



JD.COM, INC. 京東集團股份有限公司 (9618.HK)

Company Overview

JD.COM, Inc. (the “Company”) is a leading technology driven e-commerce company transforming to become a leading supply chain-based technology and service provider. The Company generated total net revenues of RMB362.3 billion, RMB462.0 billion and RMB576.9 billion (US\$82.9 billion) in 2017, 2018 and 2019, respectively. The Company incurred net losses from continuing operations of RMB19 million and RMB2,801 million in 2017 and 2018, respectively, and generated net income from continuing operations of RMB11,890 million (US\$1,708 million) in 2019.

Business Overview

E-commerce Business

The Company is the largest retail company in China by total revenues in 2019, according to Fortune Global 500. The Company believes their scale and market leadership are built upon their competitive edge in customer experience and operational efficiency, as well as their commitment to strategically invest in technology and logistics infrastructure for the long term. Providing superior customer experience is their top priority. The Company’s e-commerce business offers customers a wide selection of authentic products at competitive prices. The Company has built and operate their own nationwide fulfillment infrastructure that supports their e-commerce business. The Company’s speedy, efficient and reliable fulfillment services ensure a high degree of customer satisfaction. The Company offers an enjoyable online shopping experience mainly through their content-rich, user-friendly and highly personalized mobile apps and website www.jd.com. The Company also provides comprehensive customer services and convenient payment options. Owing to the superior customer experience the Company provides, their loyal customer base has expanded rapidly. The Company had 292.5 million, 305.3 million and 362.0 million annual active customer accounts in 2017, 2018 and 2019, respectively.

Supply Chain-based Technologies and Services

The Company made their strategic decision in 2007 to invest in and build their own nationwide fulfillment infrastructure. As of December 31, 2019, the Company nationwide fulfillment infrastructure covered almost all counties and districts across China, with a network of over 700 warehouses with an aggregate gross floor area of approximately 16.9 million square meters in 89 cities, including warehouse space managed under the JD Logistics Open Warehouse Platform. In addition, the Company had a team of over 132,200 delivery personnel and 43,700 warehouse staff as of December 31, 2019. The Company’s fulfillment infrastructure is powered by proprietary smart logistics and automation technologies, such as intelligent hardware, robotics, voice recognition, computer vision and deep learning, which allow them to continuously improve their operational efficiency. With full control of the logistics network and associated data flow, the Company is able to optimize operations and modularize processes so as to ensure scalability and efficiency.

Basic Information

Offer Price

HK\$236 per Offer Share

Offer Size

133,000,000 Offer Shares, (subject to Over-allotment Option), 4.3% of enlarged issued share capital of the Company

Lot Size

50 shares per lot

Post-money Market Cap

Approx. HK\$729,328 million

Application Period

8 June 2020 – 11 June 2020, Noon

Listing Date

18 June 2020

Major Shareholders (Please refer to prospectus for details)

Mr. Richard Qiangdong Liu

Max Smart Limited

Huang River Investment Limited

Walmart

Fortune Rising Holdings Limited

Joint Sponsor

BofA Securities, UBS, CITIC

Joint Lead Managers

BofA Securities, UBS, CITIC, BOC, CCB, China Renaissance, Jefferies, ABC, BOCOM, CMB, Guotai Junan, Haitong, Huatai, ICBC, Mizuho, Nomura

Over the past decade, the Company has consistently provided superior fulfillment services to their online retail customers, which has been well supported by their self-operated integrated logistics infrastructure and technology platform. The Company also opens up their leading logistics infrastructure to their third-party merchants and partners beyond their e-commerce business. The Company is expanding their logistics services to partners across various industries, as well as individual users. The Company provides services relating to almost all aspects of logistics operation, including warehousing management, storage, long-haul transportation, express and on-demand delivery and cold-chain and cross-border services, among others. The Company offers integrated supply chain management solutions to customers in various vertical markets. The Company also provides technology solutions for logistics operations to enable customers to transparently and effectively monitor, manage and optimize their logistic workflows.

