Q1 2018 Earnings Call

Company Participants

- Richard Liu, Chief Executive Officer
- Ruiyu Li, Director of Investor Relations
- Sidney Huang, Chief Financial Officer

Other Participants

- Alicia Yap, Analyst
- Billy Leung, Analyst
- Eddie Leung, Analyst
- Grace Chen, Analyst
- Gregory Zhao, Analyst
- Jerry Liu, Analyst
- Jialong Shi, Analyst
- Jin Yoon, Analyst
- John Choi, Analyst
- Natalie Wu, Analyst
- Ronald Keung, Analyst
- Thomas Chong, Analyst
- Tian Hou, Analyst
- Unidentified Participant
- Wendy Huang, Analyst

Presentation

Operator

Hello, and thank you for standing by for JD.com's First Quarter 2018 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 will now like to turn the meeting over to your host for today's conference, Ruiyu Li. Thank you.

Ruiyu Li {BIO 19135837 <GO>}

Thank you, operator, and welcome to our first quarter 2018 earnings call. Joining today on the call are Richard Liu, our CEO; and Sidney Huang, our CFO. For today's agenda, Mr. Huang will discuss highlights for the first quarter 2018. Following the prepared remarks, Mr. Liu and Mr. Huang will answer your questions.

Before we continue, I refer you to our safe harbor statements in earnings release, which apply to this call, as we will make forward-looking statements. Also, this call includes discussions for certain non-GAAP financial measures. Please refer to our earnings release, which contains all reconciliation of non-GAAP measures to the most direct comparable GAAP measures.

Finally, please note that, unless otherwise stated, all the figures mentioned during this conference call are in RMB.

Now, I would like to turn the call over to Sidney.

Sidney Huang {BIO 20098238 <GO>}

Thank you, Li. Hello, everyone. Thank you for joining us today. We are pleased to report another quarter of solid top-line growth, strong core e-commerce profitability and improving overall net margin. During the first quarter 2018, our net revenues grew 33.1%, ahead of our expectations. In particular, growth from net services revenues accelerated to 60% year-over-year, the highest growth rate in the past eight quarters, driven by advertising and supply chain management services.

Non-GAAP gross margin in the first quarter was 13.9% compared to 14.1% in the same quarter last year. If we look at JD Mall, excluding new businesses, non-GAAP gross margin improved 40 basis points from the same quarter in 2017, demonstrating a very healthy margin trend for our core e-commerce business. I should point out that the gross margins I discussed here are for our own margin trend analysis only. As we previously mentioned, our business model is a combination of first-party online retail and the platform service business. Since the two business models have shared a common infrastructure, our cost and expense classifications are not comparable to many industry peers that focus only on one or the other. Therefore, our gross margins are less relevant for industry comparison purposes.

During the first quarter, we continued to invest heavily in logistics and R&D. We further added 29 warehouses during the quarter to a total of a 515 nationwide with 10.9 million square meters in total space by the end of Q1. The continued capacity expansion has affected the gross margin for the logistics business and our expense ratio for the e-commerce business, especially in a seasonally slow quarter. The fulfillment expense ratio increased 32 basis points from the same quarter last year. The good news is, over 20,000 merchants are now using our supply chain services, including over 60% of our top 200 merchants. The revenues from the third-party logistics services have been growing in triple-digit in the past two quarters and the number of third-party orders fulfilled by JD Logistics through our warehouse network has increased to approximately 20% of the total 3P physical orders which in turn improved the customer experience on our platform.

Our R&D expenses totaled RMB2.4 billion or 2.4% of our net revenues during the quarter, up 70 basis points from the same quarter last year. We believe investments in technologies and R&D talent are critical to this continued innovation required for further improving our retail customer experience and empowering our business clients through our retail infrastructure service offerings. The increase in merchants using our logistics network is a good example of how we are looking to commercialize our infrastructure as part of our Retail as a Service strategy.

