

Baozun Inc.
Q3 2023 Earnings Conference Call
November 22, 2023 at 06:30 AM ET.

Company Speakers

Wendy Sun, Senior Director, Corporate Development & Investor Relations
Vincent Qiu, Chairman and Chief Executive Officer
Arthur Yu, Chief Financial Officer
Sandrine Zerbib, President of Brand Management

Analysts

Alicia Yap, Citi
Thomas Chong, Jefferies
Sophie Huang, CMB Bank International
Colin Shan, Citic Securities
Jack Hou, Huatai Securities

Presentation

Operator: Good morning, ladies and gentlemen, and thank you for standing by for Baozun's Third Quarter 2023 Earnings Conference Call. (Operator Instructions). After management's prepared remarks, there will be a question-and-answer session. As a reminder, today's conference call is being recorded.

I will now turn the meeting over to your host for today's call, Ms. Wendy Sun, Senior Director of Corporate Development and Investor Relations of Baozun. Please proceed, Wendy.

Wendy Sun: Thank you, operator. Hello, everyone, and thank you for joining us today. Our third quarter 2023 earnings release was distributed earlier before this call, and is available on our IR website at ir.baozun.com, as well as on global newswire services. We have also posted a PowerPoint presentation that accompanies our comments to the same IR website, where they are available for download.

On the call today from Baozun, we have Mr. Vincent Qiu, Chairman and Chief Executive Officer; Mr. Arthur Yu, Chief Financial Officer and President of Baozun e-Commerce; and Ms. Sandrine Zerbib, President of Baozun Brand Management. Mr. Qiu will review the business strategy and company highlights, followed by Mr. Yu, who will discuss the business development of Baozun partners and about our financials; and then by Ms. Zerbib to share more about Baozun Brand Management. They will all be available to answer your questions during the Q&A session that follows.

Before we begin, I'd like to remind you that this conference call contains forward-looking statements within the meaning of the U.S. Securities Act of 1933, as amended, the U.S. Securities Exchange Act of 1934, as amended, and the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based upon management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the company's control, which may cause the company's actual results to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties or factors is included in the company's filings with the U.S. Securities Exchange Commission and its announcements, notice of other documents published on the website of The Stock Exchange of Hong Kong Limited. All information provided in this call is as of today hereof, and is based on assumptions that the company believes to be reasonable as of this date. And the company does not undertake any obligation to update any forward-looking statement except as required under applicable law.

Finally, please note that, unless otherwise stated, all figures mentioned during this conference call are in RMB. In addition, we may elect to use adjusted in place of non-Generally Accepted Accounting Principle or non-GAAP in order to reduce aural confusions that may arise from our discussions about financials relating to the Gap brand.

It is now my pleasure to introduce our Chairman and Chief Executive Officer, Mr. Vincent Qiu.

Mr. Qiu, go ahead, please.

Vincent Qiu: Thank you, Wendy. Hello, everyone, and thank you all for your time. I'm happy to share with you today several key highlights from the third quarter that demonstrate solid progress in our transformation. Our total revenue grew by 5% year-over-year to 1.8 billion, driven by incremental BBM contributions. BEC's revenue met our expectations, driven by growth in the apparel category with a 26% year-over-year increase in sportswear. In addition, we further improved our operating cash flow, even after accounting for a cash outflow from BBM. This marks the first third quarter since our IPO where the company has achieved positive operating cash flow.

BBM is executing well on its transformation of GAP China and has shown solid progress towards "premium-ization". During the quarter, BBM's gross margin of 56% continues to outpace our initial forecast. We also opened five new stores, garnering impressive consumer feedback and high sales per square meter. On my visit to the flagship store in Guangzhou, I was highly impressed with the new GAP. Competing with a large array of quality apparel brands in one of China's top-10 shopping malls, our store stood out with notably higher brand energy and overall vibe.

Furthermore, following the acquisition of Gap China, our Technology Innovation Center quickly simplified its complex architecture by consolidating nearly 70 historical systems into one modern, integrated omni-channel operating platform, namely the Retail Operating Platform, or ROP.