The Company operates a technology service platform Kepler which provides comprehensive services for the Company's partners to conduct online retail leveraging traffic on third-party channels. For example, The Company helps brands set up Mini Programs on Tencent's Weixin and provide one-stop services including mini-program creation, product selection and pricing, digital marketing, inventory management, fulfillment and customer services. Such services are especially valuable for brands with less sophisticated online retail experience but wish to boost sales through emerging mobile internet channels. In addition, powered by predictive analytics utilizing AI and big data, the Company also offers services to traditional brick-and-mortar retailers to optimize offline stores' operation by recommending product selection based on local consumers' preferences while managing stocks at optimum inventory level.

The Company has developed robust supply-chain based technology in three key areas, namely AI, Big data analytics and Cloud computing. The Company has world-class scientists and a large team of AI engineers. The Company technology achievements has been well recognized globally and they strive to deliver best-in-class services to their customers and become the most trusted technology service provider in the industry. For example, the Company built a smart supply-chain platform NeuHub in April 2018, which consists of cloud-based AI infrastructure. They also includes application-level products supporting many use cases that are applicable to the Company's business and ecosystem, as well as customers across industries.

Company Strengths and Growth Strategies

"Customer-first" is the Company's most important business philosophy. The Company believes their superior customer experience, cost saving and operational efficiency are the core of their strengths, which differentiate them from competitors in customers' minds and have helped them establish their market leadership over the years. These core strengths are fundamentally supported by their technology and team, and include:

- China's largest retailer with substantial economies of scale;
- Superior customer experience;
- Relentless focus on operational efficiency;
- Proprietary supply chain-based technology platform with strong service capabilities; and
- Experienced management team and strong corporate culture.

The Company's strategies are centered on sustainable and quality growth, which they expect to achieve by further solidifying the market leadership of their e-commerce business, and developing their supply chain-based technology service capabilities to empower the players across the industry value chain. The Company's team, organization structure and corporate culture undergird the successful execution of their growth strategies. These strategies include:

- Further grow our scale and reinforce economies of scale;
- Further boost customer experience through improved user engagement and grow our customer base;
- Enhance our supply chain-based technology service capabilities; and
- Strengthen our team, organization and culture.

Company Financial Information
Summary of Consolidated Statements of Operations

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(in millions)			
Net revenues⁽¹⁾:				
Net product revenues	331,824	416,109	510,734	73,362
Net service revenues	30,508	45,911	66,154	9,503
Total net revenues	362,332	462,020	576,888	82,865
Cost of revenues	(311,517)	(396,066)	(492,467)	(70,738)
Fulfillment	(25,865)	(32,010)	(36,968)	(5,310)
Marketing	(14,918)	(19,237)	(22,234)	(3,194)
Research and development	(6,652)	(12,144)	(14,619)	(2,100)
General and administrative	(4,215)	(5,160)	(5,490)	(789)
Impairment of goodwill and intangible assets	—	(22)	—	—
Gain on sale of development properties	—	—	3,885	558
Income/(loss) from operations⁽²⁾⁽³⁾	(835)	(2,619)	8,995	1,292
Other income/(expense):				
Share of results of equity investees	(1,927)	(1,113)	(1,738)	(250)
Interest income	2,530	2,118	1,786	257
Interest expense	(964)	(855)	(725)	(104)
Others, net	1,317	95	5,375	772
Income/(loss) before tax	121	(2,374)	13,693	1,967
Income tax expenses	(140)	(427)	(1,803)	(259)
Net income/(loss) from continuing operations	(19)	(2,801)	11,890	1,708
Net income from discontinued operations, net of tax⁽⁴⁾	7	—	—	—
Net income/(loss)⁽⁵⁾	(12)	(2,801)	11,890	1,708
Non-GAAP Measures:				
Non-GAAP net income from continuing operations attributable to ordinary shareholders ⁽⁶⁾	4,968	3,460	10,750	1,544
Non-GAAP EBITDA from continuing operations ⁽⁷⁾	5,301	5,667	13,811	1,984

Notes: Please refer to prospectus for details of notes (2) to (7).

