KE Holdings Inc.

Third Quarter 2023

Earnings Conference Call Script

Wednesday, 8 November 2023

KE Holdings Inc.
Third Quarter 2023 Earnings Conference Call Script

Operator: Hello, ladies and gentlemen. Thank you for standing by for KE Holdings Inc.'s third quarter 2023 earnings conference call. Please note that today's call, including the management's prepared remarks and question-and-answer session, will all be in English. Simultaneous interpretation in Chinese is available on a separate line for the duration of the call. To access the call in Chinese, you will need to dial into the Chinese language line.

At this time, all participants are in listen-only mode. Today's conference call is being recorded. I will now turn the call over to your host, Ms. Siting Li, IR Director of the Company. Please go ahead, Siting.

Li, Siting:

Good evening and good morning, everyone! Welcome to KE Holdings Inc., or Beike's, third quarter 2023 earnings conference call. The Company's financial and operating results were published in the press release earlier today and are posted on the Company's IR website: investors.ke.com.

On today's call, we have Mr. Stanley Peng, our co-founder, chairman and chief executive officer, and Mr. Tao Xu, our executive director and chief financial officer. Mr. Peng will provide an overview of our strategies and business developments, and Mr. Xu will provide additional details on the Company's financial results.

Before we continue, I refer you to our safe harbor statement in our earnings press release, which applies to this call as we will make forward-looking statements.

Please also note that Beike's earnings press release and this conference call include discussions of unaudited GAAP financial information as well as unaudited non-GAAP financial measures. Please refer to the Company's press release, which contains a reconciliation of the unaudited non-GAAP measures to comparable GAAP measures. Lastly, unless otherwise stated, all figures mentioned during this conference call are in RMB.

For today's call, management will use English as the main language. Please note that the Chinese translation is for convenience purposes only. In the case of any discrepancy, management's statements in their original language will prevail.

With that, I will now turn the call over to our Chairman and CEO, Mr. Stanley Peng. Please go ahead, Stanley.

Peng, Stanley:

Thank you, Thank you, Siting. Hello everyone. Thank you for joining Beike's third-quarter 2023 Earnings Conference Call. In the third quarter, the real estate market showed a notable rebound following the tone-setting of the Politburo Meeting and a series of supportive policies including modifications to "first-time homebuyer qualifications" in first-tier cities. The degree of support and the implementation of these favorable measures, as well as the real estate market's performance, both went beyond our expectations.

Our focus this year has been on contemplating the future over the long term and aligning our strategy with it. We're entering a new phase that we call 'crossing the next mountain.' This phase begins as the market continues its shift from seeing property purchases as investment assets to prioritizing residential housing for the quality of 'living' itself. In this transition, we must also evolve from a transaction-centric operating model to one that is dedicated to ensuring better living experiences for our customers. This is a largely untapped market with vast opportunities. Real estate's return to a focus on peoples' better living signals a promising future ahead of us. With the industry experience and insight we've cultivated over the years, we are well positioned to grow in the next phase encompassing many possibilities of "better living." Beike has established the industry's most powerful infrastructure – our ACN through our existing home transaction business. This infrastructure, integrating our online datasets and traffic networks with offline store and agent networks, lays a solid base for us to explore new possibilities. Additionally, our management expertise for large groups, and our digital capabilities and data-driven strategies, collectively support our journey into this exciting future.

This July, we took an important step toward our objectives by upgrading our corporate strategy to “One Body, Three Wings.” This is a key step in our roadmap to becoming the one-stop residential services platform for “better living.” As we navigate the dynamic landscape, we need a deeper, differentiated mindset and knowledge base, as well as a set of mutual principles and guidelines, to identify core value propositions, to drive us forward in the right direction. To that end, there are a host of key questions we are asking ourselves:

- What value can technology bring to both consumers and service providers?
- Our business segments are separated, but the customers are asking for a one-stop solution, in what ways can we unite our vertical business segments to create horizontal one-stop services that meet customers’ needs?
- How can we maximize customers’ living experiences and extend beyond merely delivering transactional value?
- What is our value proposition to different stakeholders in our industry, including our partners and service providers?
- How do we refocus on offering’s true value and humanistic care to our service providers, rather than treating people as tools and channels?
- In addressing the broader residential industry, do we look for growth through physical expansion, or through generating “chemical reactions” to drive industry-wide evolution?