The ROP's new architecture, featuring a centralized hub instead of a traditional ERP, achieves more real-time management and utilizes one pool of inventory to increase sales efficiency and inventory turnover. This establishes a solid foundation for Gap's continuous digital transformation. In the next phase, our goal is to create an intelligent end-to-end value chain management system offering advanced CRM and data capabilities that will significantly enhance inventory planning and private domain autonomy.

In addition, we have made solid progress in business intelligence capabilities. Earlier this year, we identified an increasing demand for instantaneous data insights, which empowers brands in making well-informed decisions. This is vital, given the rapidly-changing dynamics within the e-commerce industry. During this year's Double 11 event, we introduced a suite of real-time intelligence and virtualization tools. I am proud that in such a short span of just a few months, our BI capabilities have evolved to become a leading force in the industry.

Lastly, we are very excited to announce a planned 51% equity acquisition of Location (洛氮迅), a top-tier Douyin partner specializing in Apparel and Accessories. We're pleased about combining Location's exceptional expertise in daily livestreaming with our leadership in creative content, compelling portfolio of brand partners, and profound e-commerce operating experiences. The synergy solidifies our leadership in Douyin ecosystem and expands on our success in other major brand e-commerce platforms. This marks a significant milestone in our strategic transformation.

Let me now pass the call over to Arthur for a review of our financials and update on our e-commerce business.

Arthur Yu: Okay. Thanks, Vincent, and hello, everyone. Let me do a quick review of the financials for the third quarter of 2023, after which I will discuss our BEC business in more details. Once again, we are reporting two segments: E-commerce, which includes Baozun E-Commerce, or BEC; Baozun International, or BZI and Group headquarters, and Baozun Brand Management, or BBM, which includes GAP Greater China.

Please turn to Slide #3. Baozun Group's total revenues for the third quarter of 2023 expanded nearly 5% to 1.8 billion, driven by incremental BBM revenue of 298 million. Due to a weaker economic environment and a stronger seasonality, our E-commerce revenue declined to 1.5 billion.

Further pursuing a high-quality business model, we scaled back on low-margin product sales and trimmed low value-added service revenues. Consequently, product sales of E-commerce decreased by 17% year-over-year, notably in appliances, electronics and fast-moving consumer goods categories. This was partially offset by increased sales from sports, healthcare and beauty categories.

In addition, our focus on innovations enabled double-digit revenue growth in technology, and end-to-end solutions within the Tencent mini-program ecosystem.

Our total gross profit was largely flat at 1.3 billion. Product sales gross margin for e-Commerce and BBM was 13% and 56% respectively. Gross margin expansion of BBM continues to outperform our initial expectations with a double-digit year-over-year increase.

Our adjusted loss from operations was 90.4 million during the quarter, of which, e-Commerce's adjusted operating loss was 40.3 million, mainly due to weaker macro condition and a stronger seasonality. BBM continued to show good momentum in reduction of its operating losses to 50.1 million this quarter. Gap's new China-for-China product launch, new store openings, and new marketing strategies were quite successful. These initiatives will provide a foundation for better profitability in the coming quarters. Sandrine will cover the details later.

Now, turn to Slide #4 about our cash and cash flow status. As of September 30, 2023, our cash, cash equivalents, restricted cash, and short-term investments totaled 2.9 billion. We continue to improve working capital efficiency through back-end processes re-engineering on inventory, billing, and cash collection management. This is the first time since our IPO that Baozun has achieved positive operating cash flow in the third quarter of the year.

Now, let's dive into on our e-Commerce business. Overall, we are making good progress in transforming our BEC business. Our transformation strategy focuses on four key areas, as follows. #1, adopting a customer-first approach to meet the needs of our brand partners; #2, enhancing the offering of omni-channel end-to-end services; #3, focusing on high-quality and high-margin businesses; and #4, boosting cost effectiveness and process efficiency.

At BEC, we put our brand partners' needs at the center of everything we do. During the quarter, in collaboration with Nielsen, we further upgraded our Net Promoter Score, or NPS survey, and spent 2 months conducting 40 sessions of in-depth conversations with our brand partners. We seek to locate service shortfalls and identify opportunities to enhance our services. For the third consecutive year, we have achieved an excellent NPS rating with 86% of our brand partners give us a positive rating.