Our R&D Investments in other areas such as AI-driven advertising and Data Analytics are also gaining momentum in revenue generation as business clients benefit from the technology and scale that we have build out. Another example is our recently developed WeChat Store Mini-Program, which has been adopted by thousands of our brand partners since its official launch a little over a month ago at the end of March. It's a turnkey solution that enables the brands to open a WeChat store with all the essential store functions plus embedded JD infrastructure offerings such as logistics, advertising, and JD membership benefits. Brands can manage their own fans while still enjoying all the products and tools from the JD platform.

As a result of our spending in logistics and R&D, non-GAAP operating margin was 0.8% in the first quarter. Excluding new businesses, the non-GAAP operating margin for JD Mall was 2.1% comparable to the same quarter last year, supported by higher gross margin and the lower marketing expense ratio, offset by the higher R&D spending. Our free cash flow was negative 8.8 billion during the quarter, which was largely due to a RMB5.3 billion decrease in advance from customers and the payable to merchants related to a complex settlement process change we have been going through to settle the marketplace transactions directly through third-party payment companies as required by the regulators. The accumulated impact of this settlement process change from the second half of last year to the first half of 2018 will be over RMB9 billion in total. Excluding the one-time effect, out operating cash flow would have been positive in the first quarter 2018. The remaining impact is mainly from the timing of supplier payments as accounts payable decreased as of March 31st 2018 from the prior year-end.

Our GAAP net income attributable to ordinary shareholders totaled RMB1.5 billion in Q1 2018, which sets a new record. The net income benefits of from the fair value gains on investments during the first quarter in accordance with the New Financial Instruments accounting standard that took effect on January 1st 2018. In addition, we also recorded an accumulated RMB1.2 billion gain on investments as of December 31st 2017 in the retained earnings upon this new adoption.

As the mark-to-market changes of these investments may not correlate to our core operational performance on a quarterly basis, we have excluded the fair value change in the non-GAAP earnings calculation. Our non-GAAP net income in the first quarter 2018 was RMB1 billion with 1% net margin. While this margin is below the prior-year level, it was generally in line with our internal Q1 operational plan as our financial budget was established on an annual basis according to each year's unique operational priorities, which may not track the prior year's quarterly pattern. Our commitment to the full year earnings remains unchanged.

This leads us to our financial outlook. We expect Q2 2018 net revenue growth to be between 29% and 33% on a year-over-year basis. We would also like to reiterate our non-GAAP net margin for full-year 2018 to be between 1% and 2%. This concludes my prepared remarks and we can now move to the Q&A session.

Questions And Answers

Operator

Thank you. The question-and-answer session of this conference call will start in a moment. In order to be fair to all callers who wish to ask questions, we would take one question at a time from each caller. If you have more than one question, please request to join the question queue again after your first question has been addressed. We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from the line of Eddie Leung from Merrill Lynch. Please ask your question.

Q - Eddie Leung {BIO 15234642 <GO>}

Hi, good evening. Thank you for taking my question. We understand you guys have been investing in JD Logistics not only to support your scale, but also to serve third-party merchants. I'm just curious that, if we look at the increase in capacity of your logistics network, broadly speaking, you're not -- not the detail, but just broadly speaking, how much you guys are kind of like preparing for your own pieces expansion, and how much you guys are preparing for potentially kind of like third-party logistic demand? Thank you.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so we expect in five years the third-party logistics service volume would be more than our internal first-party procurement volume. And the current capacity expansion is shared by both first-party and third-party logistic needs. So we don't separate them at this point . But as I mentioned on the last earnings call that we have build out quite a bit of capacity in the second half of last year. So it would take a few quarters to digest those capacities and Q1 was a seasonally slow quarter, so that's why the impact was to last. But we have -- we have seen that for our third-party logistics services, the margins have improved on a monthly basis in the first quarter this year.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

And we are also looking to establish logistic real estate fund that where we can leverage third-party capital to fund our logistics infrastructure which I briefly mentioned in the past and we hope to materialize in the later part of this year.