The next step to posing these questions, is calling on everyone in our organization to think about them and working together to address these topics.

While engaging in these crucial reflections to direct our strategy, we are also implementing the organizational modifications and business initiatives of our “One Body, Three Wings” strategy, which will be reflected in our performance metrics.

With the easing of Covid restrictions, pent-up demand drove the market's recovery in the first quarter of this year. However, subsequent home transaction market activities deviated from historical seasonal trends. New home market is still facing some challenges. In the third quarter, we recorded a GTV of RMB655.2 billion. There was a 2% and 27% year-over-year decrease in existing home transactions and new home transactions, respectively, and our overall performance has exceeded the expectations. Our revenue for the quarter was RMB17.8 billion, up by 1.2% year-over-year. Year-to-date GTV has grown by 23%, with existing home transactions up 28% and new home transactions up by 13%.

In our efforts to manage risk and improve efficiency over the past two years, our "One Body" operations, which is our home transaction services, are more agile and efficient. It is now time to broaden our collaboration with more industry partners and service providers, as we advance together toward offering one-stop residential services for "better living.". Here, we will further institute standardization for people, objects, and services, to promote the industry's advancement over the next decade. Starting in the third quarter, we accelerated our store network expansion. In September alone, we added around 1,300 newly connected stores nationwide, excluding Beijing and Shanghai.

In the third quarter, contracted sales from our home renovation and furnishing business reached RMB3.26 billion, an increase of 66% year-over-year. Year-to-date contracted sales reached RMB9.39 billion, up 90% year-over-year on a pro-forma basis. Additionally, contracted rental units of our decentralized rental property management services grew from 50,000 in the third quarter of 2022 to 160,000 in the third quarter of this year.

Many of the metrics above mentioned are derived from our emerging businesses. More importantly, the long-term driver behind our business development is a consistently enhanced understanding of the industry landscape. Rapid growth and scalable operations have provided us with deep understanding of the industry and capabilities to execute on small-scale testing approaches to make rapid business iterations across our service ecosystem. The build-up of such systematic capability means knowing which metrics to use and how many parameters we should set in a business, rather than how high the parameter is set. The deep dive and scale of our “One body” business have accelerated our scientific management and competitiveness – it is the equivalent of taking 50 steps forward. However, with our emerging businesses, we have only just taken our first step. It is crucial to note that while growth and building scale are basic goals, these are not the sole objectives.

We also deeply understand the importance of supporting the industry's ecosystem. Platform-wise, while we have notably improved our efficiency and operational capabilities over the last two years, we need to be careful about path dependence. Building and maintaining synergistic relationships with all of our partners, whether they are brands, store owners, or developers, is of great importance to us. We will make adjustments to our operational strategy to better improve store owner experience and engagement, refining our platform capabilities to empower them, and establishing store owner committees that ensure collaborative development and governance.

We started Lianjia and Beike, driven by a will to 'make the industry better.' And today, we need to adhere to and align with an understanding that in order to become an industry leader in advanced productivity, it is essential to bring unique value to the industry. We are not competing against existing service providers or business partners in the industry, but rather against low-quality supply that damages the industry's reputation and diminishes customer experience. This is why we need to work harder, to push for an overall improvement in the quality of the industry! Given our recent progress and the growing consumers’ demand for service and quality, we have seen tremendous promise. We also believe that one day, we will proudly advocate for this industry.

Thank you. Next, I would like to turn the call over to our CFO, Xu Tao to review our third quarter financials.

Xu, Tao:

Thank you, Stanley, and thanks everyone for joining us. Before we dive into our performance, I would like to briefly touch upon some updates on the recent housing market.