Omni-channel strategy continues to be our top priority to drive sustainable growth for our brand partners. This enables brands to improve operational efficiency and drive incremental business opportunities on different platforms. As demonstrated on Slide #5, 45% of our brands engaged with us on at least two channels, showing consistent growth compared to the same period last year. In this quarter, 40% of our total GMV was contributed from non-TMall channels, among which WeChat and Douyin delivered double-digit GMV growth.

Since 2019, we continue to invest in Tencent's mini-program ecosystem with good results. Recently, we started to pilot operations on Tencent's Video Account platform with brands in FMCG and cosmetics sectors. In the latest Tencent Smart Retail Qianyu Program in October, we won three major awards: Global Operation Excellent Partner, Pioneer Award for Private Domain Training, and Pioneer Award for Video Account Operation.

We are also very pleased with our progress in the Douyin ecosystem. Please turn to Slide #6. Since its official launch in late August, our creative Content to Commerce, or CCC, has partnered with more than 30 brands for Douyin livestreaming, and generating a total GMV of

100 million in the third quarter. We have been strengthening our competitive edge within the Douyin ecosystem in Luxury, Sports and Outdoor, and Fashion Apparel.

As announced by Vincent, we are very excited about the planned acquisition of Location to create an industry-leading Douyin service partner as demonstrated on Slide #7. With this partnership, we can now utilize Baozun CCC's market leadership in creative content and S-level campaigns, along with Location's proved operational experiences in daily livestreaming, to offer more innovative services in Douyin's ecosystem to both our client partners and our own brands managed by BBM. Going forward, we will have two primary livestream locations in Shanghai and Hangzhou, covering a total area of over 12,500 square meters.

Lastly, we value our employees as our most important asset. Throughout this year, we initiated several talent development programs via Baozun University. We also on-boarded over 300 new graduates, injecting fresh perspectives and ideas into the organization. We are proud to be consistently recognized as the Best Employer for 7 consecutive years.

Looking ahead to the fourth quarter, our top priority is still to help our client partners to be successful in a tough market environment this year. During this year's Double 11, we are glad that once again, we helped many brands to become the top performers in their segments, with over half of our brand partners achieved year-over-year growth.

Now, let me turn the call over to Sandrine to elaborate more on BBM.

Sandrine Zerbib: Thank you, Vincent and Arthur. And thank you all for joining us today. It is my great pleasure to speak with you.

BBM is executing well on its transformation of GAP China, shifting from a discount-driven approach to one that focuses on building consumer love for our brand and products, that is, the “premium-ization of GAP”. In the third quarter, we accomplished a wide array of successes in this direction. These include successful new product launches, new store openings, and increased brand marketing and visibility. Together, they lead us to a wide improvement in financial metrics, including higher same store sales growth, faster inventory turnover, stronger gross margin, and better-than-forecasted operating loss for the third quarter, as demonstrated on Slide 8.

Let me now provide you with additional color on our new product launches. Building upon the foundation established in the first half of the year, this third quarter, we introduced our new locally-designed China-for-China products, aiming to deliver the right product for the right people at the right time. This product line upgrade is a continuous process and critical to the apparel industry. Our new product lines feature three new segments – “Modern Preppy, Urban Workwear, and Premium Blue”, in addition to the traditional Gap logo segment.

We launched these products with a comprehensive go-to-market strategy. Since the last week of September, we have elevated the GAP brand through a combination of celebrity endorsements, new store openings, new products, Douyin Superbrand Day spotlight, and the I AM GAP social buzz. As of October 31, the I AM GAP campaign had generated over 309 million impressions, while Crave gap, just Gap, or “想 gap 就 GAP” in Chinese, accumulated 222 million impressions

across Weibo, Douyin and Xiaohongshu. We also garnered over 100 million impressions during our Douyin Superbrand Day in late September. During the period, we were able to grow GMV by 7 times year-over-year to 56 million, setting a new record for self-broadcasting in a single day. We also topped Douyin's flagship and men's fashion hot list during the event.

