BEST Inc.
Fourth Quarter and Full Year 2017 Earnings Call
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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
Calvin Wong, JPMorgan
Vivian Tao, Citi
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David Ross, Stifel
Scott Schneeberger, Oppenheimer

Presentation

Operator: Good day, and welcome to the BEST Inc. Fourth Quarter and Full Year 2017 Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note today's event is being recorded.

I would now like to turn the conference over to George Chow. Please go ahead, sir.

George Chow: Thank you, Operator. Hello, everyone, and welcome to BEST Inc.'s Fourth Quarter and Fiscal Year 2017 Results Conference Call.

With us today are Johnny Chou, our Chairman and CEO, and Alice Guo, our Chief Accounting Officer. For today’s agenda, Johnny will give us a brief overview of our operational highlights and business strategies. Then Alice will explain the details of our financial results. Following the prepared remarks, you may ask your questions.

Please note, an Investor Presentation is available on our IR website at ir.best-inc.com. A replay of this call will be also available on the IR website later today.

Now let me quickly 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, all 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 statement as a result of new information, future events or others, except as required under applicable law.

Please also note that certain financial measures that we use on this call are expressed on a non-GAAP basis, such as EBITDA, adjusted EBITDA and non-GAAP net loss. Our GAAP results and the 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 this conference call are in RMB.

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

Johnny Chou: Thanks, George. Good morning and good evening, everyone. Welcome, and thank you for joining our fourth quarter and fiscal year 2017 earnings call.

In 2017, BEST Inc. continued to deliver strong growth as a leading Smart Supply Chain service provider by investing in people, technology and business innovation, and by effectively executing on our plan to achieve scale and drive efficiency.

We see great opportunities and demand for integrated services and solutions in China's logistics and supply chain market as a result of accelerating growth of our e-commerce and new retail. Merchants and businesses are demanding greater flexibility and services to integrate on-line and off-line shopping services to meet consumers' ever -sophisticated needs for anything, anytime, and anywhere.

Not only does this lead to a higher level of technology adoption and service integration, but it also accelerates industry consolidation, with top-tier players getting stronger and grabbing more market shares. Meanwhile, monoline service providers are trying to develop more comprehensive service capabilities to compete.

BEST is well-positioned, as we have already established an integrated service platform and continue to focus on long-term value creation. We are especially focused on building last mile solutions to deepen engagements with our customers and consumers and expanding our smart supply chain ecosystem.

I am pleased to report business is growing ahead of plan. For the fourth quarter 2017, we achieved our targets of high revenue growth and significant margin improvement.

Our total revenue increased by 112% and gross margin improved by 9.8 percentage points.

Meanwhile, fourth quarter EBITDA almost broke even.

For the full year 2017, revenue increased 126% and gross margin improved by 8.4 percentage points.

Such strong momentum is driven by fast volume growth, improved operating efficiency, business synergies as well as enhanced customer engagement and services.

Now let me give you some business highlights.

BEST Express delivered faster-than-expected growth in fourth quarter 2017. Parcel volume increased by 67.8% year-over-year to 1.27 billion parcels, compared to a 24.3% industry-wide growth. Our market share stood at 10% in the fourth quarter of 2017.

Full-year parcel volume increased 74.1% year-over-year versus 28% for the industry.

Our revenue per parcel in fourth quarter rose to RMB3.42 from RMB3.23 in third quarter. Cost of revenue per parcel continued to decrease, thanks to significant growth in parcel volume, network optimization, as well as increased operational efficiency resulting from proactive cost-control measures and continuous technology improvements and applications such as swap-body operation, dynamic routing and further facility automation.

Total number of hubs and sortation centers decreased to 145 from 153 in the last quarter.

We believe BEST Express will continue to grow much faster than the market in 2018 and continue reduced cost, in addition to operating leverage and through volume growth, we will achieve more cost savings and synergies to further build-up of our last-mile service network and the integration with supply chain and freight network, which I will elaborate later.

BEST Freight volume in the fourth quarter increased by 21.9% year-over-year to 1.2 million tons. Average revenue per ton increased 39.8% year-on-year due to price increases, a greater proportion of long-distance freight volume in connection with the expansion of freight network and the service scope.

Gross margin improved by 18.7 percentage points. Gross profit almost broke even.

For the whole year, volume grew 44.7%, while revenue grew 98.1% and the gross margin improved 13 percentage points year-on-year.

We expect BEST Freight will go through similar growth and development trajectory as BEST Express. We'll continue to drive volume growth and margin expansion, through platform upgrade, network optimization, technology application and a focus on customer services.

I’m confident 2018 will be the year for BEST Freight to join BEST Express and supply chain services to become a profitable business.

For BEST Supply Chain Management, we continue to see strong demand for our integrated service, supply chain management services.

Orders fulfilled through our Cloud OFCs for the quarter increased 28.8% to 60 million, and for the year, an increase of 49.6% to 180.5 million.

We opened 4 new self-operated OFCs in the fourth quarter.

As of December 31, 2017, total GFA for Cloud OFCs is 2.38 million square meters, a 38% growth year-on-year, for which 1.38 million are self-operated and 1 million square meters are operated by our franchise partners.

