# Third Quarter 2017 Earnings Call

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**Company Executives**

- George Chow, Chief Strategy and Investment Officer
- Johnny Chou, Chairman, CEO
- Alice Guo, Chief Accounting Officer, VP of Finance

**Analysts**

- Ronald Keung, Goldman Sachs
- Vivian Tao, Citi
- Calvin Wong, JPMorgan
- Hans Chung, KeyBanc Capital
- Eric Zong, Macquarie
- David Ross, Stifel Nicolaus

## MANAGEMENT DISCUSSION SECTION

**Operator**

Thank you, ladies and gentlemen. Thank you for standing by and welcome to BEST Inc.'s third quarter 2017 results conference call. (Operator Instructions). Following management's prepared remarks, there will be a Q-and-A session.

I would now like to turn the call over to Mr. George Chow, Chief Strategy and Investment Officer of BEST Inc. George, please go ahead.

**George Chow**

Hello, everyone, and welcome to BEST Inc.'s third quarter 2017 results conference call. Please note that this call is being streamed live from our IR website at ir.best-inc.com. A replay of this call will be also available on our IR website later today.

With us today are Johnny Chou, our Chairman and CEO, and Alice Guo, our Chief Accounting Officer and VP of Finance. First, Johnny will give a brief overview of our operational highlights and business strategy; then Alice will explain the details of our financial results.

Before we begin, let me first remind you of our Safe Harbor statement. Today's discussion will contain forward-looking statements. These forward-looking statements are based on management's current expectations. They involve inherent risks, uncertainties and other factors, of which are difficult to predict and many of which are beyond the management's control.

The Company does not undertake any obligation to update any forward-looking statements as a result of new information, future events or others, except as required under applicable law.

Please also note certain financial measures that we use on this call are expressed on a non-GAAP basis, such as EBITDA, adjusted EBITDA, and non-GAAP [numbers]. Our GAAP results and a reconciliation of GAAP to non-GAAP measures can be found in our earnings press release.

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

Now, I would like to turn the call over to Johnny Chou, Chairman and CEO of our Company. Johnny, please go ahead.

**Johnny Chou**

Thanks, George. Hello, everyone. Thank you for joining our first earnings call. I am very happy to report that we have achieved a very solid 3Q result, driven by strong customer demand, fast volume and market share gains, strong execution in customer engagement, expanded services, driving for efficiency and cross-selling, and our commitment we made to continue invest in our people, technology and platform.

Each of our core businesses has generated strong revenue growth and margin improvement. For our BEST Supply Chain Management, we fulfilled 43 million orders compared to 29 million orders in 3Q 2016; opened 5 new self-operated Cloud OFCs and increased the number of franchised Cloud OFCs to 231 from 215 in 2Q 2017.

We also further strengthened the partnership with Cainiao and Alibaba Group by adding over 180,000 square meters of OFC space to further enhance the customer experience and to meet the rising demand for Single Days promotion in November. We have seen a continued strong demand for our integrated supply chain management services.

For BEST Express, we shipped over 1 billion parcels in Q3 which was increased 92.6% from same period last year, compared to a 28.4% industry growth. Express market share increased to 10% from 6.7% in the same period last year.

We continue to optimize our Express network, increase operational efficiency, and improve quality of services.

Our total number of hubs and sortation centers decreased to 153 from 181 in 2Q 2017. As a result, cost per parcel has further reduced quarter-over-quarter that led to improvement in margin and profitability. We believe this trend of fast volume growth, improvement in quality of services, margin and profitability will continue.

For BEST Freight, we continue to expand our network coverage and achieved fast volume growth. The number of freight volumes increased by 44.7% to 1.2 million tonnes in Q3 over the same period last year. Average revenue per tonne increased 38.2% year-over-year due to a greater proportion of long-distance freight volumes in connection with the expansion of our freight network and upward adjustments of our service prices, and expansion of our service scope.