This marks a significant shift from the past, where our products, marketing, and channels were not managed in a fully integrated way. Consequently, with our integrated I AM GAP message, products and channels, our new products are increasingly sold at full price. And more customers are purchasing new products instead of the discounted carry-over products. During the third quarter, our inventory turnover days improved to 177 days, down from 220 days a year ago.

In addition to the new products, we successfully opened five new stores during the quarter, including a flagship destination store in Guangzhou, as well as new stores in Chengdu, Shenzhen, and Beijing, as shown on Slide #9. These stores emphasize a product layout that is younger and more interactive. We also showcase trendy co-branded designs, as well as an upgraded segmentation for men, women, and kids.

As Vincent mentioned, I am proud to share that our Guangzhou Zhengjia Flagship store, situated in one of the top-10 shopping malls in China, distinguished itself with significantly higher foot traffic and an elevated brand energy. To date, their total sales have exceeded our internal expectations, and we are on schedule to open a total of 10 new stores in the second half of 2023.

Benefitting from our success, BBM's gross margin for the quarter reached 56% post royalty fees, marking a significant improvement of more than 10 percentage points from a year ago. Other key metrics, including traffic, conversion rate, average ticket value, and sales per square meter, all demonstrate positive market feedback.

Another indicator of premium-ization is the positive shift of our consumer demographics. Please turn to Slide #10, as we have prepared a demographics analysis pre-and-post our "I AM GAP" branding campaign. We have observed a significant increase in the contribution of new members, who tend to be younger, have higher consumption power, and prefer to purchase new products. Notably, the important 18-to-29-year-old segment has grown by 700 basis points to 42%. As of October, we have acquired more than 28 million members, contributing to 77% of our sales, of which roughly 2.5 million are active members.

Clearly, we are excited about the upgraded front-end of our business. Let me now talk about the progress on our back-end. During the quarter, we have made rapid improvements to the local supply chain, with localized capacity accounting for almost 100% local sourcing. This agile supply chain has enabled us to reduce our design-to-shelf lead time from the previous 3 to 6 months to just a matter of weeks.

In addition, we also quickly upgraded the IT systems, with the help of Baozun technology. With the completion of Phase 1 of ROP, our Retail Operation Platform, we are preparing for Phase 2, where we aim to deploy Baozun's big data capabilities to develop an intelligent end-to-end value chain management, to drive omni-channel inventory and CRM efficiency. This enhancement will empower us to make more agile decisions on merchandising, marketing, and inventory

management. This will be a key emphasis in GAP's journey towards online-merge-offline growth, and a major milestone for BBM at large.

As you can see, in the first half of 2023, we substantially upgraded GAP's supply chain, significantly increased store efficiency, and strategically recruited talent for all key positions. In the third quarter, we successfully launched our new locally-designed China-for-China products, opened new stores, and elevated GAP's marketing. We will continue to expand our product portfolio and open additional stores in Q4. We are confident about where Gap is heading.

Lastly, our recent acquisition of Hunter is proceeding as planned with the establishment of the joint venture of Authentic Brands Group. Given the positive momentum of the brand, we are optimistic about its development plan. We look forward to sharing more with you on our next call together.

That concludes our prepared remarks, thank you. Operator, we are now ready to begin the Q&A session.

Questions and Answers

Operator: Thank you. (Operator Instructions). Alicia Yap with Citigroup.

Alicia Yap: Congrats on the solid results. I have two questions. First is management able to share with us what has been the notable changes that you observed during this year's Singles Day promotion period? For example, the consumer consumption patterns, how brands' promotional efforts and even some of these large e-commerce strategy; anything that you know that's a big change this year?

And also, the marketing campaigns that you help out the brands to execute is effective in driving the intended sales or getting the GMV or the results that the brands want. Any positive or negative surprise that you see that you're able to share with us? For example, any brands that particularly stand out in their GMV, or even the new user growth or anything that you can see on positive or negative that you can share?