The third quarter saw the property market picked up from the bottom with month-on-month sequential recovery. Important policy directives were made during the Politburo meeting in late July, addressing the new trends in real estate supply and demand. Since the end of August, a wave of supportive policies has been rolled out, with many cities taking steps to modify the criteria of "first-time homebuyer qualifications," lower down payment ratios, cut mortgage interest rates, and relax purchase restrictions. Market sentiment notably improved, with transactions substantially rebounding in September. This recovery was particularly pronounced for existing housing market in first-tier and some strong second-tier cities where expectations for policy relaxations and demand for housing upgrades are the most substantial. The recovery of new home market lagged slightly behind existing homes due to the varying demands across cities and volatilities on developers' supply side. However, since August, there has been some improvement in the new home market, and the new home subscription data on our platform showed both year-over-year and month-over-month recovery in September.

We have been proactively advancing our "One body, three wings" growth strategy. In terms of our overall financial performance, in Q3, we maintained resilient topline performance, with total revenue growing 1.2% year-on-year, reaching RMB17.8 billion, exceeding our guidance. Among which, we achieved better-than-expected revenue for housing transaction services. We've also made remarkable breakthroughs for our home renovation and furnishing business, with revenue of which jumping 72.1% year-over-year to RMB3.2 billion. Notably, our enhanced operational capability, coupled with our careful cost discipline developed in the previous years, generated a gross margin of 27.4% for Q3, ticking up by 0.4 percentage points from the same period last year. With overall revenue at a level relatively consistent with the same period last year, our GAAP net income saw a 63.4% year-over-year increase, reaching RMB1,170 million, while Non-

GAAP net income grew by 14.4% to RMB2,159 million, Non-GAAP net margin rose by 1.4 percentage points year-over-year to reach 12.1%, showcasing stronger profitability.

Looking at our home transaction services: In Q3, on the national level, both the existing and new home market saw a decline quarter-over-quarter and year-over-year, due to notable quarterly disparity in market dynamics compared to the previous year. However, benefited from our enhanced operational efficiency, our GTV of existing homes only fell by 2.2% year-over-year, despite the high base set by first-tier cities in the same period last year. Revenue from existing home transaction services declined by 11.9% year-over-year to RMB6.3 billion.

The bigger contraction of existing home revenue compared to that of GTV was primarily due to a lower contribution from GTV served by Lianjia brand, which has a higher monetization rate. Lianjia GTV fell 13% year-on-year on a high base set by first-tier cities in the same period last year. While existing home GTV served by connected agents increased by 8.1% year-on-year in Q3, and the revenue of which is recorded on a net basis, resulting in the gap between the growth rate of our revenue and GTV.

Meanwhile, on September 26th, Beijing Lianjia adjusted its commission rate with buyers and sellers each paying for 1% of the property total transaction value. For the about 12,000 ongoing transactions initiated before the adjustment came into effect, we are refunding differences resulting from the rate adjustment, adhering to our principle of putting customers first. The corresponding impact has already been reflected in our Q3 existing home revenues. We firmly believe that by genuinely serving our customers' best interests, we can earn long-term trust and bring us lasting growth opportunities.

Contribution margin for existing home transaction services was at 48.7%, reflecting a year-over-year increase of 2.6 percentage points and a quarter-over-quarter increase of 3.1 percentage points. This is indicative of how our more streamlined cost structure has enabled us to achieve stronger profitability in spite of the year-on-year decline in revenue.

Let's move on to our new home business. The industry is undergoing a phase of reduced supply and continued risk mitigation, evidenced by a more than 30% year-over-year decline in sales from the Top 100 developers in Q3. We have adopted an active strategy of expanding channel collaborations with developers, and continued to improve business ecosystem, while strictly adhering to our risk-control bottom lines. As a result, our new home GTV decreased by 26.5% year-over-year, outperforming the overall market. The decline of 24.3% in new home revenue was smaller compared to GTV, owing to a slight increase in monetization rate. Our new home business contribution margin grew slightly year-over-year to 25.1%, despite the decline in revenue, fully demonstrating our operational resilience. In Q3, the percentage of commission income from SEO developers remained at 46%. Projects with "Commission in Advance" model contributed 54% of total commissions collected, remaining at a high level.