We continue to strengthen our partnership with Cainiao and Alibaba. In the fourth quarter 2017, we managed 12 OFCs for them, with a total GFA of more than 400,000 square meters. We signed two bonded warehouses with Cainiao in December, which we expect will launch in the first quarter of 2018.

For BEST Store$^+$, we continued to expand our Store+ network and accelerated the Store$^+$'s integration with Supply Chain and Express networks to build up last-mile services.

In the fourth quarter of 2017, the number of membership stores increased by 46.9% year-over-year to 363,755, with coverage in 51 cities or 24 provinces, and the number of store orders fulfilled increased by 89.6% year-on-year to 647,044.

We have also deepened the engagement with the existing membership stores, as well as optimizing merchandise selection and product offerings.

Now it is a good time for me to talk about our key initiatives and focus in 2018. By leveraging technology and business model innovation, BEST has built a leading Smart Supply Chain platform. In 2018, we plan to further expand our market share, enhance cross-segment synergies and improve operational efficiency to achieve quality growth by focusing on the following areas.

One, continue to build a last-mile service network. Working with BEST Express and BEST Supply Chain, we intend to make BEST Store$^+$ an integral part of our last-mile services network, therefore significantly improve efficiency and enhance consumer experiences.

Number two, creating additional synergies and efficiencies among core supply chain and logistics businesses. We will further integrate our three service networks of Express, Freight and Supply Chain Management. Initiatives include centralized routes and planning for BEST Express and BEST Freight to reduce cost and improve delivery time. And the BEST Supply Chain and BEST Express will work together to improve intra-city same-day delivery network in major cities.

Number three, expanding global reach. Through BEST Global, we will keep working with domestic and international partners to grow our cross-border business and broaden our service offerings in international markets. We will further expand our global footprint and achieve meaningful growth in Southeast Asia and in North America through acquisitions and strategic investments.

Number four, monetizing our existing technology infrastructure. We have launched Baizhihui Project, a proprietary B2B SaaS platform that integrates order management systems, warehouse management systems, transportation management systems and enterprise resource planning, ERP systems, into one holistic and intelligent logistics management application.

Through Baizhihui, paying users such as distributors, manufacturers, and logistics and transportation companies can manage their supply chain and logistics process with better transparency and efficiency.

Number five, we will continue to build on our innovative culture by investing in the best talents, technologies and business innovations.

2017 is the 10th anniversary of our Company. I'm proud that we have made significant achievements in our businesses in the past decade.

For 2018, we will build upon the success of prior years, focus on our customers' needs by improving quality and services; continue to grab market shares, achieving higher top-line growth and aiming to become profitable in the second half of 2018.

Looking ahead, the continued growth of e-commerce and New Retail will create tremendous market opportunities for integrated services and solutions.

The fundamental strength of our business model and technology infrastructure makes us confident that we are well-positioned to capture these opportunities, deliver sustainable high-quality growth and achieve long-term value creation for all stakeholders.

With that, I would like to hand over the call to Alice, our Chief Accounting Officer and the Vice President of Finance, to go through the details of financial results. Thank you.

Alice Guo: Thanks, Johnny. Hello, everyone. We're very pleased to announce that we've delivered another excellent quarter.

First of all, I would like to discuss the fourth quarter 2017 financial highlights.

Our revenue in this quarter increased by 111.7% year-over-year, thanks to strong growth momentum across all segments.

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, as well as business synergies, we continued to achieve significant margin expansion.

In this quarter, our gross profit margin improved by 9.8 percentage points and our net loss margin improved by 11.1 percentage points year-over-year.

Excluding share-based compensation expense, operating expenses, as a percentage of revenue, decreased to 6.6% from 8% in the same period of 2016.

We have reduced our non-GAAP net loss to RMB116 million from RMB407 million.

Adjusted EBITDA was negative RMB24 million, compared to negative RMB333 million.

The 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 the core segments. In this quarter, Express Service revenue increased by 139.8% to RMB4.3 billion, primarily due to the expansion of our service scope to include last-mile delivery services starting in 2017 and a 67.8% increase in parcel volume.

The average revenue per parcel in this quarter increased by 43% to RMB3.42, primarily due to our service scope expansion, partially offset by a decrease in average parcel weight.

Gross profit margin for Express Service went up by 9 percentage points to 4.4% in this quarter.

Supply Chain Management service revenue increased by 27.5% year-over-year to RMB530 million. Such increase was primarily led by the addition of new customers and the increasing business volume of existing customers.

Gross profit margin for Supply Chain Management Services was 3.1%.

Freight Service revenue increased by 30.4% to RMB964 million, compared with the same period of 2016. This increase was resulted by a 21.9% increase in freight volume and a 39.8% increase in average revenue per ton.

The increase of average revenue per ton to RMB779 was primarily due to upward price adjustment, a greater proportion of long-distance freight volumes in connection with the expansion of our freight network and the expansion of our service scope to include last-mile delivery services starting in 2017.

Gross profit margin for Freight Services increased significantly by 18.7 percentage points to negative 0.1% in this quarter.

BEST Store+ service revenue increased by 115.9% to RMB592 million in this quarter, primarily due to a year-over-year increase of 89.6% 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 9.1% in this quarter.

