Baozun Inc.
Q1 2024 Earnings Conference Call
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Company Speakers
Wendy Sun, Senior Director, Corporate Development & Investor Relations
Vincent Qiu, Chairman and Chief Executive Officer
Catherine Zhu, Chief Financial Officer
Arthur Yu, President, Baozun e-Commerce
Sandrine Zerbib, President of Baozun Brand Management

Analysts
Alicia Yap, Citi
Colin Shan, CITIC
Unidentified Analyst, CICC
Sophie Huang, CMBI
Thomas Chong, Jefferies

Presentation

Operator: Good morning, ladies and gentlemen, and thank you for standing by for Baozun's First Quarter 2024 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 for Baozun. Please proceed, Wendy.

Wendy Sun: Thank you, operator. Hello, everyone, and thank you for joining us today. Our first quarter 2024 earnings release was distributed earlier before this call, and is available on our IR website at ir.baozun.com, as well as on PR 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; Ms. Catherine Zhu, Chief Financial Officer; Mr. Arthur Yu, 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 Ms. Zhu, who will discuss our financials and outlook; and then by Mr. Yu and Ms. Zerbib to share more regarding our e-Commerce and Brand Management segments, respectively. 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 and Exchange Commission and its announcements, notice and other documents published on the website of The Stock Exchange of Hong Kong Limited. All information provided in this call is as of the date 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 all the confusion 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. Vincent, please go ahead.

Vincent Qiu: Thank you, Wendy. Hello, everyone, and thank you all for your time. As you may recall, our primary focus for 2024 is to continue executing our plans diligently and sustainably. I am pleased to share the progress and results of our ongoing transformation journey.

Please turn to Slide #2. In the first quarter of 2024, Baozun Group achieved a 5% year-over-year revenue growth, reaching 2 billion. This growth was primarily driven by BBM's 66% year-over-year revenue increase, and better top line momentum from BEC. Additionally, our operating cash flow improved by 129 million, reflecting the robustness of our business model and operational efficiency.

A closer look at the top line enablers for the quarter. For BEC, it's encouraging that service revenue returned to growth after 6 quarters of year-over-year contraction. This is attributed to our consistent efforts in enhancing client satisfaction, building our omnichannel capabilities, and extending our value proposition to our brand partners. In addition, we introduced a high-quality product sales model by entering into exclusive distribution collaborations with several brands. This exclusivity allows us to make full use of our digitalization capabilities and retail expertise to enable brands to build a consistent go-to-market strategy, which is comprehensive and covers product positioning, marketing, pricing, channels and customer experience, along with daily sales operations. With deeper involvement and alignment in strategy and merchandising tactics, we are confident to help brands increase sales and boost their brand equity. We are confident this model will enable BEC product sales to resume growth next quarter, and gradually improve BEC's overall margin.

BBM continues to make headway in transforming Gap China. Focusing on China-for-China products and merchandising tactics that resonate with local consumers, BBM delivered solid Q1 results in both top and bottom lines. These efforts have had positive market acceptance, and increased Gap's growth potential for the second half of 2024.

Lastly, we are proud to share another significant milestone in our Technology advancement. Our Technology Innovation Centre, TIC, successful deployed over 5,000 partner offline stores for a global electronic brand giant. This involved a full set of Demand Chain Management solution that manages online DTC, offline retail and the partner distribution network with up-to-date digital commerce capabilities. It is fully integrated with the Baozun Digital Operating Platform to ensure a seamless and close loop omnichannel digital commerce experience. These are highlights that reflect the solid and constant efforts the Baozun team has put into effect our ongoing transformation.

I am also proud to welcome Catherine Zhu, our newly-appointed CFO, to this call. Catherine brings a wealth of experience and expertise to our senior management team. Importantly, Catherine is no stranger to Baozun, as she has worked with us for the past 4 years in various key functions. With Catherine taking on the CFO role, Arthur is now more dedicated to leading our BEC segment to accelerate its transformation and further growth in 2024.

Let me now pass the call over to Catherine for a review of our financials.