Operator

Thank you. Our next question comes from the line of Alicia Yap from Thomson Asia. Please ask your question.

Q - Alicia Yap {BIO 15274658 <GO>}

Hi, this is Alicia from Citi. Good evening, Richard, Sidney, and Ruiyu. Thanks for taking my questions. My questions is related to the logistic investments cycle. So how long should we expect the step-up investment to last? I understand that it has actually started like fourth quarter last year. So we already see some impact in this first quarter. And how should we be thinking about the investment, you know, will 4Q this year we start to see some normalized trend? And then on the longer-term, what could be the optimal margin profile for your third-party's logistic business? And if you also have any revenue targets for the third-party logistic business revenue this year? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Well, Richard just mentioned the third-party logistic revenue will exceed 50% in five years.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

So we had anticipated a Q4 increase in volume for our third-party logistics services because we just announced the new initiative in the second half. So that's why we had, as I also explained earlier, we had fairly large volume of new -- or large space of new warehouses became available in Q4 last year. And Richard was saying that after few quarters that we digested warehouse space. Going forward, we will manage the expansion on a more timely and well in -- just in time basis, so that there won't be any major overcapacity situation like we experienced in the past couple of quarters.

Operator

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

Q - Ronald Keung {BIO 15432736 <GO>}

Hi. Hi, Richard, Sidney, and Ruiyu. Thank you for taking my question. I think while GMV is not the sort of key metric, I see revenue growth very strong particularly for services. I was going to ask on the GMV sort of mix shift. How was apparel growth in the first quarter, and if we exclude apparel, it is comfortable to say that the overall category growth altogether was still faster than industry? I think, Richard, you mentioned, overall, that way our aim is to grow faster than the industry and given that the overall online goods growth was 35%. I was just thinking how each of these categories are growing, and if we exclude apparel, are we still on track to growing faster than the industry? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so good question. We had actually mentioned that for the apparel category, because of the competitive situation, we had experienced some merchant departure. Now we have seen some of them coming back in the first quarter. But the overall apparel category will take a few quarters to recover as we mentioned late last year. So, in Q1, apparel category continues to be very weak. Our overall category is not growing. In some of the -- for female apparel category, for example, is even declining slightly, but excluding the apparel category, overall, all of our other categories are growing at a very healthy rate, and we believe is growing at industry -- above industry level.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

So Richard mentioned that if he remembers correctly, in Q1 last year, our apparel business was growing at over 90%. So clearly, the impact from certain anti-competitive measures from our competitor has clearly created some short-term impact on our business, and -- but we believe and we would like to reiterate that the management is very confident that the impact will not be long term. We have experienced similar practices in the past in other categories and we are fully confident that we will regain this category back down the road.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

So other than apparel, all of our other categories are growing at a very healthy rate, for example, for our mobile phone category, the industry was -- saw a negative 26% -- negative growth in Q1, but our category for mobile devices has seen very, very healthy growth rate. So, really, other than apparel and to a lesser extent some home products, all of our other categories are very healthy. I just wanted to add, apparel is a very profitable category as you know, but without apparel category, our core e-commerce JD Mall business continued to deliver a very healthy profit margin, which is also a validation of the strong resilience of our business model.

Operator

Thank you. Our next question comes from the line of Jerry Liu from UBS. Please ask your question.

Q - Jerry Liu {BIO 17515547 <GO>}

Hi, thank you. Yeah, I wanted to talk about JD Mall margins. When we look at this quarter versus a year ago, what are some of the drivers for the margin to be just a little bit lower. And if we look at the full year, do we still expect JD Mall margins to improve this year versus last year? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Sure. As I mentioned earlier, the JD Mall gross margin improved 40 basis points from the same quarter last year. So it's still the margin -- gross margin is driving the profitability and gross margin came from two areas. One is the first-party product gross margin, which continue to expand because of our scale economies. And then two is the advertising revenue growth, also adding overall profitability, and -- but the margin gain has been offset by our investments in R&D and technologies. So, all-in-all, the operating margin remained relatively stable comparing to last year. And on a full-year basis, we are very confident that JD Mall margin will improve again this year.