Similar to Express network, we continue to optimize our freight network. The total number of hubs and sortation centers decreased to 133 from 143 in 2Q 2017.

Efforts in IT system improvement, routing network optimization, and a focus on quality improvement has continued to drive for volume growth, and margin improvement. We believe Freight will soon join Supply Chain and Express as a profitable business.

BEST Store+, we continue to expand our Store+ network. The number of membership stores increased 97.5% year-over-year to over 345,000, covering 50 cities in 24 provinces. The number of store orders fulfilled increased 155% year-over-year to over 700,000.

And we have fully integrated WOWO after its acquisition in May 2017. WOWO's network and the name recognition have further strengthened our market position and accelerated our Store$^{+}$ network expansion in Southwest China.

We are streamlining merchandise sourcing and improving fulfillment efficiency to create value for membership stores and to expand margin. Store+ is an integral part of our initiative to develop last mile services and capabilities to provide Smart Supply Chain services that will significantly improve efficiency, enhance consumer experiences and create synergy with our other core businesses.

We have built a leading Smart Supply Chain platform by leveraging technology and business model innovation. The rise of middle class, emergence of new retail and consumption upgrade in lower tier cities in China, as well as increasing cross-border activities present huge market opportunities for us.

We are the only player with leading market positions across supply chain management, express and freight delivery, and last-mile services in China; and have achieved the fastest growth among major players across multiple service lines, creating a significant competitive advantage.

Going forward, we will continue to invest in people, technology and business innovation, focus on the execution of our strategy to expand market shares, enhance operational efficiency to achieve quality growth and create long-term value for our shareholders and the ecosystem.

I will now turn the call over to Alice, who will walk you through the details of our financial results.

**Alice Guo**

Thank you, Johnny. Hello, everyone. We're very happy to announce that we delivered a very strong quarter. I will give you some financial highlights. Total revenue in this quarter increased by 133.9% year-over-year. This was led by robust growth in all segments, especially in our

Express services, Store+ services and Freight services. We have a diversified revenue base with multiple growth drivers.

Primarily due to economies of scale resulting from the significant increase in volume, continuous network optimization, increased operational efficiency resulting from proactive cost-control measures and technology improvements and applications as well as business synergies, we have achieved significant operating leverage.

In this quarter, our gross profit margin improved by 7.6 percentage points year-over-year to 3.8%.

Excluding share-based compensation expense, total operating expenses as a percentage of total revenue decreased to 7.5% from 11.4% in the same period of 2016.

Non-GAAP net loss decreased to RMB184 million from RMB321 million in the same period of 2016.

Adjusted EBITDA was negative RMB86 million, compared to negative RMB266 million in the same period of 2016.

Reconciliation of non-GAAP measures to comparable GAAP measures and the relevant adjustments can be found in our press release.

Let's take a look at our core segments. In this quarter, revenue of Supply Chain Management Service increased by 28.3% to RMB386 million primarily due to the increase in order fulfillment service revenue which increased by 33%. This was primarily led by increasing business volume of the existing customers and the addition of new customers.
Gross profit margin for Supply Chain Management Services was 7.4%.

Express Service revenue increased by 147.6% to RMB3,266 million primarily due to the expansion of our service scope to include the last-mile delivery services starting in 2017 and a 92.6% year-over-year increase in parcel volumes. The average revenue per parcel in this quarter increased by 28.6%, primarily due to our service scope expansion, partially offset by a decrease in average parcel weight.

Cost of revenue per parcel, excluding the impact of service scope expansion and the share-based compensation expense, decreased by 29.3%.

Gross profit margin for Express went up by 7 percentage points to 4% in this quarter.

Freight Service revenue increased by 100% to RMB874 million in this quarter. This increase was the result of a 44.7% year-over-year increase in freight volume and a 38.2% year-over-year increase in average revenue per tonne.