Of the major operating expense items, without the effect of share-based compensation expense, selling expense increased by 69.9% year-over-year to RMB207 million in this quarter. This increase was primarily attributable to an increase in shipping and handling costs to RMB52 million related to delivery of merchandise to membership stores, and the staff costs in connection with the expansion of BEST Store+ network, and the addition of retail store occupancy cost of RMB27 million as a result of acquisition of WOWO.

Without the effect of share-based compensation expense, in this quarter, selling expense, as a percentage of revenue, decreased to 3.2% from 3.9%.

General and administrative expenses, as a percentage of revenue, decreased to 3% from 4.6% and the research and development expenses, as a percentage of revenue, decreased to 0.4% from 0.8% in the same period of 2016.

Share-based compensation expense in this quarter was RMB18 million.

Now, I would like to quickly go over some of the fiscal year 2017 financial highlights.

In fiscal year 2017, our revenue increased by 126% to RMB20 billion, among which, Express Service revenue increased by 137.3% to RMB12.8 billion; Supply Chain Management Service revenue increased by 29% to RMB1.6 billion; Freight Service revenue increased by 98.1% to RMB3.1 billion; and the Store^{+} Service revenue increased by 297.3% to RMB2.2 billion.

Our gross profit margin improved by 8.4 percentage points to 2.4% from negative 6%.

Share-based compensation expense in fiscal year 2017 was RMB299 million. Excluding share-based compensation expense, operating expense, as a percentage of revenue, decreased to 7.4% from 9.8% in 2016.

We have reduced our non-GAAP net loss to RMB923 million from RMB1.4 billion in 2016.

Adjusted EBITDA was negative RMB583 million, compared to negative RMB1.1 billion in 2016.

Our asset-light model allows us to achieve high growth without significant CapEx. In 2017, CapEx was RMB749 million, or 3.8% of revenue.

Net cash generated from operating activities was RMB117 million.

As of December 31, 2017, our cash and cash equivalents, restricted cash and short-term investments were RMB5.3 billion, or US$820 million.

Our strong balance sheet gives us the resources and the flexibility to accomplish our business and strategic objectives.

Finally, let’s discuss our revenue guidance. For the first quarter of 2018, we expect our revenue to be between RMB4.8 billion and RMB5 billion, representing a year-over-year growth rate of approximately 47.8% to 53.9%. This guidance reflects our solid growth momentum for a seasonally slow quarter.

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

Questions and Answers

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

Ronald Keung: Congratulations on the strong fourth quarter results, and particularly for the Express growth that had made BEST Express --

Johnny Chou: Thank you.

Ronald Keung: -- come in a top-four player by volume share in the fourth quarter. So given the ongoing rapid growth firstly on Express, can you share with us the utilization rates, say, for your sorting facilities? And if you have any data or sort of relationship with the franchisee dealers, where the capacities are at the moment?

I just want to think would there further investments needed on the infrastructure, upsizing of your current sorting hubs, or just maybe expanding the number of franchisees to handle the projected fast growth over the next few years?

May I ask a second question as well? Should I ask now or --

Johnny Chou: Yes, go ahead, Ronald.

Ronald Keung: And my second question would be on the Store. Just can you outline how -- you mentioned about optimizing merchandise selection and product offerings. I just want to know in 2018, just how do you plan to balance the further optimization, while also maximizing the potentials of this group?

So I'm just thinking about the profit drag at the moment, but also you want to maximize the potentials in this business, as you mentioned, building a last-mile intra-city service network. So two questions for me, thanks.

Johnny Chou: Okay, Ronald. Yes, so I'll answer your first question. So we, right now, are running about 145 sortation hubs for the Express business and when we rent, go out to build up a hub and sortation center, we don’t just do it for this year's capacity. We typically build it for 3 to 5 years, because large equipment, investment, the rental, and lots of stuff involved.

So in average, the sortation center, eventually when we build that, 5 years is kind of what we're looking for. So if you look at that, every year, we'll turn over maybe 20% to 25% of the sortation or the hubs that'll require additional investment or maybe even getting a bigger space, so 20% on that.

So given that we think that our current average for 2 to 3 years, so 5 years, divided by half, so we do about 60% to 70% utilization, so in other words with most of these sortation centers, we do not need to move or do not need to do much of the -- other than adding additional equipment, probably can go on for another 2 or 3 years. So I'd say capacity at about 60%, 65% and in fact, with more of this automation comes in and our volumes grow and allows us to have a more direct-to-direct and city-to-city direct transportation long haul (inaudible). In fact, that will increase our utilization of our hub and sorting centers and make their life longer.

So yes, the first question: 60%, 70%, [50%]; with the technology, automation, large volume increase, so I think that we will still have quite a large capacity to do. But nevertheless, we need to do -- have to about 20%, 15%, 20% of moving, finding new space and stuff like that.

Second of all, our franchisee side, is the same thing. It's a continuing process, but their typical utilization space, a little bit longer, maybe 5 years, just like us. Moving, you can use for 5 years, but on average, when you're moving, if you look at the movement of time now, maybe 2 ½ years. So you're talking about another 60% or 70%.