And then very quickly on second question, is there any preliminary view that management can share how next year, 2024, the growth rate that Baozun can achieve?

Arthur Yu: Thank you, Alicia. It's a long question. Let me try to share some of the observation for this year's Double 11. So first, I think the overall traffic in the traditional platform, like Tmall and JD, is lower than the previous years. But on the other hand, there are more traffic shifting to the social media and content-based platform, such as Douyin. So that's number one.

Number two is we have seen an increased competition among the different e-commerce platform are offering better price transparency with a better overall customer experience, like how to return the goods, how quickly the product can be delivered, so that's a key observation. And then

from a brand perspective, this leads to a record-high cancel and return rate for all platforms, which is causing the issues and causing the financial impact to the brand.

What Baozun has been helping the brands are three things. The first one is before and during the Double 11 campaign, we help the brand to create an overall strategy for all channels. So that helps the brand to know what they do for the different channels at the different periods of the promotion. And secondly, given our capability to offer an end-to-end service, including operation customer service and logistics and warehouse, we can link all the service together using our system capability to provide a better overall customer experience and also, helping the brand to create a better efficiency.

For example, during the Double 11, the cancel rate has been high and return rate has been high. But with our system capability, we are able to very quickly release the canceled item back to the shelf, allowing the brand to sell the product without losing the opportunity during the Double 11.

And finally, is our support to the brand on the good data insight, which helping the brand to make real-time change and shift on the different phase of the campaign, helping them to achieve a better result. So overall, I think we have meet, and for some brand, exceed our own goals internally. But from a financial perspective, because of the high return on cancel rate, we'll wait to see how much impact that will have on us.

Regarding to your second question in terms of the next year, given the foundation we laid out on e-commerce for this year, we believe we will have a positive growth, both top line and bottom line, for the next year. We are in the process of finalizing our annual operating plan for next year, and I will be able to share more in our next call.

Alicia Yap: Thank you.

Operator: Thomas Chong with Jefferies.

Thomas Chong: My first question is relating to Gap. Can management comment about the strategies and investments that we should expect over the next few years? And in particular, how we should think about the revenue scale and the timing to achieve breakeven?

And my second question is back to the e-commerce business about the omni-channel strategies. Can management comment about the future mix for Tmall and non-Tmall channel?

Arthur Yu: Maybe, Sandrine, you can go for the first one, and we will cover the second one.

Sandrine Zerbib: Okay, sure. Thank you for your question. So in terms of strategy, we are going to pursue what is at the heart of BBM. So at the heart of BBM is really China-for-China and technology empowerment. So we are already on a good track on these two, but we are continuing. And in the specific case of Gap, we will also pursue the premiumization trends that we have engaged in, thanks to our control of supply chain and to our absolute control of discount. So this will continue, with more to come in terms of products, and more to come in terms of opening new stores.

As you noticed, we started to open five new stores in the third quarter. We have another five planned in the next quarter, and this trend will continue over time and in 2024 and beyond. And we are confident that we can actually stick to our initial plan, which was to significantly reduce the loss this year, further halve this next year, and be breakeven in 2025.

Arthur Yu: Thank you, Sandrine. On the second question regarding domestic and international brands, so basically, our observation is in the recent years, the domestic brand has captured more market share in the middle-to-low-price range segment in each category. At the same time, international brands still dominate the high-price range segment with a better overall brand attractiveness and better overall customer experience, and more product innovation and introduction. For Baozun, we see opportunity in both the international and domestic brand partners.

For the international brands, they would like Baozun to play a role as a strategic partner, offering them an end-to-end one-stop solution, including help them to shape, design a strategy for the overall China e-commerce, and then help them to execute. So this is something Baozun is very uniquely positioned to provide. For domestic brands, given they are close to China, some of the operations, they normally do in-house, but they come to Baozun asking for help on the value-added service, such as the digital marketing, the warehouse management and technology. So with the China e-commerce ecosystem becoming more and more specialized in each of the services, we believe we have opportunity in both international and domestic brands.

Wendy Sun: Okay. Operator, next one, please?

Operator: Sophie Huang with CMBI.