Operator

Thank you. Our next question comes from the line of Jin Yoon from Mizuho. Please ask your question.

Q - Jin Yoon {BIO 16293072 <GO>}

Good evening, guys. Certainly by keeping full year net income margins intact, does that mean net income seasonality maybe upside down this year where 1Q and 3Q could be weaker than expected and 2Q and 4Q could be better than expected? In other words, if we saw significant capacity build in the last several quarters with lower volumes in 1Q and 3Q, we see stresses in the margins due to overcapacity, but couldn't that reverse in 2Q and 4Q as volumes ramp up eating into that capacity? How should we look at that discrepancy? Thanks.

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, I think for the logistics business, your assessment could be very much true that in Q2 and Q4, given the higher volume, our capacity utilization should improve. But there will be also other dynamics, for example, promotions in Q2 and Q4, but as I mentioned earlier, we plan our business operational plan for the entire year, we don't necessarily track prior year's quarterly pattern. We do have our commitment for the full year performance. So this year, you are right, the logistics -- the external logistics business could perform in somewhat of a different quarterly pattern than the last year.

Operator

Thank you. Our next question comes from the line of Natalie Wu from CICC. Please ask your question.

Q - Natalie Wu {BIO 19852429 <GO>}

Hi, management, thanks for taking my questions. I just want to get a sense about the current GMV split between your 1P and 3P business? And also for the second quarter guidance of 29% to 33% year-over-year growth, what does it imply if we separate out the 1P sales versus the service and others business? Or should we expect they will grow separately? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

If we exclude apparel category, actually the other remaining categories whether it's 1P or 3P basis, they're all growing at very healthy rate and growth ratio to be quite comparable, but if you're including the apparel, our first-party business in Q1 obviously growing faster than the 3P business.

Operator

Thank you. Our next question comes from the line of Thomas Chong from Credit Suisse. Please ask your question.

Q - Thomas Chong {BIO 21155199 <GO>}

Hi, thanks management for taking my questions. I have two questions. The first question is about the synergies with Vipshop. Can management comment about how is the trend so far? And my second question is about 7FRESH. Can management comment about the latest development so far and what's the goal for this year? Thank you.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, for Vipshop, we just completed the system integration and the store has been up and running and we are pleased to see the weekly sequential growth has been very healthy week after week. However, it will require more time for us to accumulate the fans and the customer momentum for the VIP offering, but you know the current progress has been very -- we're very pleased with the current progress.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so the overall collaboration is within our planned schedule.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so for 7FRESH, right now, we have two stores, the sales per square meters -- has been doubling the traditional offline stores and we're planning to open another two in May and three in June. So, in the second half, there will be more loading out to a total of over 20 stores by the end of this year.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so once we approved the store model, we can roll-out in our seven regions across the country through our own operations or through franchised model.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, we plan to expand to over 500 stores in five years.

Operator

Thank you. Our next question comes from the line of Wendy Huang from Macquarie. Please ask your question.

Q - Wendy Huang {BIO 15034507 <GO>}

Thanks, management. So my question is still about your warehouse and also the margin impact. So with you adding only like 29 warehouses versus 81 in the fourth quarter, should we expect this deleveraging effect to ease a little bit in the second quarter, in other words, should we expect the second quarter non-GAAP net margin to be slightly better than the Q1? And also related to that, I noticed that in your CapEx breakdown, you mentioned that you incurred 1.3 billion for the land and construction versus 2.5 billion for other CapEx. Can you provide some color on that 2.5 billion. Is that many for the equipment and also automation? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Sure. Yeah, so, to your first question, your suggestion was right. We are seeing better utilization in Q1 and also within Q1 we see improvement on a monthly basis, but we do have other additional warehouses becoming available in the second quarter. So, overall, we do expect the utilization and capacity -- the capacity expansion will be more in line with our business growth. So, the margin trend for our external logistic business will improve on a quarterly basis and clearly should be on a positive gross margin level by the end of this year.