But for the franchisee, a little bit easier because once their capacity is utilized or full, we can always spread (inaudible), getting more franchisee into it. And so the facility that the existing franchisees that have invested can be -- prolong their live usages on that. So that is my first -- answer to the first question. Basically, about [50% to] 60% of utilization; every year, we turn over maybe 15% to 20% adding another capacity every year by moving some space out and so for the franchisees.

On the Store+ launch, we have been growing very rapidly in 2016, just like any business, right? The first year, the full year on 2016 that we rolled out this program, really, it's very simple. If you look at the last-mile, it becomes more and more important. China, you're looking at it, the new entry to the labor force is reducing and the volume growing very rapidly, so we're looking at 15 million, 20 million, 30 million, 40 million in the next couple of years down the road.

And so last-mile becomes very, very important, and to how can you give a community services and not just selling some merchandise, but also with parcel services and laundry services. So how are we going to have integrated service together has become more and more important. So 2017, what we did was that we said, well, 2016 we're growing very rapidly; we got a lot of new stores come in. Then we found out that logistics, supply chain, everything had to be followed up very quickly.

So we said, well, we wanted to get the fundamental right better, so reduce the growth in the sense that we already have 364,000 stores already in there; how can we serve it better and give them better choice of merchandise? So we started talking, reducing the number of the merchandise. Now we do about, a total about 20,000 SKUs. So in the average store, there's probably about -- 2,000 SKUs, so we have about, yes, 2,000 SKUs. So in that regard, we're reducing it from 3,000, 4,000 per store SKU down to 2,000 and make the selection better and probably turnover better on that.

And meanwhile, we have a big program coming with the Express Group, BEST Express, to build much more neighborhood stores which allow to have integrating the merchandising, as well as the parcel dropoff, pickup, delivery, etc. But I don't know, Ronald, if I answered your question fully.

Ronald Keung: Yes, definitely. Thank you for the very detailed explanation. Thanks.

Operator: Calvin Wong, JPMorgan.

Calvin Wong: Congratulations on a great set of numbers and results for the full year 2017. A few questions from my side -- so firstly, I just want to touch on Express and sort of your thoughts on pricing right now. We did note the Q-on-Q increase but it's still down year-on-year after we strip out the last-mile delivery. Just I wanted to get a sense of your thoughts on pricing trends from here.

We've seen our ASP essentially kind of converge a bit more with some of the major peers, and the sense in the market seems to be increasing consensus that we could be nearing an inflection point. So I just wanted to get your sense on how you're looking at industry pricing as a whole for the industry, and for us as a whole -- us as a group. So that's my first question.

Johnny Chou: Okay. Thank you. So first of all, if you look at our results, our fourth quarter, actually our ASP, taking out the last-mile delivery expenses, it's about RMB2.07, which is higher than the RMB1.96 for the third quarter and RMB2.04 in the second quarter. So the fourth quarter actually is the price somewhat on the last-mile delivery as well as some service fee. And we still have about 57%, 58% of growth on the volume side. So you're absolutely right, I think the general market, the price are still -- I think it's going to be stabilizing somewhat.

The real reason is really coming from several areas, the way I look at it. One is that more consolidation, so if you look at all these major players, they consolidate the market share more. So Express is very much a volume game, so the volume is getting bigger and your cost advantage is getting bigger. So basically, you have fewer people that play in the market. So that's one thing that will stabilize the pricing (inaudible).

Second of all, and added goals, as we said, the cost may rise a little bit and that could be inflection in terms of labor cost and stuff. Even though we've seen a significant increase of efficiency in labor cost, our labor costs have dropped about 30% to 40% year-over-year due to automation and a lot of volume experienced, but still rising costs in transportation or rising costs in oil, etc., it might also stabilize the ASP as well.

And on the other one, the way we look at it is that a slowdown in market growth will also help in stabilizing the pricing because if you want to slow down the growth, it's less incentive to lower the price because before you lower the price, we were growing so rapidly and getting a lot more volume quickly because of the additional incremental volume at large. So by reducing the cost, you can, as you grab a much bigger share of the increase. But now as a slowdown in the market, in the general market, then there's less incentive to do so.

So yes, in general, I'd say we -- fourth quarter, we have raised the price somewhat over the third quarter and second quarter. And in the long-term, we think we still have room to move it a bit, so if you look at our financial results, in 2017, our costs dropped much faster than the pricing. Our net gross profit was actually increased about 26% or something despite some of the -- reducing the ASP.

But going down the future, going down the road, I think the pricing is going to be stabilizing, even though we still have some room to move, but I think the general market should be able to flatten out a little bit. I don't know if I answered your question.

Calvin Wong: Yes, yes, no, that's very comprehensive. And just on Express, do we have some idea of market share targets for this year? Obviously, we gained a lot of share last year, outperformed the market a lot, and I imagine we're looking to continue that trend. But do we have some sort of target for market share this year in terms of market share accretion?

Johnny Chou: We don't really every year have a set of goals to say how much we wanted to get them up this year, but rather, every year, at year-end, we do planning. We're looking at several things and one is how are we going to continue to drive our marketing position, helping the consumer, the customers, and the franchisees, to gain the better volumes, so they can do better.

Yes, so we still -- I cannot give you a specific number as to what our target volume, target of market share we try to achieve, but we do have a very aggressive plan that we're able to continue to drive for faster volume growth, and much faster than the market. And hopefully, that will also drive the market share forward.

