectation for JD Retail's full year growth remains unchanged for the second half.

And then on the user side, we continue to see healthy user growth and improving engagement. So for the second half, we expect to see continued momentum in user order frequency and order volume from both new and existing (Technical Difficulty). Category-wise, we expect to see that the category mix shift will continue, general merchandise categories to grow faster than electronics and home appliance, in particular, the supermarket and healthcare categories.

On the bottom line, looking ahead, we remain confident that we can deliver steady improvements in net margin in the long-term for JD Retail. So first the margin for most of our key categories is still much lower than the industry level and our business partners. So we have a healthy upside for sustainable margin improvement. And second, the underlying drivers for our margin improvement are the technology driven improvement in scale economies and operating efficiency. Again, I want to emphasize we don't manage the short-term quarterly profitability due to the dynamic market conditions and to the flexibility required to manage our growth strategy, including to adjust our promotion and marketing strategy from time-to-time. If you look at relatively longer-term period, we have been delivering and are well on track of our long-term margin trajectory for our retail business.

Q - Thomas Chong {BIO 21155199 <GO>}

Got it. Thank you.

A - Sean Shibiao Zhang {BIO 21615286 <GO>}

Thank you, Thomas. We have a question please.

Operator

Bloomberg Transcript

We have the next question coming from the line of Eddie Leung from Bank of America.

Q - Eddie Leung {BIO 15234642 <GO>}

Good evening, I have a question on the gross margin for the second quarter. We understand that there must be different factors at work because I think Sandy also mentioned that you've got JD Logistics, you've got revenue mix shift, we have some of the new business such as JD Jingxi growing. So could you talk a little bit more about the different factors behind the trend of gross margin in the second quarter perhaps in the upcoming couple of quarters? So that's my first question.

And then just a follow-up question on the accounting side. Sandy should we expect any change in the forward tax rate given some of the other Internet companies mentioned a potential change in policy of the -- some of the preferential tax policy? (Foreign language)

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

Thanks, Eddie for your questions. For gross margin. I guess let me walk you through segment by segment. I mentioned in my opening remarks that for JD Retail if you look at the fulfilled gross margin, it actually went up by 30 basis points this quarter compared to same quarter last year. So it's a positive improving trend. And this was driven by our technology-driven scale economy and fulfillment efficiency. Because of the category mix shift, internally, we don't manage and we don't look at the gross margin movement. Plus, on one side it is the category mix shifts that will affect the overall gross margin trends. And secondly, as we are adopting our omnichannel strategy because we are leveraging warehouse and the inventory resources sources of offline business partners, in this case, sometimes we would share some of the gross profit with them. But at the same time, it helps us save the fulfillment cost. So the fulfilled gross margin improves, while you may see a decline in gross margin under the omnichannel strategy. So -- and gross margin is no longer very meaningful for retail business. So going forward, I would also encourage investors and analysts to look at the fulfilled gross margin for retail business.

And then secondly, on Logistics, I talked about their operating margin a little bit. It's mainly due to the social security refunds that we received last year. So on the consolidated financial statements, this refund is going to actually affected two financial statement line items. One is our cost of sales, for logistics business and second is procurement cost for retail business. So this -- and for the margin of logistics it is also affected by the pace of the investments in capacity, because in the first half year last year, we didn't make the investments in capacity to support their future growth as normal, so really, then we'll make some forward investments in the second half year, which will be gradually absorbed as we grow in scale.

And then third, on the new business, at this stage, it is operated under relatively lower gross margin compared to our core retail business as we are still in the process of building our supply chain capabilities. So these investments are for future growth, as I mentioned. And so that's why on the consolidated level, you'll see our gross margin may affected a little bit.

FINAL
Bloomberg Transcript

FINAL

And on your second question regarding the effective tax rate, I would say, -- so first of all, JD has been generating very thin profit margin compared to some other technology companies. We had significant accumulated losses at a consolidated level until the end of 2019. And you can see from our disclosure in the annual report as of December 31, 2020 some of our subsidiaries, still had pretty significant net operating loss carry forward, which can be used in the future for tax deduction. And then second, most of our subsidiaries in China are subject to an income tax rate of 25%, where certain subsidiaries benefits from the preferential tax treatment under the relevant tax law and regulations, including the high and new technology enterprises, software enterprises and encouraged industries in the Western regions.