(1) The Company's net revenues include net product revenues and net service revenues. Product sales is further divided into sales of electronics and home appliances products and sales of general merchandise products. Net revenues from electronics and home appliances products include revenues from sales of computer, communication and consumer electronics products as well as home appliances. Net revenues from general merchandise products mainly include revenues from sales of food, beverage and fresh produce, baby and maternity products, furniture and household goods, cosmetics and other personal care items, pharmaceutical and healthcare products, books, automobiles and accessories, apparel and footwear, bags and jewelry. Net service revenues are further divided into revenues from online marketplace and marketing and revenues from logistics and other services. The following table breaks down their total net revenues by these categories, by amounts and as percentages of total net revenues, during the Track Record Period:

	For the Year Ended December 31,						
	2017		2018		2019		
	RMB	%	RMB	%	RMB	US\$	
	(in millions, except for percentages)						
Electronics and home appliances revenues	236,269	65.2	280,059	60.6	328,703	47,215	57.0
General merchandise revenues	95,555	26.4	136,050	29.5	182,031	26,147	31.5
Net product revenues	331,824	91.6	416,109	90.1	510,734	73,362	88.5
Marketplace and marketing revenues	25,391	7.0	33,532	7.2	42,680	6,131	7.4
Logistics and other service revenues	5,117	1.4	12,379	2.7	23,474	3,372	4.1
Net service revenues	30,508	8.4	45,911	9.9	66,154	9,503	11.5
Total net revenues	362,332	100.0	462,020	100.0	576,888	82,865	100.0

Summary of Consolidated Balance Sheets

	As of December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
		(in millions)		
Cash and cash equivalents	25,688	34,262	36,971	5,311
Restricted cash	4,110	3,240	2,941	422
Short-term investments	8,588	2,036	24,603	3,534
Inventories, net	41,700	44,030	57,932	8,321
Accounts receivable, net	16,359	11,110	6,191	889
Property, equipment and software, net	12,574	21,083	20,654	2,967
Land use rights, net	7,051	10,476	10,892	1,565
Operating lease right-of-use assets	—	—	8,644	1,242
Investment in equity investees	18,551	31,357	35,576	5,110
Investment securities	10,028	15,902	21,417	3,076
Total assets	184,055	209,165	259,724	37,307
Accounts payable	74,338	79,985	90,428	12,989
Accrued expenses and other current liabilities	15,118	20,293	24,656	3,542
Nonrecourse securitization debt	17,160	4,398	—	—
Unsecured senior notes	6,447	6,786	6,912	993
Long-term borrowings	—	3,088	3,139	451
Operating lease liabilities	—	—	8,717	1,252
Total liabilities	131,666	132,337	159,099	22,853
Total mezzanine equity ⁽⁸⁾	—	15,961	15,964	2,293
Total JD.com, Inc. shareholders' equity	52,041	59,771	81,856	11,758

Notes: Please refer to prospectus for details of notes (8).

Summary of Consolidated Cash Flows Statement

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
		(in millions)		
Net cash provided by continuing operating activities	29,342	20,881	24,781	3,560
Net cash used in discontinued operating activities	(2,486)	—	—	—
Net cash provided by operating activities	26,856	20,881	24,781	3,560
Net cash used in continuing investing activities	(21,944)	(26,079)	(25,349)	(3,641)
Net cash used in discontinued investing activities	(17,871)	—	—	—
Net cash used in investing activities	(39,815)	(26,079)	(25,349)	(3,641)
Net cash provided by continuing financing activities	5,180	11,220	2,572	370
Net cash provided by discontinued financing activities	14,055	—	—	—
Net cash provided by financing activities	19,235	11,220	2,572	370
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(642)	1,682	406	57
Net increase in cash, cash equivalents and restricted cash	5,634	7,704	2,410	346
Cash, cash equivalents and restricted cash at beginning of year	24,164	29,798	37,502	5,387
Cash, cash equivalents and restricted cash at end of year	29,798	37,502	39,912	5,733
Free cash flow from continuing operations ⁽⁹⁾	17,697	(7,857)	19,453	2,794

Notes: Please refer to prospectus for details of notes (9).

Non-GAAP Financial Measures

The following tables set forth the reconciliations of non-GAAP financial measures for each of the periods shown to the most directly comparable financial measure calculated and presented in accordance with U.S. GAAP.