Catherine Zhu: Thanks, Vincent, and hello, everyone. I'm pleased to speak with you today in my new capacity as Baozun Group's CFO. As Vincent just mentioned, advancing our business transformation initiatives and driving growth are our top priorities for 2024. Accordingly, my primary objective will be to align our financial strategies with our broader business goals, facilitating both our transformation and progress through fiscal discipline and cost optimization.

Now let me share with you our first quarter 2024 financial results in more detail. Please turn to Slide #3. Baozun Group's total net revenues increased by 5% year-over-year to 2 billion. Of this, e-Commerce revenue contributed 1.7 billion, while revenue from the Brand Management segment increased to 313 million.

Breaking down the e-Commerce revenue by business model, services revenue increased by 4% to 1.2 billion during the quarter. This increase was primarily attributable to double-digit year-over-year growth in revenue from sportswear store operations, as well as digital marketing and IT solutions.

BEC product sales revenue decreased by 17% to 395 million as we optimized certain product portfolios and pursued a high-quality distribution model. For instance, we proactively optimized our approach to several brands in fast-moving consumer goods over the past few quarters, which led to a 51% year-over-year decline in this category.

Please turn to Slide #4. From a profitability perspective, our gross margin for product sales in e-Commerce improved by 230 basis points to 13.8% during the quarter. Gross margin for BBM remained healthy at 53%, and our group blended gross margin for product sales totaled 31%, an increase of 700 basis points year-over-year. This was driven by improved gross margin of BEC product sales, as well as higher a contribution percentage from BBM revenues.

Now to bottom line items, please turn to Slide #5. Our total operating expenses for the quarter was 1.6 billion, an increase of 7.9% year-over-year. This increase was mainly due to additional sales and marketing spending in both BEC and BBM segments, which was in line with the increase in our digital marketing revenues and new product launch respectively.

During the quarter, our adjusted loss from operations totaled 18 million. This comprised an adjusted operating profit of 12 million from the e-Commerce segment and a BBM operating loss of 29 million. It is worth noting that BBM continued to show good momentum in reducing its operating loss, with the 29 million operating loss covering three months this quarter, compared to 35 million for the two-month period 2023.

Turning to cash items on Slide #6. We improved our operating cash flow by 129 million. Where we had a cash outflow of 208 million in the first quarter last year, the corresponding outflow in the first quarter this year has been reduced to 79 million. This was attributed to our effective and targeted cash flow management strategy. Notably, the operating cash flow for e-Commerce segment in the first quarter turned positive for the first time since 2019. Also, with better utilization of financial capital and resources, our net interest income increased over 30% to 9 million. As of March 31, 2024, we maintained a continuously steady balance in cash and cash equivalents, restricted cash, and short-term investments, totaling 2.9 billion.

In January 2024, our Board approved a new share repurchase program of USD20 million over the next 12 months. I'm pleased to report that in April, the Company repurchased approximately 845 thousand ADSs with USD2.1 million through the open market under this program, reflecting our confidence in the company.

Lastly, on Slide #7, we have been successful in promoting ESG and integrating sustainability into our core business operations. We prioritize energy efficiency and waste minimization in our warehouse and logistics parks. Moreover, we advocate for sustainable lifestyles among our employees, brand partners, consumers, and other stakeholders, fostering a green e-commerce ecosystem. Thanks to this unwavering commitment, we reduced our 2023 carbon emissions by 28% compared to our 2021 benchmark. I'm also proud to share that CDP raised our ESG rating from C to B this year, a powerful testament to our sustainability efforts.

Thank you for your attention. Let me now pass the call over to Arthur to update you on BEC, our e-Commerce business.

Arthur Yu: Thanks, Vincent and Catherine, and hello, everyone. Now let's take a look at the BEC business in Quarter 1 of 2024.

Please turn to Slide #8. The year of 2024 has started off with many challenges and opportunities for the BEC business. Our strategic goal is to drive customer-centric, high-quality, and sustainable business growth, and we plan to deliver this goal through three key strategic enablers: #1, Enhancing customer satisfaction; #2, Building a high-quality product sales business; and #3, Expanding into new business areas by utilizing our core capabilities. In the first quarter of 2024, we have made solid progress in each area.