Regarding our emerging businesses, the revenue from our businesses excluding home transaction services grew by 112% year-over-year, with its percentage to total revenues rising to over 30% in Q3, compared with 15% in the same period last year.

Our home renovation and furnishing business has remained on a fast track, with a robust growth momentum that was not relient on the trends of housing transaction services. Contracted sales reached RMB3.3 billion in Q3, a year-over-year increase of 65.6%. With faster delivery and accelerated revenue recognition, revenue grew at a higher rate of 72.1% year-over-year, reaching RMB3.2 billion, a quarter-over-quarter increase of 21%. In Q3, Shanghai reported two months with revenue exceeding RMB100 million, becoming the third city, following Beijing and Hangzhou, to achieve monthly revenue surpassing RMB100 million. Other cities are also growing rapidly, cities including Wuhan, Chengdu, and Guangzhou achieving a quarter-over-quarter revenue growth of over 50% in Q3. Our customer acquisition capability continues to improve, with both Beijing and Shanghai achieving business leads conversion rates in the mid to high single-digit percentages. The percentage of contracted sales contributed by our home transaction services continued to increase to about 45% of total GTV. The sales of furniture and home furnishing increased by 93% year-on-year to RMB920 million, with a proportion of 28%.

The contribution margin for the home renovation and furnishing business in Q3 remained at 29.1%. A further solidified foundation in product design and SKU assembly is developing a positive cycle of profitability across leading cities. 10 cities including Beijing, Shanghai and Hangzhou realized positive city-level operating profits in Q2 and Q3, consecutively. Among the top ten cities in terms of contracted sales, seven of them have positive operating profits. The breakthroughs we have made have given us greater confidence in our strategy. In October, we announced the proposed acquisition of iKongjian, and the deal is subject to customary closing conditions. We will strive to bring higher quality offerings to the residential industry.

In Q3, our net revenues from emerging and other services increased by 202.7% year-over-year to RMB2.4 billion, primarily propelled by the expansion of our rental property management services. Contribution margin remained stable at 25.3% year-over-year.

The total of our store costs and other costs remained stable in Q3. Our gross profit grew by 2.6% year-over-year, reaching RMB4.9 billion as a result of our increased operating leverage. Our gross margin ticked up to 27.4%, compared with 27% in the same period last year.

In terms of expenses, year-over-year, our GAAP operating expenses for Q3 totaled RMB4 billion, increasing 12% from the same period last year. Our non-GAAP operating expenses amounted to RMB3.1 billion, up 14% year-over-year, primarily due to the structural impact of increased proportion from new businesses including home renovation and furnishing. Looking at the quarter-over-quarter performance, we have maintained effective cost control in our home transaction business, notably with a RMB32 million bad debt provision written-back during Q3, providing us with improved operational leverage.

In terms of profitability, under GAAP measures, our income from operations for Q3 was RMB911 million, compared with RMB1.2 billion in the same period last year. Our operating margin was at 5.1%, compared with 6.9% in the same period last year. Our non-GAAP income from operations was RMB1,886 million, compared with RMB2,108 million in the same period last year. Non-GAAP operating margin was 10.6%, compared with 12% same time last year. The dip was mainly due to our investment in new businesses including home renovation and furnishing which was in ramp-up period.

Our GAAP net income for the quarter reached RMB1,170 million, reflecting a significant growth of 63.4% year-over-year. Our non-GAAP net income increased 14.4% year-over-year, reaching RMB2,159 million. Non-GAAP net margin rose by 1.4 percentage points year-over-year to reach 12.1%.