Sophie Huang: I have two questions here. Number one is regarding the Hangzhou Location acquisition. So what is the rationale of Location acquisition? And how do we look at the business synergy in the livestreaming e-commerce segment and the financial impact from this deal?

And the second question is regarding our livestreaming e-commerce update. We have made progress in Douyin ecosystem for brands. So can you help us to understand the ROI difference between Douyin channel and the Tmall channel, and how to improve it? I remember you mentioned that luxury brands performed well in Douyin ecosystem. And what about other categories?

Arthur Yu: Okay. Thank you for the questions. We believe the overall trend for the e-commerce in China will have more social and content based e-commerce. So that's the trend we see, and based on that still, we think the capability to produce high-quality livestreaming and content is a must to have in the upcoming years. So based on that rationale, we searched the market; we want to find the best match between Baozun capability and also the service provider we are looking for.

So we found Location, which is an innovative and very solid business with a very deep experience and knowhow, how to run the livestreaming in both the Tmall and Douyin platforms; and also, after our initial working with Location, so a well-run business with a healthy profit margin and a talented core team.

So we believe the combination between Baozun and Location, we'll be able to utilize the good system and infrastructure of Baozun, the very deep relationship and omni-channel relationship Baozun has with brands, and also the Location's high-quality live-streaming operations capability and also their humble facility. We think combining those two, we'll be able to make us one of the best creative content and livestreaming service providers in China. And we think this capability will help us to provide the value-added service for our high-end brands.

The second question about ROI, we think the ROI for both the Douyin channel and Tmall channel are currently under the pressure. For both the Douyin and Tmall, we need to know in terms of how to define a successful strategy to improve ROI. So if we think, from the brand perspective, how to differentiate the merchandising strategy, how to attract the traffic, how to do the digital marketing in those two different platforms, will determine how good ROI is about. So that's why we think offering a good capability and working closely with the brands, we'll be able to improve ROI for both platform. So in those two platforms, you will be able to improve ROI if you do a very good operation.

Sophie Huang: Okay. Thank you.

Operator: Colin Shan with CITIC Securities.

Colin Shan: Congrats on the solid results this quarter. I have two questions about BBM. The first question is about Gap. It has been around 3 quarters after the acquisition of Gap China. And looking back on the past quarters, what operation results are beyond your expectation, and what are below your expectation?

And the second question is also about Gap. How to evaluate the improvements of Gap results and what are the key metrics to follow, other than the gross profit margin? And when we're talking about to maintain the price of Gap, but in China, especially in this year, people are talking about the consumption downgrade. So what's your observation when you are doing this kind of improvements of Gap?

Sandrine Zerbib: Okay. Thank you for your question, Colin. So first, after 3 quarters -- not exactly 3 quarters because actually, we took over the 1st of February, we can say that most of the operational results exceed our expectations, particularly when all the indicators that point to better attraction of the brand, which means primarily, obviously, gross margin that we discussed earlier, which has increased much more significantly than we even expected; but also, the inventory turnover that has been also a very strong improvement.

At the same time, by saying this, I'm showing you some metrics that we consider as very important. The inventory turnover, the same store sales growth, the conversion rate, these are all metrics that we look very carefully at, because at the end of the day, this indicates if the brand is attractive for a consumer or not. If the consumer comes to a shop and buys a brand only because it's discounted, it's actually not a good sign. So from the beginning, we've been extremely attentive to these metrics because this is actually how to get back on track to be a positive brand, a brand that attracts consumers. And on all these matters, we are actually quite satisfied, and it's usually beyond expectation.

Now, where it's a little bit slower is on the online part of the business, where obviously, it takes longer time to achieve this with consumers, although more so, as Gap used to be very much a Tmall online business. And we saw, as mentioned by Arthur, lower traffic in general on Tmall and JD. And this obviously, has also been a negative factor for our online business. So that's to answer the first part of your question.