And in terms of CapEx, we did purchase quite a number of other equipments including servers and also our JD X program. So, so yes, a number other automation and automated warehouse equipments, all of that. It was the pretty concentrated quarter of those purchases.

Operator

Thank you. Our next question comes from the line of Tian Hou from T.H. Capital. Please ask your question.

Q - Tian Hou {BIO 20458526 <GO>}

Hi, Richard, Ruiyu, and Sidney. I have a much macro picture -- macro question. So as cellphone become more mature in terms of adoption, also in terms of hardware standard in each cellphone is so really smart. So the cellphone replacement cycle has become a longer. So cellphone market as a whole, the replacement or purchased new phone, those kind of needs is slowing down. So I wonder how JD is going to deal with such a longer term issue? And also, in the apparel sector, what's JD's strategy to grow in this sector? And one -- between two you choose one platform is kind of harsh and is there any other strategy to really to move the sector forward? Thank you.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so we acknowledge the mobile phone industry may see longer replacement cycles, but we have also anticipated that for quite a couple of years, we have not only continued to grow the business online, but we also opened JD Home, an offline franchised store model, to really use omni-channel approach to expand -- further expand our market share. So this regardless of the industry growth, we are confident that we can continue to gain market share because we have been a leader -- recall we have also mentioned in the past when -- when a retailer becomes a category leader, it can normally actually grow even faster than the rest of the industry, because of the consumer mind share and because of its economies of scale, providing advantages in closing procurement and in the retail coverage. So this is -- has -- we have clearly demonstrated this pattern in the categories where we have enjoyed a market leadership.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

So back to apparel, Richard has mentioned that we -- historically we had encountered these kind of competitive tactics. So the key is, if we have customer experience, you have -- the customers are with you, then there's always breakthrough. And in addition, as we mentioned in the past, these kind of practices are hugely unpopular with merchants and the brands. And so, with our past experience, the impact should be short term, but it will take a few quarters to recover.

Right now, if you look at the brands, many of them have already working with us either directly or indirectly, through multiple channels. So we can revisit that in the following quarters.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Right so, we know we have seen brands coming back every quarter, but you know it will take a couple of quarters -- a couple more quarters to recover, and as long as we have good customer experience, good traffic, good reputation, we can win back these consumers, and also once again, because it's hugely unpopular with the brands and we have seen in the past when any single channel taking brands as hostage, there will be very different consequences down the road that in the end will not be in the best interest of everyone including the platform itself.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, you can see that many, many Chinese local brands that are taken hostage by the large platform are taking actions to seek other alternative channels. One example is the WeChat Mini-Program. We can see all of those brands are very, very eager to open their WeChat presence and expand their channel diversity. So, by the time when this the power of the platform versus the rest reach a certain inflection point, we believe, it will be the time for us and other channels to regain the brands and regain our consumers.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, we believe this is a wake-up call for the brands recognizing that overly relying on one platform is very, very dangerous to their own long-term growth and health of the business. So, with that, through our interaction with the brands, we're even more confident that the current situation will be temporary and that will be reversed in the longer term.

Operator

Thank you. Our next question comes from the line of Jialong Shi from Nomura Securities. Please ask your question.