So I apologize I can't give you the exact number as to it's 10%, 12%, 13% or 14%, but we do plan to have a confidence on the fast growth on the volume side.

Calvin Wong: Sure, no problem. And I also want to next just touch on the Freight business. So I think last year, in the first couple of quarters, we did see a little bit of pressure on the volume side. But it looks like on the margin front, at least, we've been able to kind of improve fairly on track, in my view. So what are some of the key things going forward for the Freight business that we're going to be focusing on to really drive them over that threshold to become profitable along with the other businesses?

Johnny Chou: Okay. So yes, so 2017 in the third quarter, we made a conscious decision to kind of slow down some of the volume growth because we are building the network, the full country from north, west, east and everywhere in the whole country, cover the whole country. So we consciously said, hey, look, it's time for us to really drive for some efficiency in the margin on this business, so we consciously raised the price a lot, so you can't see it. But actually we actually raised about 15% or 20% year-over-year on the pricing side. On Express, it was actually a little bit lower, but the ASP for the Freight side has actually increased a lot.

As a result, our margin for the full year, we actually improved it significantly from a -18.8% of 2016 to about -5.8%, so just about 13 percentage points. On the fourth quarter, actually year-over-year, we actually did about 18.8%, so breakeven on their margin side. So that is -- so this year, we're confident, very confident, that the margin continues to improve quite dramatically.

And in fact, we are forecasting the second quarter this year, that we should be, on the EBITDA side, we should at least break even on that. On the full year, we'll probably be able to, on the EBITDA side, have some good numbers to show. So full year 2018, we do expect that BEST Freight to be a profitable business.

Operator: Thank you. As a reminder, we kindly ask you to limit yourselves to two questions in the interests of time.

Today's next question comes from Vivian Tao of Citi.

Vivian Tao: My first question is a question on the Express business. I just want to see, Johnny, what's your view on the ASP trend for 2018. We've been hearing some sort of -- some other industry players mentioning that today, they are seeing some impact on the Pinduoduo platform.

I just wanted to see what have you seen a similar impact, because some of other players are claiming that with Pinduoduo proportion, continue to increase, they are seeing a decline in the ASP, and also the margin as well. I just wanted to see if that's the case for BEST as well, so that's my first question.

Johnny Chou: Okay, yes. Pinduoduo does have some volume increases and for us, we are basically do not give different prices to different customers. So we give the franchisees the same price and we would not say Pinduoduo, you can have a 90% or a discount or something, or whatever; we don’t do it.

So we don’t see, at least from the Company point of view, a significant difference in the ASP of pricing. So in other words, we maintain one pricing to the market and to our franchisees, and according to their own volume, they adjust their price to their final customers. And that would be my view on that.

Yes, we do notice that the volume on the weight side is very similar but we are doing about 1.2 kilograms per parcel on average, and I think the Pinduoduo in the weight of parcels is similar. So I don’t see significant differences in the pricing by the sales, and because we don’t -- we cannot tell franchisees how much they can charge their customer. We basically give them the same price.

Vivian Tao: Okay. So my first question was just what's your outlook for the overall parcel ASP for 2018?

Johnny Chou: I'm sorry, Vivian, very sorry. Sorry. 2018, we don’t expect too much differences. Some fluctuation will be there as the volume goes up and we are planning somewhat of a major -- a bigger volume increase on that and we do not have an exact number. But the planning we do is within plus or minus 5%, so that's probably what we see. Hopefully, it will not be much different from what we have by the end of the quarter.

So with the pricing side, we do -- you have some fluctuation there and flexibility there, but we do not -- it's not going to be like 2017, last year, where we have some -- so it'll be less fluctuating as the reason I gave to Ronald or Calvin.

Vivian Tao: Okay. My second question is on your new venture into Baizhihui and from my understanding, this section is more like a focus on the technology side, check and monetize your leading technology, etc. But I just wanted to see what would be the initial CapEx or the cost associated with this venture, and what that impact would be to the overall -- firm-wide profitability for 2018.

Johnny Chou: Okay. So we build the full year 2018 budget with all these Baizhihui initiatives in there already. Baizhihui actually, we have thought, 3, 4 years ago -- a long time ago, we thought about our SaaS platform which allows big retailers -- they have a lot of distributors and retailers and the transportation of a larger company, into using a software system, give them transparency on the daily operation and reduce their costs and transparency. So that's number one.

Number two is from that point of view, our benefit is that one, we're not just getting paid for the software and usages, but more importantly, we actually deliver a much more comprehensive end-to-end supply chain solution, so not just for the transportation, warehousing, fulfillment. But now we can actually lock in with software services with some of the customers and some new customers at the door, so helping us to bring the new customers in.

The budget for that software side is mainly development fees, which most is already done, so the TMS, WMS, OMS, is already there. We just have to put a little more touches on the final -- on some of the functionality and stuff like that, but most of the software has been developed. So there, I don’t expect too much of that.

The only place that we might put in somewhat of additional cost is sales team and some of these maintenance stuff, even the SaaS base, have to teach them how to use it, connecting to their system through a major system, etc. That would have some additional cost, but nevertheless, it's just somewhat of a human resource cost, which I don’t expect to be too much.