Now, let me highlight our cash flow and balance sheet metrics. Excluding customer deposits payable, we realized a net operating cash inflow of RMB2,658 million in Q3. The new home cash collection surpassed new home revenue for the ninth consecutive quarter, with cash-to-income ratio further rising to 1.21. New home DSO for the first three quarters was 52 days. In Q3, we spent approximately US$162 million in share repurchase and around US$200 million in special cash dividend. On top of that, our total cash liquidity which excludes customer deposits payable amounted to RMB79.8 billion, up RMB440 million from Q2.

Over the recent periods, supported by our solid cash reserves and prudent financial management, we've demonstrated our commitment to efficient capital allocation and delivering returns to our investors through active share buy-backs and dividend distributions. In September alone, our total stock repurchases amounted to over US$130 million. Since the initiation of our share repurchase program in September 2022, as of September this year, the total number of shares that we have cumulatively repurchased accounted for about 3.91% of Company’s total shares prior to the launch of our program. Moreover, recently we have completed a special cash dividend distribution totaling around US$200 million.

Looking at our guidance for the fourth quarter, we expect our total revenue to be between RMB18 billion and RMB18.5 billion, representing an increase of approximately 7.5% to

10.5% from the same period of 2022. This forecast includes the potential impact of the real estate-related policies, the macroeconomic status that constitutes the current and preliminary view of our business and the market conditions, which are subject to change.

The property market transformation and upgrade towards “living”, and the strength of our organizational structure have all bolstered our aspirations and momentum for continuous growth. Our focus remains on expanding connections with top-tier industry capacities and fostering a cooperative ecosystem of fairness and win-win scenarios. We are simultaneously developing a high-quality service providers talent pool and firmly dedicating resources to infrastructure development. As we thrive in the vast residential sector, we are positioned to expand into the significant opportunities that lie ahead.

Our ability to effectively balance scale, efficiency, and financial stability has been further validated during the market fluctuations over the past few years. Under this volatility, we also achieved consistent improvement in business growth, profitability, and cash flow. Looking forward, we will maintain our disciplined approach to financial management, further enhance our capital allocation efficiency. We will prioritize our investment in business areas that can bring key outputs and values, investing in growth, investing in the future. We will also share the benefits of development with our shareholders. We believe this will enable us to achieve organic and sustainable growth, creating long-term value for our shareholders.

This concludes our prepared remarks. Now, we are open for questions. Operator, please go ahead.

Operator provides instructions and hosts Q&A: Thank you. As a reminder, we only accept questions on the English language line. For the benefit of all participants on today’s call, please limit yourself to **one** question, and if you have additional questions, you can reenter the queue. If you are going to ask the question in Chinese, please follow with an English translation.

Timothy Zhao from GS: Could you just provide us an overview of the housing transaction market in the past quarter and what is our outlook for the fourth quarter this year? And after the mortgage easing policy announced in the third quarter, what is management observation in terms of the policy impact on home transactions?

Xu, Tao:

Thank you for your question. We noticed that investors pay close attention to the market changes in property market, I can share some of our perspectives. In terms of policy, there has been relaxation or even removal of restrictions on housing transactions in certain second-tier cities since the July Politburo Meeting. From end of August to early September, first-tier cities have implemented policies to recognize households with mortgage records but no local property ownership as first-time homebuyers. Additionally, Guangzhou, being the first among Tier-1 cities, has eased its home purchase restrictions in September. Moreover, mortgage rates for both first and second homes in the top 100 cities decreased by 25 and 34 basis points respectively year-over-year.