The increase in average revenue per tonne was primarily due to a greater proportion of long-distance freight volumes in connection with the expansion of our freight network; the expansion of our service scope to include the last-mile delivery services starting in 2017; and upward adjustments of our service prices in various cities.

Gross profit margin for Freight increased by 9.8 percentage points to minus 5% in this quarter.

BEST Store+ service revenue increased by 244% to RMB768 million in this quarter, primarily due to a year-over-year increase of 155.2% in the number of store orders fulfilled in connection with the rapid expansion of our BEST Store+ network as well as our acquisition of WOWO in May 2017.

Gross profit margin for BEST Store+ was 8.4% in this quarter.

Of the major operating expense items, without the effect of share-based compensation expense, selling expenses increased by 78.2% to RMB200 million in this quarter. This increase was primarily due to an increase in shipping and handling costs to RMB66 million related to delivery of merchandise to membership stores and staff costs in connection with the expansion of BEST Store+ network, and the addition of retail store occupancy cost of RMB25 million as a result of acquisition of WOWO.

Without the effect of share-based compensation expense in this quarter, selling expenses as a percentage of total revenue decreased to 3.7% from 4.9%. G&A expenses as a percentage of total revenue decreased to 3.2% from 6.7%, and R&D expenses as a percentage of total revenue decreased to 0.6% from 0.9% in the same period of 2016.

Without the effect of share-based compensation expense, R&D expenses in the third quarter of 2017 grew by 53.7% year-over-year primarily due to increased research and development activities.

Share-based compensation expense in this quarter was RMB281 million. Before the completion of the Company's IPO in September 2017, no share-based compensation expense had been recognized. Upon completion of the IPO, the Company immediately recognized a substantial amount of share-based compensation expense associated with vested share-based awards.

Our asset-light model allows us to achieve high growth without significant CapEx. Total CapEx in this quarter was RMB176 million or 3.3% of total revenue.

Net cash generated from operating activities was RMB109 million.

As of September 30, 2017, our cash and cash equivalents, restricted cash and short-term investments were RMB5,487 million or US$825 million. Our strong balance sheet gives us the resources and the flexibility to accomplish our business and strategic objectives.

Looking at our business outlook for the fourth quarter of 2017, we expect our total revenue to be between RMB6.3 billion and RMB6.6 billion, representing a year-over-year growth rate of approximately 104% to 114%.

With that, I would now like to open the call to Q&A.

**Q&A**

Operator: We will now begin the question-and-answer session. (Operator Instructions). Ronald Keung, Goldman Sachs.

Ronald Keung: Congratulations on the very strong set of results. I think after the exceptional strong growth in the third quarter particularly for BEST Express with 93% parcel growth and you mentioned a 10% market share. Can you share with us how fourth quarter is looking and particularly how Singles Day performed for BEST Express; and maybe your targets for 2018 as well, as you continue to balance I think two key things, which is the growth rate and improving cost ability for the segment. Thank you.

Johnny Chou: Thank you, Ronald, this is Johnny. Yes, so we delivered a strong third quarter result and we continue to see the fourth quarter Express being -- growing at least we think it's going to be twice as fast for [MB] and the channel markets. But in general, we've also seen a good cost reduction in the area that we have driven it.

As to your question about the Singles Day and the real (inaudible) piece of our Singles Day results, the first day we actually collected about RMB66.4 million funding the popular orders the first day. The Single Day actually spanned over several days, but the first day we always get there, which is about 80% increase from last year, so particularly that result.

And meanwhile, our warehouses for [parcels] also generated about RMB14 million parcels over the [3]-day period from our warehouses operated. So yes, we continue to see a very strong demand for the parcels demand as well as to see business from the Supply Chain side. Okay, Ronald.

Ronald Keung: Thank you. Thank you, Johnny.

Operator: Vivian Tao, Citi.