So it's leading to expenses about -- in 2018, we're building about RMB30 million, total expenses on that. But again, this is paid-for services, so it should be offset by that. So in essence, we don’t see a big drag into our total financial numbers, yes, for 2018, yes.

Vivian Tao: Okay, very clear. Thanks a lot.

Operator: Baoying Zhai, Credit Suisse.

Baoying Zhai: Can you hear me?

Johnny Chou: Yes, we can hear you, Baoying, sorry.

Baoying Zhai: So congratulations on the fourth quarter results. Still follow-up on the ASP of BEST Express. So excluding the last mile delivery fee of last year, I know that's a little bit of last year and this year, we actually see a very good pricing trend. The ASP dropped 6% year-on-year in the fourth quarter. So I want to better understand what are the drivers behind.

So first of all, the average weight, because Johnny, you just mentioned 1.2 kilograms per parcel, right? So is this the latest data of fourth quarter? Because for third quarter that was 1.18[kg/parcel], so quarter-on-quarter, the average weight is increasing. Am I wrong on the numbers?

The second question, because I know previously, we have subsidies for franchisees. Is it in the fourth quarter we're actually adjusted the subsidy assistance? So that's also helpful on the pricing. So this is my first questions regarding on the pricing trend of the fourth quarter.

Johnny Chou: Okay. So yes, the average weight for third quarter and fourth quarter, our data is almost the same, but probably a rounding error, right? So you say RMB1.18, but we see

RMB1.2, RMB1.2, so third quarter, fourth quarter; and as a matter of fact, the second quarter is also RMB1.2, so no significant changes. So that's the -- what's the second question there?

Baoying Zhai: So the --

Johnny Chou: Oh, subsidy, our subsidy?

Baoying Zhai: Yes, yes.

Johnny Chou: Okay. So yes, so we -- do you mean to franchisees?

Baoying Zhai: Yes, to franchisees?

Johnny Chou: Okay. So subsidy -- yes, so we're really giving our franchisee several place of help, right? One is that we will give them some additional support on the transportation side, so that way, it will reduce them, so we take out from our revenues. And the other is that basically we -- so all there are taken out from the revenues, whatever the subsidy we give to the franchisees is not coming into our revenues. It's not in the -- it's our cost, okay?

So for the fourth quarter, we are taking stronger KPIs for the franchisee to make sure that we don’t overly-subsidize and stuff like that. So in a sense, most of them are already into the cost. I guess I didn’t understand the question completely, so --

Baoying Zhai: Yes, so --

Johnny Chou: So the subsidy --

Baoying Zhai: Yes, because I see the pricing trend is quite good and the year-over-year drop, it's narrowed a lot in fourth quarter. So I want to understand it better, the drivers behind. Yes, you mentioned --

Johnny Chou: Okay. Okay. Okay. That's a question I didn’t answer. So what we did in the fourth quarter, we raised the price, so we raised it RMB0.20 on the delivery, the last-mile delivery. So we basically said because of the high season, so we raised it RMB0.20 for delivery fees, last mile. And we also raised it about RMB0.08 for the service fee. So net out some of the other subsidies, so the net is the increase, yes.

Baoying Zhai: Okay, sure. Thank you. So my second question is regarding the outlook. To be honest, compared with the IPO numbers and I also look at the consensus cost, it just reversed down 8% recently, so a little bit weaker than my expectation. So I want to understand the major reason. Is it because of the drag from the Store business?

And do you have a further breakdown of the outlook of the key businesses, such as Express business and the Freight business? So can you elaborate a little bit more on outlook? Thank you.

Johnny Chou: The outlook, okay, yes. So for this year, actually you are absolutely right. So the Store business is slightly less than we initially, at the beginning of the year, planned. So all the others, we are high achieve -- for example, the Express, the Freight, all the others. If you look at all the others, our Capital, Global and UCargo, they're growing about 300-some-percent.

So you want break down. First of all, from the margin side, all the margin has improved for all the business. SCM, Supply Chain has improved from 4.7 to 6.1; Express from -5.2 to 2.7; and Freight increased about 13 percentage points from -18.8 to -5.8 and Store also improved from -1.7 to 6.9, so it's about another 8.5 percentage of improvement. So on the gross margin side, every business has improved dramatically, every one of them.

And on the income side, the Store business also has grown about 297%, so okay, not 300%, okay, but it's 297%, so still quite strong.

For 2018, we're still going to see an across-the-board high growth for each business, okay? So Alice already gave guidance about RMB4.8 billion to RMB5 billion kind of a number given the Chinese New Year and the first quarter seasonality, but we're still expecting some confidence on the very strong growth in 2018 across all the business lines, especially our Capital business, Global and UCargo, they're all going to be a very significant increase on this year, onward.

George Chow: I just want to clarify one thing. The Bloomberg consensus guide is RMB4.83 billion. The guidance that we're giving is RMB4.8 billion to RMB5 billion, so it's actually above the consensus. So I just want to make that clear.

Johnny Chou: Yes, so George just said the consensus was about RMB4.83 billion and we gave RMB4.8 billion to RMB5 billion, so --

Operator: Hans Chung, KeyBanc.