In the third quarter, the existing home market improved from its June performance, driven by the anticipation of supportive policies to come and subsequent policy releases. To elaborate on this, the number of existing home transactions grew by single-digits month-over-month in both July and August. This uptick shows that things are stabilizing and recovering due to the expectations of new policies. After the relaxed "first-time homebuyer qualification" policy was implemented, in September, our platform saw an obvious surge in existing home sales, with growth rates of 25% compared to the previous month and 32% compared to last year. Specifically, for the first-tier cities, the recovery actually started quite early, and they also rebounded most in September. After the Political Bureau Meeting at the end of July, these cities had already seen certain market recovery expectations. The number of home showings and listings increased by 5-10% from July to August. While transaction volumes in September grew by over 30% month on month. Stronger second tier cities like Nanjing, Hefei, Wuhan, and Hangzhou relaxed their home buying restrictions in September, led to a strong recovery in transaction volumes of 25% growth month on month. This also demonstrates the effectiveness of policy measures.

For the home prices, according to data from the Beike Research Institute, Beijing and Shanghai started to stabilize in July, and in September, they even increased by 1.6% and 1.9% respectively compared to July. While many other cities across the country still saw a decrease in their home prices, the rate of decline has slowed down in September.

The new home market in the third quarter of 2023 has also shown signs of rebound, following the resurgence in the existing home market. A notable disparity was seen in both supply and demand side: Subscriptions for new homes experienced a modest double-digit month-over-month recovery in August. However, in September the new home subscription volume on the Beike platform increased by more than 40% month-over-month and 15% year-over-year. This is a significant divergence from historical month-over-month declines in September over the last three years, indicating that this September's rebound was largely driven by policy support and improved market sentiment rather than seasonality. Transaction data typically lags behind subscription data by about three weeks. Accordingly, more positive changes in transaction data is expected in Oct.

A closer look indicates that the new home market displays a high degree of disparity. In September, the year over year growth rates for new home subscriptions were through the roof in first-tier cities at 49%, pretty solid in stronger second-tier cities at 20%, but negative 18% for other lower-tier cities. The demand for home upgrades is higher in first-tier cities, the "first-time homebuyer qualification" policy helped pump more liquidity into these respective new home market and gave a big boost to those top tier cities like Guangzhou, Nanjing, and Changsha that have strong fundamentals. But when they eased up on purchase restrictions in these leading cities, it also caused taking away some of the demand from neighboring lower-tier ones.

As the new home sales market being heavily influenced by the supply side, it leads to significant fluctuations in high frequency data, while the existing housing market shows more consistency, making it a better indicator of overall market activity.

Looking ahead, the positive effects of new policies will continue to unfold. The data for existing home transactions in October has been pretty consistent on a weekly basis, with a gradual increase. Nevertheless, it's important to remember that it takes time for policies to be kick in and for demand to turn into actual sales, usually spanning several months. The uncertainty in housing price trends will make potential buyers cautious and adopt a "wait-and-see" attitude. To keep up with and stimulate home buying and upgrading activity and attract more buyers to the market, we need further policy support, stable housing prices, and properties that meet the changing needs of consumers for better living conditions. Additionally, easing in purchase restrictions in different cities along with revised qualifications for first-time homebuyers are expected to boost reasonable demand for first homes and further activate transactions in the market.

John Lam from UBS: So the question is more regarding the new home business. So how do we see the property developers for the sales strategy in the upcoming fourth quarter strong season? And also how do they think about the collaboration with the channel? Regarding on the recent relaxation of the price gap for both property price and also the land price, would that mean that this is a positive to your new home business? Regarding on the operation, Beike has been the industry leader for the new home business. So any area for further improvement that could share to investor?

Xu, Tao:

The current new home market is complex and constantly changing, which poses significant challenges for everyone involved in the industry. Although new homes generally offer better design and quality compared to existing ones, in cities where there are risks associated with delivering presold homes on time, consumers tend to lean towards buying existing homes. In key cities, the percentage of consumers interested in purchasing new homes has dropped from 33% in 2021 to 17% this September. In one of our core central cities, the proportion of transactions in existing homes has risen from 25% in September 2021 to 70% this year. In cities like Chengdu, where timely delivery of presold homes is ensured more effectively, people still prefer buying new homes;

however, a situation has emerged where the prices of new homes are significantly higher than those of existing ones. This creates a large price gap that hinders home upgrades or reduces developers' motivation to increase inventories and offer promotions. There are also cities where demand for new homes has considerably improved this year such as Shenzhen. The weekly subscription volume of new homes in Shenzhen reached a record high by the end of September, meanwhile, a considerable portion of this recently increased demand has already been met through talent housing supply.