Q - Jialong Shi {BIO 18647437 <GO>}

(Foreign Language) I would like to ask management view about -- about the e-commerce startup Pinduoduo, how do you think of the potential and the sustainability of this group by e-commerce model? And we know Pinduoduo has been able to leverage WeChat social grab to grow its users and the GMV. So I just wonder if you guys saw any impact from Pinduoduo on your WeChat entry? And also my second question is a follow-up on Vipshop partnership. In the investment agreement JD signed with Vipshop, JD -- I think the agreement says JD will assist Vipshop to achieve certain annual GMV target. So I just wonder what this GMV target is and whether you think this target is still achievable based on that latest performance of the Vipshop's -- Vipshop's entry? Thank you.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so if you look at Pinduoduo's top 10, top 100 SKUs, you'll see there's very, very limited overlap to JD's product offerings. So at this point, we can tell you that there's very limited if any impact on JD.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so if you look at the product characteristics of Pinduoduo, you can see most products are really selling at rock bottom prices with varying qualities. And for JD, we pursue high quality products at good price. So very very different product characteristics and very different customer base. And we do have our own similar group buying model on WeChat platform and the product selection is also very different. Our product selection is tailored to quality and the middle class consumers.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so regarding Vipshop, as we mentioned earlier, we are very pleased with the initial progress and everything is on track. We did not disclose the GMV target and it's also quite early to project whether we will achieve such a GMV target or not.

Operator

Thank you. Our next question comes from the line of John Choi from Daiwa. Please ask the question.

Q - John Choi {BIO 16529883 <GO>}

Thank you for taking my question. I have two questions. First of all, I'd like to ask your thoughts on the advertising revenue. I mean we do understand it's been growing very nicely. Over the longer term, let's say, three to five years under, how do you -- how big do you think advertising could be? If you look at your global peers, it seems like advertising has been one of the fastest growing part within the overall revenues. So I'd like to know your thoughts on this.

And my second question is on just a follow-up on the WeChat Mini-Program. You mentioned, Sidney, on the prepared remarks, it's already adopted by thousands of merchants and brands. So, I mean if in terms of -- for JD, how would we really benefit from this in terms of GMV or the economics? Thank you.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

So as I mentioned on the last earnings call, even though our overall GMV is around one-third to one-quarter of our closest -- our competitor, but advertising revenue is probably only one-tenth or even less. So we have huge potential to grow our advertising business and in particular when we regain our apparel category, which is a ad-heavy category, we can also expect additional boost to our advertising revenue. At this point, without this category, we are already seeing very robust ad growth driven by our AI technologies and also very extensive user data and brand data. So we're very optimistic on the ad business.

On the Mini-Program, we -- we actually officially launched only little over a month ago. So right now it's still in the quite early stage. Some of those Mini-Program adopters are our existing merchants. So they will sell the products very much like selling on our JD platform. So they will continue to enjoy all the support and tools from JD such as logistics, advertising, yet they can also manage their own user and their own customers. There are other merchants that are not currently on JD platform, but they can also use the JD Mini-Program to open shops on WeChat and we have a different collaboration model with them, including again, some of the infrastructure offerings, some of the membership and also user for that particular brand. So we have some early experiment, but it's still quite early in this overall initiative. So we'll update you more in the following quarters.

Operator

Thank you. Our next question comes from the line of Grace Chen from Morgan Stanley. Please ask your question.

Q - Grace Chen {BIO 2548665 <GO>}

Hi. Thank you for taking my question. My first question is about 3P logistics business. I'm interested to understand the margin -- what would be the -- what's the -- how would the strong run in the 3P logistics business change your cost structure and margin profile? And what's your type of margin for the 3P logistics business in a longer term?

And my second question is about the contributions from the 7FRESH stores. What's the revenue contribution from these offline stores this year and maybe next year after a strong run? And also similarly, I am interested in Q2, understand how do you think about the type and margin profile for these offline stores, particularly in the longer term. And how would that impact your overall margin? Thank you very much.

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, on 3P logistics, we believe because we are offering end-to-end supply chain management services which is beyond traditional express delivery companies. So we believe in the longer term, the margins should be somewhat better than existing top logistic delivery companies in the world. So you can look at -- which basically will point to mid to high single-digit operating margin.