Vivian Tao: Actually, I just have some follow-up question on the Express segment as well. First, Johnny just mentioned during the Single Day, you handled RMB66.4 million orders on the first day. I recall I read in this data which says the industry parcel reached [315 million] on the first day. Does that imply you actually handled 20% of market share on the first day, or maybe I did not interpret the data correctly. So I just want to see -- just want to be [accurate] on that.

My second question is also on Express. If we -- if (inaudible) the margin you will see, I noticed the unit revenue for third quarter for parcel actually declined quite a bit. Based on my calculation, it declined by around 29%, although during the presentation, Alice mentioned actually because the average weight of parcel declined. But still, I would say it's close to 30% unit revenue decline (inaudible) just want to see where there's any other reason behind that. So those are my two questions regarding the Express business. Thanks.

Johnny Chou: Okay. The first question is that on a Singles Day volume, which is very hard to get an official number because Single Day is not just a -- it's (inaudible) created 9 years ago, and it's already become a nationwide shopping promotion, shopping holidays. So these are people doing the promotion and when we talk about a number of the orders we received, that's actually received through our system, then we can see.

But as to how much the total industry has, that really, we don’t really know. So I can't answer your question about the 20% or so. All I can tell you is what we get, so that's the number, the question that I had to answer.

The second to the ASPs on the third quarter, actually, the ASP on the third quarter, we have been since this year having -- reducing it from $2, if you're excluding the last [month] delivery, going from 2.5 down to about 1.95 or 1.97. So you're talking about -- I'm sure you're talking about this number, right?

So in there, I can -- partially because is there, we have been modifying and reducing our network notes, so our number for (inaudible) spend has been reduced significantly from 100 -- you will actually have more than 200 and (inaudible) 51. So that allows us to be much more efficient, so the (inaudible) actually is faster, so you can see, if you look at the margin side, you look at the [per]-volume of per-parcel margin side, actually, it's increased much faster. So it's the parcel generated the revenue -- the parcel generated the probability of gross margin actually much higher than before.

So yes, to answer your question, is two things. One is the weight has been reduced by 15% from last year, so last year, a per-parcel is weighted about 1.4 kilo and now it's about down to about 1.1, 1.5. So you average out about 15% and so that's partially because we [charted] for the weight. That other parcel reason is because we have continued to improve our efficiency, reduce the costs that allow us to be able to remove some of the [notes] and pass-along the savings to our franchisee networks. So actually, your franchisee networks have been benefited by [paying] through the costs to them.

Vivian Tao: Johnny, may I just have a quick follow-up question?

Johnny Chou: Sure.

Vivian Tao: You mentioned actually your average rate has been reducing by 15% to 1.1 kilo. I recall when we talked to other players, the (inaudible) then is that typically the average weight in the third quarter is heavier because there's holidays that (inaudible) in particular The Autumn Festival, so people like to send the moon cake via the Express.

Is that typically the third quarter average weight for the parcel is heavier for this industry? Is that a similar phenomenon you observed? Actually, just for your Company, you purposely may choose the lighter weight, so average -- that phenomenon is still that you -- just BEST actually choose the lighter parcel? How do I interpret that (inaudible)?

Johnny Chou: Okay. So in general, as volume goes up, your weight is going down because there is more parcels which is lower weight than the heavier parcel, right? So the clothing and all this stuff we're selling on the website, typically much lighter than much more bulky or furniture and also. So yes, I think in general, if the volume goes up, your average weight goes down. That's number one.

The question two about Q3, I'd argue that Q3 actually has a lighter weight because Q3 is summer, the summer typically clothing and everything (inaudible) is a lot lighter. But when you talk about the Autumn Festival or these are just very small period in the third quarter, right? You're talking about 2 days a week. So in general, we see is that as one goes up, average weight goes down. Third quarter typically will have (inaudible) a little bit lighter due to parcels' average.

Vivian Tao: Okay. Got it. Thanks.