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
			(in millions)	
Reconciliation of Net Income/(Loss) from Continuing Operations				
Attributable to Ordinary Shareholders to Non-GAAP Net Income from Continuing Operations Attributable to Ordinary Shareholders:				
Net income/(loss) from continuing operations attributable to ordinary shareholders	116	(2,492)	12,184	1,750
Share-based compensation	2,781	3,660	3,695	531
Amortization of intangible assets resulting from assets and business acquisitions	1,778	1,806	885	127
Reconciling items on the share of equity method investments	1,071	582	456	66
Impairment of goodwill, intangible assets, and investments	140	615	2,751	395
Loss/(gain) from fair value change of long-term investments	—	1,513	(3,496)	(502)
Gain and foreign exchange impact in relation to sale of development properties	—	—	(3,997)	(574)
Gain on disposals/deemed disposals of investments	—	(1,320)	(1,237)	(178)
Effects of business cooperation arrangements and non-compete agreements ...	(918)	(1,035)	(904)	(130)
Tax effects on non-GAAP adjustments	—	131	413	59
Non-GAAP net income from continuing operations attributable to ordinary shareholders	<u>4,968</u>	<u>3,460</u>	<u>10,750</u>	<u>1,544</u>

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
			(in millions)	
Reconciliation of Income/(Loss) from Operations from Continuing Operations to Non-GAAP EBITDA:				
Income/(loss) from operations from continuing operations	(835)	(2,619)	8,995	1,292
Share-based compensation	2,781	3,660	3,695	531
Depreciation and amortization	4,193	5,560	5,828	837
Effects of business cooperation arrangements	(838)	(956)	(822)	(118)
Gain on sale of development properties	—	—	(3,885)	(558)
Impairment of goodwill and intangible assets	—	22	—	—
Non-GAAP EBITDA from continuing operations	<u>5,301</u>	<u>5,667</u>	<u>13,811</u>	<u>1,984</u>

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
			(in millions)	
Reconciliation of Net Cash Provided by Operating Activities from Continuing Operations to Free Cash Flow from Continuing Operations:				
Net cash provided by operating activities from continuing operations	29,342	20,881	24,781	3,560
Less: Impact from JD Baitiao receivables included in the operating cash flow	(289)	(7,369)	(4,233)	(609)
Add/(less): Capital expenditures				
Capital expenditures for development properties, net of related sales proceeds*	(3,849)	(8,857)	2,420	348
Other capital expenditures**	(7,507)	(12,512)	(3,515)	(505)
Free cash flow from continuing operations	<u>17,697</u>	<u>(7,857)</u>	<u>19,453</u>	<u>2,794</u>

Notes:

* Including logistics facilities and other real estate properties developed by JD Property, which may be sold under various equity structures. For the year ended December 31, 2019, approximately RMB7.9 billion proceeds from the sale of development properties were included in this line.

** Including capital expenditures related to the Company's headquarters in Beijing and all other capital expenditures.

Company Shareholding and Corporate Structure

Major Shareholders and Controlling Shareholders

Mr. Richard Qiangdong Liu, the Company's chairman and chief executive officer, is interested in and controls, through Max Smart Limited, a company beneficially owned by him through a trust and of which he is the sole director, 14,000,000 Class A ordinary shares in the form of ADSs and 421,507,423 Class B ordinary shares. In addition, as of the Latest Practicable Date, Fortune Rising Holdings Limited, of which Mr. Richard Qiangdong Liu is the sole shareholder and the sole director, holds 29,373,658 Class B ordinary shares for the purpose of transferring such shares to the plan participants according to awards under our Share Incentive Plan, and administers the awards and acts according to the Company's instruction. As of the Latest Practicable Date, Mr. Liu controlled 78.4% of the aggregate voting power of the Company, including 5.1% of the aggregate voting power of the Company that he may exercise on behalf of Fortune Rising Holdings Limited. Please refer to prospectus for further details.

Weighted Voting Rights Structure and WVR Beneficiary

Under the Company's weighted voting rights ("WVR") structure, their share capital comprises Class A ordinary shares and Class B ordinary shares. Each Class A ordinary share entitles the holder to exercise one vote, and each Class B ordinary share entitles the holder to exercise 20 votes, respectively, on any resolution tabled at the Company's general meetings, except as may otherwise be required by law or provided for in the Company's Memorandum and Articles of Association. Please refer to prospectus for further details.