Our first strategic enabler focuses on improving service quality to further enhance client satisfaction. Since 2021, we have collaborated with Nielsen to build an NPS (Net Promoter

Score) system to systematically gather feedback from our clients. Over the past 2 years, we have seen an increase in our overall NPS, and the score has improved from 8.07 to 8.23. This indicates that an increasing number of clients are now willing to recommend our services, likely leading to organic growth through positive word-of-mouth. The improvement in our NPS score is largely due to our consistent efforts in maintain high standards in delivering services, particularly our comprehensive digital commerce capabilities across multiple categories, channels, and the entire value chain.

In Quarter 1, we continued to perform strongly and gained market share in key categories such as Apparel, Sports and Outdoor, and Travel and Hotel. Our omnichannel capability is one of Baozun's core advantages and a focus for development in 2024. During the quarter, we not only continued to open stores on the traditional marketplace platforms such as Tmall, JD, and VIP.com, but also opened over 20 new stores on emerging platforms like Douyin, POIZON and RED, helping brands generate revenue through these new channels.

Additionally, we are continuously expanding our value chain and innovating our service models. We have become the e-commerce logistics service partner for multiple brands under VF Corporation, helping them customize automated e-commerce order fulfillment centers, supporting nationwide multi-warehouse shipping, and improving logistics service capabilities. We have also formed a strategic alliance with China Resource Vanguard to explore new retail models, leveraging our long-term cooperation experience with Walmart.

Based on our outstanding performance, we received multiple service provider awards in Quarter 1. These include Tmall's Six-Star Service Provider; JD.com's Jingzhuoyue Award; Tencent's Smart Retail Annual Service Provider; and Douyin's 2023 High Potential Luxury Service Provider Award. These awards validate our progress in omnichannel capabilities and continue to give us strategic advantages over our competitors.

Our second strategic enabler is to build a high-quality product sales business, which we address by focusing on two aspects: optimizing existing distribution businesses and introducing high-quality distribution partnerships.

For existing distribution businesses, we have nearly completed the optimization of financially-underperforming operations this quarter. At the same time, we have enhanced our governance and talent management by establishing a Distribution Business Committee to ensure the quality of the business continues to improve in the future.

To introduce new, high-quality product sales businesses, we continue to expand using an exclusive distribution model for medium-sized global brands. In Quarter 1, we initiated several collaborations in lifestyle and small appliance categories. In February, we became the exclusive distribution partner for the Canadian fashion brand, ALDO, and are currently working on repositioning the brand in the Chinese market. We also initiated an exclusive distribution collaboration with the renowned American high-end home appliance brand, Bissell. We are also working with NUXE, a French cosmetic-and-beauty brand as their exclusive distributor for its China launch with comprehensive online and offline growth plans. Compared to traditional distributors, Baozun possesses digital-enabled distribution capabilities, efficiently integrating online and offline operations and leveraging digital technologies to drive omnichannel business growth.

The third enabler is expanding into new business areas by creating new business models by utilizing Baozun's core capability in data and technology. For instance, we have deployed our technology to help brand partners advance distributor digital transformation and enhance comprehensive omnichannel retail capabilities. We have also extended our customer service from a client-by-client basis to service cooperation with e-commerce platforms. Additionally, our self-incubated brand continues to achieve high-double-digit sales growth in Quarter 1, transitioning from initial incubation to rapid expansion.

While growing the top line is our priority this year, protecting the bottom line is also important to us. We are actively promoting lean projects within BEC to further reduce costs. Additionally, we are extending the use of AIGC tools to more employees and business scenarios to enhance operational efficiency.

In summary, we achieved solid results in Quarter 1 and are on track with our annual plans. Our goal for BEC is to become the preferred digital commerce partner for our global clients. To achieve this goal, we will continue to focus on our strategic enablers, ensuring robust business growth while further enhancing our digital and omnichannel capabilities. We will share more progress with you in the future.

Now, let me pass on to Sandrine for an update on BBM.

Sandrine Zerbib: Thank you, Arthur, thank you, team, and thank you all. It is my great pleasure to speak with you.

Please turn to Slide #9. We are pleased to report top line growth and continuous bottom line improvements for BBM in the first quarter of 2024. While there is a timing impact as we had two months in reporting in the same period of last year, versus a full quarter this time for the 66% revenue growth, we achieved strong sales during the Chinese New Year period, supported by a series of new product releases, targeted promotions and effective marketing campaigns. Leveraging on our efforts in strategic pricing, supply chain and inventory management, we continue to maintain effective discount control while achieving healthy inventory turnover improvement.