Johnny Chou: So still, I give you a quick number on that, maybe you can take a look at it. On the first Q 2016, last year, our average weight per parcel about 1.5; in the second quarter, about 1.35; and the fourth quarter (inaudible) quarter about 1.35, 1.36; and this year second quarter and third quarter about the same, 1.2. So for this year in general, it's much lighter than last year.

Vivian Tao: Okay. That's very helpful. Thanks, Johnny.

Operator:  Calvin Wong, JPMorgan.

Calvin Wong: Firstly, congratulations on the strong set of results. A couple of questions from me if you don't mind. The first is related to pricing again, so as you're probably aware, the (inaudible) came out and said that they were going to look to raise prices ahead of the double-11. So did we kind of follow suit? What was our thought process there? I think previously, what we've seen is maybe in recent quarters, we've been a little bit faster in terms of reducing our [ASD] partly on scale but partly because of strategy. So I just want to get your thoughts on this particular front first.

Johnny Chou: Okay. So actually, we do know that some of our peers have announced that they're going to increase the price, but I'm not commenting on how they did it or not did it. But what we experienced is that every -- on the fourth quarter, on the end of September, we actually send out a note to our general franchisee network to tell them that by October 1, we were raising the price. Number one we raised it is for the delivery, the (inaudible) price. We raised that to make sure that our network is stable because typically the fourth quarter, we know the margins are going up very quickly. We want to make sure the (inaudible) now is stable.

So we raised it about -- some amount of money per parcel for the last [month] delivery increase. So we also raised some money around the way bills and other costs, so we did raise the price; we just didn't publicly announce it. So internally, we told all the franchisee network and we actually did that starting from October.

Calvin Wong: Okay. And --

Johnny Chou: So they were -- yes?

Calvin Wong: Go ahead.

Johnny Chou: Okay. I don't (inaudible) to answer your question, but yes, we do -- we have increased the price since October and to -- able to helping to stabilize the peak season, high season, delivering in the network.

Calvin Wong: Right. Thanks. Yes, and sort of just going forward, in terms of adjusting this pricing, would it be fair to say maybe the last-mile parts would be a bit stickier to kind of help those last-mile operators? And maybe the way bill parts of price hike might be used more strategically, depending on the market situation and seasonality?

Johnny Chou: Yes, so we -- but the network, the one we have the franchise base, a partnership, the network, that's actually very dynamic. So we base [technical difficulty] we increase the volume very large and then we make sure that the [lock] is now stable and the franchisee can handle these volumes. So we'll periodically -- and we'll look at the whole nation and adjusted some of these major cities to be able to help them with their job.

So yes, so we are dynamic. I'm not going to say that we are going to adjust the price quarter-by-quarter, but we are in the high season. Typically for example, entering into wintertime, we typically increase the delivery cost for like in the Northeast China, where it's very cold and temperatures are low, we adjust the price up and for them for the quarter. That may go back to a normal pricing when the weather is getting warmer. So yes, we're dynamic (inaudible) there and make sure the network can actually absorb the increase of volume and stabilize their services on there.

Calvin Wong: Great. And then --

Johnny Chou: The pricing is actually (inaudible) -- yes, go ahead.

Calvin Wong: Okay. Yes, thanks. I cut you off. So and just my second question is more on the swap-body system and the rollout there because I think previously, we said we were doing some testing and we started to implement it more broadly within -- for Freight and now Express. So I just want to get an update there and whether we have any potential ways of quantifying the exact impact from this particular initiative.

Alice Guo: Okay. Currently, the number of swap-body (inaudible) sectors as a percentage of total recall in our network, Express network, was about 1/3 in the third quarter 2017. We expect that the percentage will be over 40% by fourth quarter and the percentage will be close to 2/3 by end of next year.

Calvin Wong: Okay. And are we able to have some sort of metric in terms of quantifying the impact this has had on our cost efficiency?