For 7FRESH, it's -- honestly, it's quite early to -- right now, it has very little contribution to our overall revenue. We are also still debating -- the future expansion whether to still partnering with our offline retail partners or opening our own stores. Really, it's still work in progress. So it's still too early to project the margin profile and revenue contribution for this business.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

JD Logistics is the only player at this point in China that can cover the entire spectrum of logistics services. Our competition, generally, only cover one of those areas, whether it's logistics or warehousing services, and JD covers an integrated full supply chain logistics and also we can handle the large parcels, small and medium parcels, co-chained O2O last-mile, and again we are only comprehensive service providers for logistics services in China.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign Language)

A - Sidney Huang {BIO 20098238 <GO>}

So, we can say that at this point there is no head to head competitor in this business in the real sense and also in addition to our third-party platform merchants who are adopting our services, there are also increasingly other business partners outside of JD's current business increasingly using JD Logistics services.

Operator

Thank you. Our next question comes from the line of Billy Leung from Haitong International. Please ask your question.

Q - Billy Leung {BIO 17377659 <GO>}

Hi. Hi, management, thanks for taking my question. Just touching back on the few things discussed, just on the warehouse again, can we just get an idea of the utilization rate, I guess for the past two quarters so that we can sort of gauge what efficiency we should expect in the next few quarters?

And the second question is, just touching on the quarter two revenue guidance. We are seeing a slowdown in growth. I was just wondering, if in terms of categories, is there any specific categories, which is causing the slowdown? Is it the apparel or is it something that we don't know? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, I think our revenue guidance generally in line with our prior growth pattern. Q2 last year was a very seasonally high quarter. So the base was very high. As we continue to grow with the higher and higher base, growth rate could be slightly lower than the previous quarter. So the current guidance we believe are still very healthy and very strong and we clearly hope we can over-deliver as we have been.

And on the logistics, the question is about warehouse facility utilization. Again, I think we have discussed and explained this. We do expect even better utilization in the second quarter given it's a seasonally high quarter. But we will, at the same time, continue to expand the facilities because this is still in an investing phase for this business. So we are not in immediate pursuit of full utilization like we did in the past when we operated only our internal businesses, which is a lot more predictable. So you will see few quarters of somewhat extra capacities that are really prepared for business expansion. But as I said, the extent of this overcapacity has been managed down every quarter, so you will see improvement throughout this year.

Operator

Thank you. Our next question comes from the line of Wong Shou Yin [ph] from 86Research. Please ask your question.

Q - Unidentified Participant

Thank you for taking my question. My question would be on the advertising. So recently we noticed that you launched a new version of mobile app with personalization on your homepage. So I was just wondering, how do you expect this personalization would impact your (inaudible) customer acquisition, time spent or eventually the conversion in the GMV, and particularly for the upcoming June 18th sales, do you expect this personalization could contribute to this big promotion day? Thank you.

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so personalization will be an iterative process, there will be multiple versions. So, right now, what you see -- it's only the very first new version and we do expect more upgrades before June 18th shopping season and it will take at least a few quarters through multiple iteration to get to a very, very good state where consumers can really experience very differentiated recommendations. But it will take time. But you know -- I can tell you, initial results are positive, but it's really too early to (inaudible) at this point.

Operator

Thank you. Our last question comes from the line of Gregory Zhao from Barclays. Please ask your question.

Q - Gregory Zhao {BIO 18710278 <GO>}

Hi, management. Thanks for taking my question. So recently, I think during an interview, Richard mentioned that, in the long run JD will adopt more robot and AI technology to improve the company's overall automation. So just want to understand what the short term and the long term with the margin the implication from such that process? And I have a quick follow-up question on our traffi. So just want to understand what the percentage of your current user traffic or new user acquisition from the third-party apps, so specifically like WeChat and (inaudible)? Thank you.

A - Richard Liu {BIO 17167866 <GO>}

(Foreign language)

A - Sidney Huang {BIO 20098238 <GO>}

Yeah, so on the automation investments, yes, we -- there will be short-term investments as you can see in our R&D spending in Q1 increasing 70 basis points, but we believe this will reduce our long-term cost and improve operating efficiency as we -- these robotic technologies will help our warehouse efficiency and also delivery efficiency. So -- so it is investment that we believe worthwhile for our long-term cost advantage.

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 and thank you for joining us today on the call. Looking forward to talking with you in the future. Thank you.

Operator

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