During the quarter, the gross margin for BBM remained healthy at 53%, post-royalties, and our inventory turnover days improved by 20 days to 140, compared to the same period last year. We further improved operational efficiency, reducing our operating loss to 29 million for this quarter, which covers three months, compared to 35 million over two months last year.

Our China-for-China strategy continues to evolve with promising developments. We are introducing specialized products tailored to specific target audiences and channels, ensuring that our offerings meet local consumer needs and preferences. For example, we recently intensified our efforts for segmented products in the kids and baby, and womenswear categories. We noted a significant rebound in our kids and baby stores, marked by improvements in customer awareness and a distinctive brand image, which solidified a positive brand perception.

In our current demographic, the combination of kids and baby and womenswear accounts for less than 50% of sales, presenting opportunities for further growth. To capitalize on this momentum, we are strategically rolling out new children's wear stores, and we will continue to launch segmented product offerings throughout the year to better meet the needs of our targeted demographic. We are also introducing new women designers and further enhancing product quality to better cater to the young mom generation. Additionally, our functional product segments, such as UV jackets and cooling products, are performing well and are expected to gain further traction as we move into the warmer months. Our collaboration with selected IPs, such as 8ON8 and Palace, resonated well with our target audience. Along with our social media campaigns on Weibo and Little Red Book, our brand visibility has been significantly boosted.

While there has been some traffic contraction in the fashion apparel segment in recent months, the new stores we opened during this period still demonstrated higher productivity levels. Leveraging on our proven new opening philosophy, we plan to expand our physical presence throughout the rest of 2024 to offset the organic decrease in our store count over the past few quarters. We are happy to have gained strong market acceptance from the industry community, including potential IP collaborations, landlords, and potential franchisee partners. With this established ecosystem and partnerships, we are encouraged by the positive momentum in brand equity.

We plan to open up to five new stores in the second quarter of 2024, while focusing on optimizing store performance and enhancing the customer experience. Additionally, we will leverage a rapid deployment strategy by opening pop-up shops in strategic locations to gauge consumer interest and test market viability. By executing these initiatives simultaneously, we aim to strengthen our presence, tap into new markets, and capitalize on emerging growth opportunities.

Looking ahead to the rest of 2024, we are exercising caution due to the observed slower recovery in consumption sentiment. While it may take more time for this sentiment to improve, we remain committed to executing our strategic plans and driving BBM top line growth in 2024.

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

Questions and Answers

Operator: Thank you. Certainly, we will now begin the question-and-answer session. The first question comes from Alicia Yap with Citigroup.

Alicia Yap: Congrats on the solid quarter. I have two questions. First, I think during the first quarter, based on the NBS data, there seems to be faster growth pace of the online shopping, with deeper online penetration rate in expense on some of the offline retail, maybe given the aggressive pricing discount from the online marketplace. So just wondering how Baozun views this trend as to opportunity? And then on the other hand, wondering if the Gap offline store are seeing some of the demand actually shifting to the online purchase, as we see for the general broad market trend?

Second question is related to Gap. Just wondering if management can provide update on the overall growth rate target for this year. And also any update on the performance of the newly acquired brands like Hunter?

Arthur Yu: Hi, Alicia, it's Arthur here. Thank you for the question. I will take the first part of your question, and then I will hand over to Sandrine for the Gap-related question. I think you are right in terms of the online penetration, seems to increase, but not necessary at the expense of offline retail because from our observation, some successful brands have started to adopt the omnichannel strategy by fully utilizing the different customer base from each of the platforms. Some brands even try to develop some unique product for some special online platforms, try to utilizing their consumer base. And that leads to a higher penetration for the online, but not necessarily at the expense or cannibalization of the offline market. So that's number one.

The second thing we have seen is from some successful brands, what they do is online-merging-offline, i.e., OMO strategy, trying to utilize the technology and data to create a solution to integrate the online and offline shopping scenario. And that is actually helping to generate organic traffic into both online and offline to drive incremental sales. So that's our observation for your first part of the question.