Johnny Chou: Yes, so we have not rolled out everywhere. We continue to increase the swap-body first by vehicles and second by the practice on the big operation. In the area we have been doing the practice, we've seen a significant improvement in the -- lower the cost improvements significantly. So in an area we've done some (inaudible) for example in [Jonsu]. Those achieve about 25% to 30%, it depends on the [stage] in which you're doing this stuff.

So we do see a greater percentage (inaudible) as I say, we're still close to rolling out all this across our country. And we're expecting the number of the swap-body as percentage of our total fleet is going to increase dramatically next year both for the Freight as well as for the Express. I think actually, the (inaudible) of Express will be about 40% and the Freight is about 2/3 is already on swap-body.

Calvin Wong: Right. Great. Thank you very much.

Operator: Hans Chung, KeyBanc Capital.

Hans Chung: Congratulations on strong results. So I have a couple of questions. First, can you provide some color about your fourth quarter guidance, the revenue, by each segment? And then also, given the fourth quarter (inaudible) season and should we continue to expect the further margin and operating leverage in the fourth quarter?

And second question is regarding unit [cost] in the Express delivery, so I know we have been doing swap-body and also switched to cooperated the [fleet] model, and also we have consolidation of the network. So going to next year, 2018, how much can we continue to benefit from the initiative? And then how (inaudible) can you just maybe by rank, by weight, on which one sector is made larger than the other?

Johnny Chou: Okay. So it's actually two questions. One question we're talking about the fourth quarter general look and how we break it by segment. It's going to be very difficult for me to break into a segment, to talk about. We can talk about generally what the fourth quarter is going to look like, so fourth quarter generally is a high season, business cycle, in China for most of the consumptions and also seasonality change of the merchandise required there.

So fourth quarter generally, we'll see by [first four], Express, [Ochio] and Supply Chain is also on the higher business activities. However, because of the labor cost in the peak season, temporary workers, they make those up a little bit more. The trucking may also cost a little bit more because of the peak season, and people fighting for the resources. So revenue for the Express, for the Freight, for the Supply Chain, all going to be increased.

And margin is going to be offset, the volume increase the margin, will be offset somewhat by the increased cost of labor and that. So margin will be flat or a little bit better, but Store business will be actually a little bit less because traditionally, the seasonality is Store business is more for -- third quarter will be better because third quarter is much more waters and soft drinks and all this drinks and stuff. The fourth quarter is getting a little bit colder, so the fourth quarter, the Store business is going to be a little bit less, but we also forecast a very good strong growth, but it's going to be a little bit less than [three] quarter.

So in general, we see a fairly good fourth quarter in terms of the revenue growth. We actually give guidance about RMB[6.3] billion to RMB[6.6] billion.

Alice Guo: Yes.

Johnny Chou: And equivalent about to 104% to 114% compared with last year revenue growth on that. So it would be very difficult for me to break down by business-by-business, but in general, we say that the fourth quarter traditionally is a higher business cycle. Store will be a little bit flat and the Express and Freight and the pricing will be better, better, better.

And then you talk about -- the second question really relates to the cost reduction side in terms of the parcels and how the unit cost reduction. What you can't see is -- Vivian, remember, she asked a question about the ASP is coming down a little bit, but you can see our cost reduction there is much faster than the ASP reductions, but [timely] driven by multiple things, right? One is the volume growing very rapidly. We grow about 92%, close to 93% in volume Q3, and we continue to see a very strong growth in Q4 as well. Of course, it probably (inaudible) not as high as Q3, but it's very strong. And the other side is that our transportation and the labor costs, we believe we could still have -- further drive down the costs from that.

So typically, we've seen that as the volume goes up and we continue to optimize our network, reduce our number of sortation centers and taking our notes in between the services, and margin will continue to improve steadily and our operational efficiency will increase.

Hans Chung: Got it. That's helpful. Thank you.

Operator: Eric Zong, Macquarie.