Prospective investors are advised to be aware of the potential risks of investing in companies with a WVR structure, in particular that the interests of the WVR beneficiary may not necessarily always be aligned with those of the Company's Shareholders as a whole, and that the WVR beneficiary will be in a position to exert significant influence over the affairs of the Company and the outcome of Shareholders' resolutions, irrespective of how other Shareholders vote. Prospective investors should make the decision to invest in the Company only after due and careful consideration. For further information about the risks associated with the WVR structure adopted by the Company, please refer to prospectus.

Variable Interest Entities (“VIE”) Structure

Due to legal restrictions on certain of the businesses including value-added telecommunication services, the Company operates certain of businesses in which foreign investment is restricted or prohibited in the PRC through various contractual arrangements with variable interest entities that are incorporated in the PRC and 100% owned by PRC citizens. As a result, the Company conducts or will conduct such business activities through their variable interest entities and their subsidiaries in the PRC. The Company has entered into certain contractual arrangements, as described in more detail in “History and Corporate Structure—Contractual Arrangements” and “Risk Factors—Risks Related to our Corporate Structure” in prospectus, which collectively enable them to exercise effective control over the variable interest entities and realize substantially all of the economic benefits arising from the variable interest entities. As a result, the Company includes the financial results of each of the variable interest entities in their consolidated financial statements in accordance with U.S. GAAP as if they were their wholly-owned subsidiaries.

Use of Proceed

The Company estimates that they will receive net proceeds from the Global Offering of approximately HK\$30,988 million after deducting estimated underwriting fees and the estimated offering expenses payable by us and based upon an indicative offer price of HK\$236.00 per Offer Share for both Hong Kong Public Offering and International Offering, and assuming the Over-allotment Option is not exercised, or HK\$35,649 million if the Over-allotment Option is exercised in full.

The International Offer Price in the International Offering may be higher than, or the same as, the Public Offer Price in the Hong Kong Public Offering. Further details are set out in prospectus.

The Company plan to use the net proceeds they will receive from the Global Offering to invest in key supply chain based technology initiatives to further enhance customer experience whilst improving operating efficiency. The supply chain based technologies can be applied to their key business operations including retail, logistics, and customer engagement.

The Company will further develop and improve their retail technologies and user engagement through continued investment on a series of key operational systems, such as smart pricing and inventory management system, intelligent customer service solutions and Omni-Channel smart retail platform. The Company will allocate sufficient R&D resources to continue to improve their personalization and recommendation engine to provide a more customized shopping journey and further enhance user experience. The Company will also leverage their insight of consumer preference and latest demand trends and further invest in and enhance their digital marketing solutions which will enable them to offer their users highly relevant, targeted and engaging advertisement contents without disrupting their shopping experience.

The Company will continue to invest in their logistics technologies to offer reliable services to their customers. The Company will endeavor to digitalize their logistic capabilities through building a wide range of in-house systems such as warehouse automation system, optimal route planning system, as well as intelligent hardware. The Company will further invest and develop advanced smart logistics technologies across both software and hardware in areas such as dynamic sorting system and unmanned warehouse. Furthermore, the Company will make additional investments in their Open Platform for Digital Supply Chain as part of their efforts to offer integrated solutions to merchants and partners both within and beyond the JD ecosystem.

The Company will also continue to invest in and enhance our general research & development capabilities. The Company plans to continue attracting and nurturing world-class software engineers, data scientists, AI experts and other R&D talents as well as expanding their intellectual property portfolio. The Company will leverage their strength in these technology capabilities to provide a superior customer experience for their users whilst improving operating efficiency for themselves and for their partners in the entire industry value chain.



Risks Factors

Below are some of the major risks that may materially and adversely affect the Company:

- (i) If the Company are unable to manage their growth or execute their strategies effectively, their business and prospects may be materially and adversely affected;
- (ii) The Company incurred significant net losses in the past and they may not be able to maintain profitability in the future;
- (iii) If the Company are unable to provide superior customer experience, their business and reputation may be materially and adversely affected;
- (iv) Any harm to our JD brand or reputation may materially and adversely affect their business and results of operations; and
- (v) If the Company are unable to offer products that attract purchases from new and existing customers, their business, financial condition and results of operations may be materially and adversely affected.

Risk Disclaimer

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