Hans Chung: So I have two questions regarding the Supply Chain business. So it seems like the Supply Chain came in a little soft in the fourth quarter on both revenue and gross margin. So I know you have the -- you added new Cainiao warehouse during the third quarter and then supposedly, it's probably a margin drag, given early ramp-up.

So I just want to hear more color about this, and because from the Alibaba earnings, they kind of comment that Tmall GMV is very strong with FMCG very strong as well. So just try to reconcile why we see the -- like a little bit softer in the Supply Chain business versus what Alibaba said.

Johnny Chou: Okay, Hans. Actually, I think on the revenue front, I don't think we are soft on there; it is on target. I think there was a little bit of surprise on the margin side, it was a little bit lower than we expected. So I'll explain the two things. First of all, the margin side, because we actually planned a lot more resources for Single day's activities because based on the customers' need us to be able to fulfill these orders during the "Double 11" time.

But in fact, I think that the order was a little bit soft, so if you look at the parcel number, even on the Singles [Day]/ "Double 11". It was about 20% growth but we planned [for] more than this. So that I think is much -- one of the reasons for the margin softness.

I think another reason is because we also invested in some of the new facilities, which -- able to -- because we signed about 18 new contracts in the fourth quarter that we started here. So we actually signed up some new equipment, new OFC, invested in some new OFC facilities to be able to put into operation this year. So that's two reasons for the margin softness.

But on the revenue side, I think it was on target. It was on target as to what we initially planned.

Hans Chung: I see. So when should we start to see -- like you have some new investment here and we continue to ramp up the capacity. And when should we start to see the gross margin in Supply Chain to kind of go, at least soon, back maybe to high-single-digit or even higher in 2018?

Johnny Chou: Right, right. So if you look at the full year, in the full year, actually, our gross margin for the Supply Chain business is about higher than the 2016, right? And 2016 was about 4% to 5% on the gross margin for the Supply Chain, about 6%. So for the fourth quarter, it's now 3.1% and the full year is even higher than that. So we're well there, so the fourth quarter dragged down the full year's Supply Chain margin somewhat. But nevertheless, the full year is still higher than last year.

So to your question, Hans, is that this year, we do expect a continued improvement on the Supply Chain margins and to be significantly higher than the last years.

Hans Chung: Okay. And second question is --

Johnny Chou: And you should be able to -- yes, on the second quarter onwards. Our first quarter is Chinese New Year and whatever you do, (inaudible) even could be a little less, but second quarter onward, it should be a much higher growth then.

Hans Chung: Got it. And second --

Johnny Chou: Our planned second quarter is a much higher number, yes.

Hans Chung: And regarding the Express, so in the fourth quarter, if we look at the cost on a unit basis, excluding the last-mile fee, it was down over 20% year-over-year. And so you have multiple drivers this year and including the swap-body and the (inaudible) trucks and also the continuous consolidation.

So going forward, in 2018, what should we think about the cost reduction going forward? Can we continue to deliver at least a double-digit percentage decline year-over-year this year or -- and what would be the major drivers?

Johnny Chou: First of all, yes, we do plan to have -- to continue the margin expansion and improvement for our Express business throughout 2018, 2019 and 2020, we do have that. Actually, the driver for that is still driven by those four items -- continued volume expansions; technology usages to build up more of swap bodies, and automation, etc.

So if you look at our whole Company's personnel, if you look at all the people we have, a lot in our revenue grew more than 100%, but actually, we have less people. The whole group had less people than a year earlier, so we actually reduced the people, total headcount, but increased the revenue by more than 100%. In fact, this year, we're going to still see a discount trend, so we continue to optimize our personnel management capabilities.

And number three, in fact, is that have a lot of synergies coming with the Express, Supply Chain and the Store business. So that's one of the major initiatives that we talked about our 2018 goals and our plans is how to build the last-mile efficiencies and get it. And that will actually be able to help us to reduce the last-mile delivery costs and continue to reduce the overall costs as a whole.

So if you look at the volume expansion, synergies with other business to have a much more efficient last-mile, and with the automation and technology usages with the -- another thing I'll talk about is synergies there.

In the past, our Freight business and our Express business are very much operating all separately, but this year, they have more and more trucks, the transportation line, long haul is being combined to utilize each other's vacancies and the utilization and long haul transportation should be also included.

So you have multiple ways to look at this to increase our margins and I think they will continue to expand our market share as well as the other volumes. So the last question is that we are confident that through the next couple of years, we continue to see margin expansions.

Operator: David Ross, Stifel.

David Ross: Johnny, you made a comment about new labor force, reducing, or something to the effect of there's some labor challenges ahead in China. Can you elaborate a little bit more on that, and how that's driving the business?

Johnny Chou: Yes, so China's new labor force entry to the market force has actually been decreasing since last year, and so that put a lot of the labor cost issues in front of us because our volume is expanding so quickly. So if you look at it, 15 million, 20 million, 30 million, 40 million, you need people to deliver it. Two years ago, we already see that trend. So automation is one thing how to reduce -- making more efficient on to your sorting centers and --

But another thing is the last-mile because most people spend last mile delivering the parcels. So that's why the Store+ and Supply Chain and all this stuff, working on the last-mile solutions is essential. And that is why in 2016, we started the Store business, not just because we want to sell merchandise, but more importantly, is to try to build a much more comprehensive, integrated last-mile solution. And that'll reduce costs and will get more customer experience.