Eric Zong: Congratulations to this quarter's excellent results with continuing margin improvement. So I'll ask one question for your Freight segment. So what do you think about the increased competition in LTL market, more for your competitors have (inaudible) recently, right? So what's your competitive advantage here and your strategy to respond to such competition? Is this going to affect your profitability? Thank you.

Johnny Chou: Okay. So I will just give you a very quick update on the Freight side. I think Freight, we are actually enjoying a first-move advantage, right? We've been doing this for 6 years ago, we have started the network and through much more coverage nationwide. And you can see from our news release, we're growing at a very rapid [pace].

So our margin continues to improve, so talking about the profitability, I believe very soon the Freight business is going to be profitable because our margin continues to be improved every -- 3% to 4% every quarter, so I think that's being on that side. So we do enjoy the first-mover advantages.

Secondly, I still believe that market is going to develop very rapidly because the primary driving force is sweeping. One is the e-commerce, so more and more people buying things, large items, on the website, right, buying furniture, electronic devices, jogging machine, whatever, and need to deliver it home.

Second, consumption, tier-three, tier-four consumption comes up if you need to deliver merchandise (inaudible) to the third-tier, fourth-tier cities even more, so that being -- doing very dramatically. And a fourth (inaudible) the consolidation because of these levels of requirements to deliver to cities, deliver to the home, a lot of traditional transportation probably cannot do this anymore.

So I believe that the Freight market has a natural advantage for the Express company to do this, so the Express company has a (inaudible) very deeply covered. And so we enjoy the first-move advantages and also, Freight is also very high barrier to entry. So I believe that the Freight is just like Express a couple of years ago, so I think this market will probably consolidate and we see the consolidation happening. So this industry eventually is going to consolidate to 3, 4, these companies, and that's what we're seeing.

So given that we already have 6 years, so we think that the market consolidating and we will enjoy the advantage of being able to cover the whole nationwide of network, and the economy of scales. So that's why you see our financial results in the Freight segment has been improving dramatically quarter-by-quarter.

Eric Zong: Okay. Thank you.

Operator: David Ross, Stiefel.

David Ross: First question, really kind of a two-part one on 2017. As you look back, we're almost through the year. What part of your business have you been most pleased with this year, and why? And then what segment has performed probably worse than expected at the beginning, and why?

Johnny Chou: Okay. So in general, we are very happy with what we have achieved in this business year of each business. Each business has achieved all their high growth and margin improvements, so we generally were very pleased. So especially if you ask me what I was most pleased and I would've said we had especially pleased with the progress we've made in Express, Freight and Supply Chain business. We've seen a strong revenue growth as well as the margin improvement in these business lines.

As you can see, our Express, we're getting the market share; we're growing much faster than the market, margin has been improving and Freight, the same thing, growing fast, margin improving, seeing a breakeven point. And I said [SCM] (inaudible) enjoying the market-leading position. So we really believe that our Freight, Supply Chain and Express is doing extremely well this year.

Now, the Store businesses also is doing well, but however, we really want to focus our Store business to create more value. So rather than -- so this year, we will focus on the margin improvement for Store. So Store, margin growth is a little bit slower than [I planned it], but if you look at the margin improvements from the beginning of the year of 3% now up to about 8.7%, I believe the fourth quarter will continue to improve to about 9%. So we're looking at about this Store business will continue to try to optimize the merchandise selections, improve efficiency on (inaudible) delivery for the orders filled, and technology improvement to service the store in a better manner. So that is the area that we see -- we continue to strive for it.

David Ross: And then related to the Express network, you talk about downsizing the number of facilities, at some point with all this growth, you're probably going to need more sort centers than fewer. So how do you view the balance of having enough capacity to handle the growth (inaudible) with trying to right-size your cost structure?