Now answering the second part of your question, obviously, we do pay attention to our topline. But our topline, we prefer to look at it primarily in same-store sales and same-channel sales to see the progress. Then gross margin is fundamental. Without a proper gross margin, you actually cannot do anything. If I stick to financial metrics, inventory management and inventory days of turnover, very important as well, because this is a precondition for the gross margin to remain healthy and controlled obviously of cost. And on all this, we are quite happy with what has happened so far, and these are the metrics we will continue to look at going forward.

Now to answer the third part of your question, although we have premiumized Gap, we haven't turned it into a luxury brand by far. What we have done really is to make sure that a larger percentage of products are sold at full price, instead of being fully-discounted from the first day. And I think that even in the current circumstances of a slower economy, we can see that this is a winning strategy. And in fact, I would say that the consumers today are not so much chasing bargains, but they are really looking for value for money. And value for money is not just a question of money, it is also a question of value. And what we can see is that if we give consumers at a reasonable price that reflects the value in the product, the product he or she wants, with the quality he or she expects, the design he or she expects, then this is what they consider to be value for money and this works. That's about the way I would answer your three parts of question.

Colin Shan: Okay. Thank you very much.

Operator: (Operator Instructions). Jack Hou with Huatai Securities.

Jack Hou: I have a small question regarding M&A strategy. We have seen some progress on Gap business after our acquisition. So could management share some thinking on the M&A strategy going forward?

Vincent Qiu: Okay. Thank you, Jack, this is Vincent. I will answer this question. And then Sandrine, maybe you want to add some comments after that. For the M&A strategy, I think we have two parts and one important consideration. One part is about BBM. I think for the BBM M&A for potential brands, number one is that we think right now Gap Hunter is very important for us. So the first thing we need to do is start to make Gap turnaround a successful one, to have Gap and Hunter with all the potentials they have, to turn this to a very positive opportunity for us. That is number one.

Number two is that we will still be very active in exploring potential brands, but we will be very selective for brands. The brand and the opportunity have to be good and then has synergy, meet our criteria. So it will be a very selective way for us to acquire new brands.

For BEC, we are acquiring necessary capabilities from other companies or vendors, just like Location, we just have done. So in this direction, I think we will be also very selective, and I

think right now, most of the capabilities of Baozun are very strong. We are strong enough in different aspects. So I think only for those very selective opportunities, we consider to acquire in the future.

So overall, I think one principle for us, which is very important, is synergy. No matter if it is a brand or it is a company with special capability we are going to acquire, it has to have a very strong synergy to the existing business, no matter if it's a brand business or it's an e-commerce business. So that is the overall strategy for M&A.

So Sandrine, you want to add something?

Sandrine Zerbib: No, I think I may just say that, of course, we want to, number one, prove the turnaround of the brand, specifically Gap. Number two, we really want to be very selective and also to be true to our key criteria, which is China-for-China and technology empowerment. So we want to really select brands where these two drivers will make a huge difference.

Operator: Thomas Chong with Jefferies.

Thomas Chong: So may I ask a quick follow-up question? I think it's more relating to the trend for our take rate. Can management comments about how we should think about it in the near term and the long term?

Arthur Yu: Okay. Thank you, Thomas. I will take this one. In terms of the take rates for the e-commerce services, what we observe is some of the basic services, like the store operations, the customer service, the take rate is under pressure and has a trend to reduce. Our reaction to that is we want to improve our internal efficiency through the economy of scale to make sure we keep competitive in terms of the price we offer to counter the impact of drop in the take rate. At the same time, we see the take rate for value-added services, for some really high-quality service it's really firm. So that's why we shifted a lot of our efforts into creating a good-quality higher-value-added service in our BEC kind of the service offerings. And at the last, we think from this year, we start to do high-margin, high-quality product sales business. And we believe with more control for the product sales business, we will be able to positively contribute to the gross margin and also to the net profit, despite of high pressure on the take rate.

Thomas Chong: Got it. Thank you.

Operator: This now concludes our question-and-answer session. I would like to turn the conference back over to Wendy Sun for any closing remarks.

Wendy Sun: Thank you, operator. On behalf of the Baozun management team, we'd like to thank you for your participation in today's call. If you require any further information, feel free to reach out to us. Thank you for joining us today. This concludes the call.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.