David Ross: And the last question is just on the volume growth because you’ve been successful in all segments growing above the market. What I guess are your preferred sales channels for growing the volume? How do you get new businesses? How much is driven by BEST versus by your franchisees? And if it's driven mainly by franchisees, how does BEST support the franchisees to allow them to gain market share and sell?

Johnny Chou: Okay. So our network is very different from the others, right, 5, 6 years ago, we spent 5 years basically going back to a lot of cities and acquired these local city franchisees. So we have like 256 cities and we have ownership of that market. So as a result, initially these kinds of operations will be a little more expensive because you actually are taking care of the 256 cities directly yourself. But that does give you a tremendous amount of opportunities.

Number one, that allows you full control of the last-mile, so you can easily change the franchisees, remove franchisees which are not performing, and you can do a lot of things. That's why we can grow much faster than the others and that's the reason is that we have much more deep control into a network versus some of our competitors or peers. They may have large franchisees being -- occupy a significant part of a market for a long period of time.

Number two is that because our local management, especially some of our management, are fairly young comparatively, very young. So management efficiency and operational efficiency is somewhat -- before we don’t know much of this business about 6, 7 years ago. As we (inaudible) it, more experience on it, we keep getting much better management efficiency out of that.

Number three, I would just go back to say our multi-sided platforms - They allow us to have much more synergies, and our cloud OFCs were also driving for some of the market growth. And other things that last year we have done differently is that in the past, we are primarily based on the franchisees to do this, to do marketing and customer acquisition. But since 2016, we have been gradually building much more direct large customer development teams. They allow our Company to directly engage in large customers, developing them, versus some of the franchisees who won't be able to do it because franchisees, to go to a major customer, they need bigger capital to give accounts payable, receivable. They acquired much more confidence through the larger customer. So in 2017, 2016, we have been including a direct sales force directly contacting to the large major customers and that will also help us to improve the volume growth.

David Ross: Excellent. Thank you.

Operator: And ladies and gentlemen, due to time constraints, today's final question will come from Scott Schneeberger, Oppenheimer.

Scott Schneeberger: First question, I'm just curious about the comment on the meaningful growth in Southeast Asia and U.S. through acquisitions and strategic investment. Johnny, would you care to elaborate on that, please? Thanks.

Johnny Chou: Yes, we do see a tremendous growth in fourth quarter international business. And China is still being the top manufacturers into many, many merchandise and goods. And in the U.S., a few years ago, we already established an operation there and it's been growing very rapidly. And we see a tremendous amount of opportunity for Chinese manufacturers and retailers and go to U.S., open up stores and sell on Amazon, etc., who require this kind of services. So we see a tremendous amount of opportunity there, especially cross-border.

Southeast Asia, the same thing. If you look at Southeast Asia, the e-commerce has been developing, but the infrastructure for logistics and Supply Chain is still very backwards. If you look at the infrastructure, it's probably 10 or 15 years ago of China. So we'd like to be there earlier and we do see their growth potential and very high growth.

And Southeast Asia also has a very young workforce and as well as a large population and a developing economy. And we've been doing market studies and we see it's a good opportunity to get in early.

Scott Schneeberger: Great, thanks very much. And just a quick follow-up on Vivian's question earlier on Supply Chain management was a bit focused on the expense of the B2B tool. Could you comment on the monetization of the Company's existing technology infrastructure and Supply Chain management? Just elaborate a little bit more on what you're doing there with the price. Thanks.

Johnny Chou: Okay. Scott, I did not hear the question very clearly. Can you just repeat it very quickly? I'm sorry.

Scott Schneeberger: Sure, sure, no problem. I was curious about the comment in the press release about monetizing existing technology infrastructure --

Johnny Chou: Oh, oh, oh.

Scott Schneeberger: -- in Supply Chain management.

Johnny Chou: Okay. So yes, many years ago, we developed this SaaS-based system, for example, warehouse management system, transportation management system and the order management system, the ERP system, etc. So I'll give you an example. Say Procter & Gamble or somebody, they have their own system but they also have a lot of retailers and distributors and this.

In the past, these kinds of companies, once they sold their merchandise to the retailers and distributors, because there's no systems to track on it, they lost transparency. Don’t know what sold, or what's in the channel, how much inventory is in the channel. There's no transparency. A lot of transportation companies and other companies have been working with, so it's all not transparent.

So what we can do is that using our system as a middleware so the consumers -- the manufacturers, they can connect to our system with their ERP system and all these other people, retailers, distributors, resellers, transportation company, can connect to our system. And now our system is acting as an intermediate system. And for manufacturers, they can see through all the inventory in the marketplace, what is sold and what's in the inventory.

What we do? We can monetize, we can charge these, the usages for the resellers and distributors and these companies. But more importantly is through this is that we can also have a much more close lock-in relationship with major manufacturers and the retailers.

Scott Schneeberger: Thank you for that.

Operator: Yes, sir. Well, this concludes today's question-and-answer session and it concludes today's conference call. We thank you all for attending the BEST Inc. fourth quarter and full year 2017 earnings call. You may disconnect your lines at this time, and have a wonderful day.