Johnny Chou: Yes, so yes, you're absolutely right, David. So the sortation center, as the volume grows, we need to maintain a certain amount of it, but we already have a lot more sortation centers compared with our peers, right? Typically, our peers are talking about 70%, 67%, 60-70 sortation centers, but we still have more than over 100. So even by the end of next year, we believe that we still can reduce it, but still going to be over 100 sortation centers, which is still significant more than the others.

The reason why, when the margin goes up, you can reduce the sortation center, is as volume goes up, the franchisee typically getting stronger. So allow them to go to a further distance to go to a big hub; they have a nationwide connection from city to city, so that will improve their efficiency, faster speed of delivery, because by reducing a [node], you basically reduce the number of processing required for each parcel, right? Before you go to a smaller sortation centers, go to a big hub and then go to nationwide. Now the franchisee can go to larger hub and directly connected to the nationwide quickly.

So yes, so volume goes up and we still believe that we can still optimize the sortation center to about 100 to 110. That's what we plan for the next 3 to 5 years.

David Ross: And then last question is just around the Supply Chain division this quarter. You had strong order growth both of the self-operated (inaudible) and the franchise ones, but revenue growth was less than that. So I guess it implies that revenue per order was down at Supply Chain. Is that an issue, what was driving that?

Johnny Chou: Yes, so the Supply Chain business typically is large (inaudible) base, so we need to go to talk to customers, show them our total solution network. Typically, these are project-based and not like Express or Freight; it's a network. So you can [track] business from the lock (inaudible) quickly, so the Supply Chain business typically has longer selling cycles to working with the customers and the --

So if you look at our network, we have increased about a couple of hundred thousand square meters at the warehouses, which compared with 2 million or 3 million (sic) warehouses we already had. That's about 10%, the total space we have increased. But meanwhile, the volume has been -- actually, the revenue has been increased by 28% -- more than 28%. So in that regard, we're not reducing the ASP of all the services, but meanwhile, we actually are creating the service.

Another side is that a lot of new services we do for the Cainiao and Alibaba, they're more like warehouse-based, so the delivery was really not as -- it's local, very local. So the cost for the deliveries actually would be (inaudible) that, but the demand for the warehouses for this will increase.

David Ross: Excellent. Thank you.

Johnny Chou: So the other question -- yes, okay.

Operator: Ronald Keung, Goldman Sachs.

Ronald Keung: Just to follow up on Supply Chain as well, I just want to hear about -- when he hear about the Cainiao plans for smart warehousing, I just want to hear what do you see as the opportunity for BEST? First, are there any further plans for (inaudible) market incentives? I believe you have five of them in operation for the last quarter. And do you see any other further categories outside of (inaudible) that you could potentially cooperate with Cainiao in smart warehousing? Thank you.

Johnny Chou: Yes, so we are actually further strengthening our partnership with Cainiao and Alibaba, so Q3 alone, we added over about 180,000 square meters of (inaudible) space for Cainiao in Q3 (inaudible) warehouses in (inaudible) in [Nantung] and some new warehouse space in other cities. So now, we have over 9 warehouses, about 350,000 square meters in the general vicinity that we're working for Cainiao.

And Cainiao is spending their warehouse (inaudible) then we see ourselves getting a closer partnership with them, not just on the FMCG, a lot of warehouses, [major] warehouses we've been working with, something to do with electronic devices. They're including the rice cookers and electronic items, and also seeing the [commons] and we also shipped a lot of -- based on the double oven.

We also are working with Cainiao to ship about over 2 million or 3 million -- over 2 million parts of the cross-border international fulfillment for the international sellers shipping the product into China and with many warehouses and shippers come through (inaudible) in China. So yes, we see a tremendous amount of cross-border association and cooperation other than the FMCG, but also strong electronics as well as some other categories of merchandise.

Ronald Keung: Thank you, Johnny.

Operator: And this concludes today's question-and-answer session. And it also concludes today's conference call. We want to thank everybody for joining today's presentation. You may now disconnect your lines. Have a great day.