



(JD) 2Q17 Results: Topline Beats; Business Partnerships to Drive Growth

| | 2Q17 | 2Q16 | YoY |
|---|---------|--------|-----------|
| Revenues (RMB Bil.) | ¥93.20 | ¥64.90 | 43.6% |
| Gross Margin | 13.57% | 14.98% | (141) bps |
| SG&A/Sales | 5.5% | 5.7% | (20) bps |
| Non-GAAP Operating Margin | 0.6% | 0.8% | (20) bps |
| Non-GAAP Diluted Earnings per ADS (RMB) | ¥(0.20) | ¥0.09 | N/A |

Source: Company reports/FGRT

- **JD.com reported 2Q17 revenues of ¥93.2 billion, up 43.6% year over year, to beat the consensus estimate of ¥89.65 billion. Non-GAAP diluted net loss per ADS was ¥0.20, compared to a net income per ADS of ¥0.09 for 2Q16.**
- **Total gross merchandise volume (GMV) reached ¥234.8 billion in 2Q17, an increase of 46% year over year. General merchandise contributed 51% of total GMV, up from 48% in the year-ago period.**
- **JD.com continued to expand its product offerings through cooperations with international brands, such as Walmart, Baidu and Farfetch, which are expected to drive business expansion.**

2Q17 Results Summary

JD.com reported 2Q17 revenues of ¥93.20 billion (US\$13.7 billion), a 44% year-over-year increase, driven largely by strong GMV growth. Diluted net loss per ADS was ¥0.20, compared to a net income per ADS of ¥0.09 for 2Q16. Non-GAAP diluted net income per ADS was ¥0.67, compared to a non-GAAP net income per ADS of ¥0.44 in 2Q16.

Business Performance

JD.com's 2Q17 revenues grew 44% year over year, driven mainly by 46% growth in GMV and 52% growth in net revenues from services and others.

GMV breakdown by format:

- **Online direct sales business:** GMV from the online direct sales business was ¥136.6 billion in 2Q17, up 44% year over year from 2Q16.
- **Online marketplace business:** GMV from the online marketplace business totaled ¥98.2 billion in 2Q17, a year-over-year increase of 50% from 2Q16.

GMV breakdown by merchandise:

- **Electronics and home appliance products:** GMV from electronics and home appliance products was ¥115.2 billion in 2Q17, an increase of 39% year over year from 2Q16.
- **General merchandise and others:** GMV from general merchandise and others was ¥119.6 billion in 2Q17, a year-over-year increase of 55% from 2Q16. General merchandise accounted for 51% of total GMV, up from 48% in 2Q16.

**Orders and customers:**

- **Annual active customer accounts** increased by 37% year over year to 258.3 million in the 12 months ended June 30, 2017.
- Fulfilled orders was 591.2 million in 2Q17, representing a 41% increase year over year from the 418.9 million orders in 2Q16. Fulfilled orders placed through mobile comprised approximately 80% of total orders fulfilled, a year-over-year increase of 42%.

Product Expansion

JD.com further expanded its product offerings through cooperations with international brands, including Swiss luxury watch brand Zenith, Austrian brand Swarovski, Italian furniture designer Kartell, as well as Essilor, Casio, MAMMUT, Juicy Couture and Armani. In June, French luxury haircare brand René Furterer opened its flagship store on JD.com. In July, more than a century old French children's clothing brand Petit Bateau, and Merida, a Taiwan-based brand of professional bicycles, also joined the platform.

Cooperations to Drive Business Expansion

JD.com and Walmart: JD.com and Walmart expanded their cooperation to further integrate their platforms and customer resources in China, with the goal of offering shoppers faster and more convenient access to high-quality products through multiple channels. The launch of the first Walmart-JD Omnichannel Shopping Festival on August 8 was a successful step forward. Walmart China and Sam's Club US launched flagship stores on JD.com and JD Worldwide. See [JD-Walmart 8.8 Shopping Festival Is an Initial Demonstration of the Success of the Walmart-JD.com Partnership](#).

JD.com and Baidu: The two companies formed a strategic partnership to give consumers a more tailored e-commerce experience. Mobile Baidu, Baidu's flagship mobile search app, will provide JD.com with level-one access points to the hundreds of millions of mobile Baidu users in China. We expect the cooperation to drive more traffic onto the JD mobile app, which could potentially translate into topline growth.

JD.com and Farfetch: JD.com and Farfetch announced a strategic partnership for luxury e-commerce in China. The partnership leverages JD.com's logistics, Internet finance and technology capabilities, with Farfetch's leadership in global luxury, to offer Chinese consumers a seamless brand experience.

JD Logistics Cost Reclassification

In April 2017, a new business group, JD Logistics, was established under JD.com to provide logistics services to businesses across a wide range of industries. As JD Logistics has transitioned from supporting the overall JD.com platform to becoming an independently operated business unit, costs related to the logistics services provided to merchants and other third parties have been reclassified from fulfillment expenses to cost of revenues. The amount of fulfillment expenses that have been reclassified to conform to the current period's financial statement presentation was ¥2.6 billion for FY16 and ¥0.7 billion for 1Q17.



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Guidance

Management guided for net revenues of ¥81.8–¥84.2 billion for 3Q17, representing a growth rate of 36%–40% compared with 3Q16, excluding the impact from JD Finance for both the 2017 and 2016 periods. The consensus estimate for FY17 revenues is ¥357.8 billion, which translates into a 37.5% increase from FY16.



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