In response to the market challenges, most big national and local developers are expected to really step up their sales game by the end of the year with more promotions, along with policy support. On the other hand, some smaller local developers are taking it easy. Starting in early September, following current policies, some developers have taken the initiative to start promoting their projects, but we don't expect them to primarily rely on significant price reductions.

In terms of developers working with brokerage services, the penetration rate for brokerage channel sales to the new home market has been on the rise this year. For instance, in Q3, the penetration rate of brokerage services in Shenzhen increased by 6% compared to the same period last year, while Chengdu witnessed a growth of 10-15% year-over-year. Although developer sentiment may fluctuate due to market changes, a relatively stable and balanced cooperative relationship has been established.

From Beike's perspective, our goal is to establish a mutually beneficial partnership with developers where we can collaboratively create additional value for customers. The low satisfaction level among customers regarding new home products is one of the main reasons why the market lacks momentum. By gaining deeper insights into customer preferences through interactive data analysis and extensive research, we can develop better products that cater to their housing upgrade needs while also enhancing their overall experience. Recent projects like Chengdu's One OCT Riverside, Wuhan Tiandi in Wuhan, and Beijing's One Sino Park demonstrate that high-quality new home products still generate significant demand in today's market. This divergence indicates a clear direction for future development in the new home market. Additionally, if the 1.0 floor area to land area ratio restriction is to be removed for sparsely populated areas, it can really help boost the development of high-quality, low-density residential properties in the future housing market. This will stimulate improvement in demand and enable residents to experience a leap forward in their future housing experiences.

Going forward, as we consolidate and deepen our foundational work in core areas such as “commission in advance,” cooperation with state-owned developers, and focused sales strategy, we will prioritize enhancing new home market coverage and sell-through to withstand potential market downturn risks. Our strategies will primarily cover the following:

1) Building new partnerships with developers: As developers move from local autonomy to centralized management, we’ll work closely with them at every level to establish deep and meaningful collaborations.
2) We will tailor our strategy and policies to specific cities.
3) Refined operation management: We will beef- up our infrastructure starting with our housing dictionary, ecosystems, standardized processes and building the skills to make products that customers will love.

Miranda Zhao from Bofa: So my question is like, historically, we have seen M&A was used to grow our company’s home brokerage business and company recently also announced a proposal to acquire “KongJianZhiHui” to further grow the home furnishing business. So can management share your thoughts about the importance of M&A versus organic growth in your growth strategy and also your thoughts about the future investment and the pace of it?

Peng, Stanley:

Generating sustainable internal innovation and organic growth is definitely a long-term goal for us. In the process of achieving this long term goal, we have some phased-strategic objectives that we need to achieve. To revolutionize the home renovation and furnishing industry, we need to have ample scale and business density in a single city.

This allows us to experiment, refine, and enhance our competencies promptly. Acquisitions are the most suitable route to achieve this short-term strategic objective. Hence, our emphasis on acquisitions isn't merely for immediate revenue or financial growth, but to attain the necessary scale and density as a fertile piece of land to foster industry innovation.

It's very difficult to kick start industry transformation without an existing scale; Many capabilities can only grow out with certain operational scale, but in the home renovation sector, that kind of scale has been pretty rare historically. Furthermore, the requirements for achieving a billion, thirty billion, or fifty billion scale in one city differ across various capabilities. It's like evolution, we must remain agile, and non-conformity to established norms.

For example, with a strong presence in a city or region, we can reestablish the entire sales, supply chain, and delivery process, which allows us to tap into economies of scale, addressing deep-rooted industry challenges and paving the way for a transformative business methodology.