Certain R&D expenses of our subsidiaries are also qualified for super deduction of 175%. These were all disclosed in our annual report. As of today, we have not received any notice that the existing tax preferential treatments we applied have been rejected, and we have not received any notice. So the recent news regarding tax rebates from other companies you have heard is focused on the key software enterprises. So none of JD's subsidiaries have ever applied for the key software enterprise in our history. So we believe going forward, JD is a new type of real economy based enterprise with the revenue mainly coming from retail and logistics business as well as supply chain-related service fees. Therefore, our tax treatment won't be affected by the change of the policy of the key software enterprises.

Q - Eddie Leung {BIO 15234642 <GO>}

Got it. Thank you.

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

Thank you.

A - Sean Shibiao Zhang {BIO 21615286 <GO>}

Next question please.

Operator

We have the next question from the line of Jerry Liu from UBS. Please ask your question.

Q - Jerry Liu {BIO 21067478 <GO>}

(Foreign language) My question is related to regulation. I just wanted to get a little bit more color around the puts and takes on potential impact, for example relating to either user data or ability to invest in the second half of the year. And on potentially the positive side, if regulation has a bigger impact on our peers? If -- could that help, for example, user or GMV growth in the second half of the year?

A - Lei Xu {BIO 21705778 <GO>}

(Foreign language) This is Xu Lei. Undoubtedly, we believe that the introduction of regulatory policies on the Internet industry recently is a good thing for the long-term and

Bloomberg Transcript

FINAL

healthy development of the industry. In JD's development history, we have suffered from unfair market behaviors such as pick 1 from 2, excessive price subsidies and a disordered capital expansion and more. JD welcomes the stepping up of regulations in this industry. We firmly believe this will be good for the long-term development of the industry and related companies.

(Foreign language) Based on our observation on the status, the recent wave of regulation focused on the following main areas; disordered expansion of capital, market monopolies, data security and privacy, misuse of technologies and algorithm, closed systems that disrupts fair market competition and so on. So for now, we have completed a round of our internal self-review and rectification according to the regulatory requirement. And we have also set up our internal supervision system to work on the big data security safeguard system, and we also carry out active communications with the regulators and got their positive feedback. So for now, we don't see a major impact on our business operations so far.

(Foreign Language) And also, I want to mention that JD has always paid great importance on the data security and the personal information. So the arrival of the new regulations are not making a big impact on us in terms of our advertising business and so on.

(Foreign Language) And we can foresee that this will be a main trend to strengthen the regulations on personal data, personal information not only in China, but on the global horizon. And this will have a greater impact on those advertising-driven platforms.

(Foreign Language) And more words about the pick one from two. Actually we have seen since early this year we have welcomed the number of the new products. And also, some products -- some brands are returning to our platform. Those returned platforms -- returned brands include Starbucks, Estee Lauder and more. And for the new products, as I mentioned in my remarks, that they were Bvlgari and a number of emerging Chinese brands. We also are carrying out a number of innovative ways to collaborate with us.

And for us, we are also providing different supportive initiatives for this brand to better operate on our platforms. For example, we have a special initiatives to support new brands to grow and thrive on our platform. And we also plan out some growth routes and making out their growth routes for the KA Market this year. So as I mentioned earlier that -- in our earlier call, that for these new brands, they're joining or they're re-joining to our new platform, it takes time for them to adapt to JD's platform in terms of their operating styles and how they interact with their customers. So this will take a bit of time. And to help them, too, we will also make our efforts to help them to build up their brands and their mindshares among our ID customers.

Bloomberg Transcript

(Foreign Language) Also, I want to mention during this year's 618 Grand Promotion, we have seen a big growth on our marketplace platform. The growth rate of our top business or the marketplace platform has a 9 basis points higher growth rates than our sales operated platform. Actually, the pop business has become a main driver for our business growth. And a lot of analysts and consumers might believe that JD is a platform to better sell for our self-operated products, those standard products such as mobile phones or

PCs. Actually for this quarter, we have seen that on our marketplace platforms, the sales of, for example, the mobile phones has increased 100%, which also confirmed the healthy growth trend of our ecosystem for our marketplace platform. And in the future, JD has -- JD will continue to commit to building multiple-channel platforms that involve our B2C models, our marketplace platform, omnichannel, B2C and our on-demand consumption model.

Thank you.

FINAL

Operator

Ladies and gentlemen, we are approaching the end of the conference call. I will now turn the call over to JD.com's Sean Zhang for closing remarks.

A - Sean Shibiao Zhang {BIO 21615286 <GO>}

Thank you for joining us today on the call and for your questions. If you have any further questions please contact me and our team. Thank you for your continued support in JD, and we look forward to talking to you next quarter. Thank you.

Operator

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

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