Looking ahead, if acquisitions can help us more effectively achieve our phased strategic objectives, then they are crucial and valuable. However, they're just a means to reach a grander vision, not the end goal. Right now, acquisitions bring in the necessary resources and like-minded individuals – these are important assets for transforming the industry.

Sophie Zhang from CICC: So the company has made remarkable progress in standardization and digitalization of your core business in the past years. So how should we think of it in terms of the emerging home renovation business? It would be great if you can share with us some of the milestones you have achieved. Thank you.

Xu, Tao:

Thank you Sophie. To start with, the home renovation supply chain is long and complicated. Not all stages can or should be standardized. We can break it down into three categories – standardization, personalization and betweenness. Standardization is enacted in pricing, construction practices and streamlined processes of rules. Personalization within these offerings is emphasized by our tailored design solutions and the rich variety of products that are offered. The degree of standardization or personalization for renovation materials lies somewhere in between these two realms. Material selections are based on stringent criteria while still providing our consumers with ample diversity to make personalized choices that meet their individual tastes.

For areas that need standardization, we need to reshape the processes and set standards. We've defined distinct roles within our operational flow, establishing a set of mechanisms for collaborations, task allocations and get incentives. For example, in terms of role definition and fee settlements for renovation construction, it used to be common practice in the renovation industry for the project manager (previously called a foreman) to bring their own team of workers and controls the workshop, while the renovation company only dealt with payments with the project manager. This often resulted in project managers starting off at a loss when they took on a new project. This led to several issues: their focus gets pulled into extra charges and tasks for more profits and managing excess laborers' schedules for other projects. Additionally, many renovation companies have limited expertise in managing workers, leading to quality control issues. On our platform, our project manager' role is: to ensure a project goes smoothly and customers are happy, and they are not allowed to touch money. Their job is to manage project timelines, ensuring laborers are delivering quality craftsmanship and so on, all of which improve customer satisfaction. While the platform is responsible for dispatching orders, setting up standards and certifying worker qualifications, implementing evaluation and reward systems, etc., and completes salary settlements based on a performance system centered around quality services. As such, we redefined the roles, workflows, standards, and incentive mechanisms within the industry.

Regarding digitalization, it is essentially a manifestation of in-depth industry understanding and serves as a means to facilitate the implementation of standardization.

Here, let's take the example of project managers and workers for illustration again. This part of digitalization is now achieved through our Home SAAS system's construction delivery module. This module covers various sub-modules such as project schedule management, material dispatching, and construction quality control. It enables automated assignment of tasks, tracking of main material orders, acceptance inspections, rectification processes, etc., providing a streamlined management approach. Additionally, it encompasses digital talent management for both workers and project managers including scoring systems, performance incentives, training certifications, and more.

The Home SAAS system will be upgraded to version 2.5 in November. This new version combines the industry expertise of both Shengdu and Beike, making it more compatible and inclusive of various modules like construction delivery, customer acquisition, sales, centralized design control, supply chain delivery, empowerment tools, and data strategy. Moving forward, our focus will be on developing the designer and delivery mid-office modules, in order to standardize workflow processes and achieve a 'what you see is what you get' design approach. This will also save designers' time in repetitive works, and improves our interaction with clients design solutions, which they care more and more these days.

Lastly, we want to reiterate that the core goal of standardization and systematization is to establish a customer-centric digital infrastructure that supports the industry’s ongoing development. This infrastructure should be able to accommodate diverse industry players, allowing participants across the value chain to operate under streamlined and well-structured guidelines. As we gain a deeper understanding of the industry through experiments and explorations in various cities, as well as the collision of ideas following mergers and acquisitions, we will continue to rapidly iterate the process of standardization and digitization.

Operator: We are now approaching the end of the conference call. I will now turn the call over to your speaker host today, Ms. Siting Li, for closing remarks.

Li, Siting: Thank you once again for joining us today. If you have further questions, please feel free to contact Beike's investor relations team through the contact information provided on our website. This concludes today's call, and we look forward to speaking with you again next quarter. Thank you, and goodbye.