Sandrine Zerbib: Thank you, Arthur, and thank you, Alicia, for your question. So first, you asked if this was something we were observing, also this potential shift for Gap. In fact, it is true that we see overall that the traffic offline is decreasing, and it's decreasing faster than the traffic online. Having said this, as Arthur mentioned, it doesn't mean any form of cannibalization.

Now concerning your second question about the growth perspective for all of 2024 for Gap, we still plan BBM to have, and Gap to have, double-digit growth for the whole year, partly because we see the new stores that we are opening performing actually better than the existing portfolio, and also partly because we plan to continue our store opening with more than 50 stores to be open in the rest of the year, or in the total year I should say, because we already opened two in Q1. And we will have five open in Q2 and the rest in Q3 and Q4. So now the last part of your question was about Hunter. And I'm pleased to say that Hunter is very well on track, both in terms of sales and operating results.

Alicia Yap: Okay. Thank you so much. I'll get back to the queue.

Operator: Colin Shan with CITIC Securities.

Colin Shan: I have two questions, the first is about BEC. In this year, most e-commerce platforms keep emphasizing price competition power. And as a brand partner, how does Baozun balance brand's pricing system and pricing competitiveness?

And my second question is about BBM. And also in this year, did management find that there are different consumption trends and characteristics between Gap's online and offline performance? And what is your future layout of Gap's offline and online business? For example, will there be like different product lines or pricing strategy between online and offline?

Arthur Yu: Okay. Thank you, Colin. I will take the BEC part and then Sandrine can comment on the BBM. I think you are right, the e-commerce platforms are more and more putting emphasize on the price kind of the competitiveness. But at the same time, that's not the only tool a brand has to enhance their brand positioning. So for example, a lot of our clients spend money and effort to build the brand awareness, increasing the brand equity in order to protect their pricing structure, and some of our clients even follow a full price strategy with very limited discount. That actually drives a better model for the brands to have a sustainable growth because they can use additional margin to support the brand building in the longer term. And that's a lot of our advice to our brand partner to balance the short-term and long-term. So that's the first one.

Secondly, we see many brands are focused on the new product introduction, which is a key to keep the freshness of a brand apparent to the consumer. As you know, the Chinese consumer is very looking forward to the new thing coming up. So with that, a lot of brands are trying to capture the new trend of the consumer. And also, the marketing is becoming more dynamic, including the short video, the live streaming, a lot of the digital format type of marketing. It starts to building a different kind of way the brands are promoting themselves. With that, all in all, I think the price is one of the two to drive the brand forward for the sales, but to balance the longer term and short term, how to build a brand is also important.

Sandrine Zerbib: Thank you, Arthur, and thank you, Colin. So to answer your question, yes, there are different consumption trends, online and offline, that we also observe with Gap. As we said earlier, generally speaking, we see a lot of caution from consumers who do not spend lavishly and this translates differently online and offline. I would say that in both cases, to some extent, it's value for money, but offline we have more of a focus on value, and online more of a focus on money. So what we can see is that generally speaking, the average price, the UPT, the margin is higher offline than online, but the frequency of purchase is probably more cautious than it used to be.

So people are looking for very high-quality products and they are looking for what they see as value in the products we offer offline; versus online, we see a trend towards obviously more looking for good price and good deals, and this has led us to increase the proportion of special online products for the online part of our business, in order to maintain our top line without letting go on the control of discounts. So overall, we manage with this to have lower ticket price for consumers online, but keep our good margin. I think this covers the question of Colin on BBM.

Colin Shan: Thank you, Arthur and Sandrine, for your answers. I have no other questions.

Operator: Wan Jiao from CICC.

Wan Jiao: My question is about the brand management business. Could you please share the sales performance of Gap recently, especially during the shopping festival? Also, for the overall brand management business, are there plans to incorporate more brands this year?

Sandrine Zerbib: Thank you for your question. So as we said we had a very good performance during Chinese New Year. The rest of the quarter has been slower with increasing caution from consumers, which we see particularly in the offline part of our business. As I was trying to explain earlier, there is higher caution that leads consumers to look for value in what they purchase.

We obviously look at many brands. I cannot guarantee that there will be new brands incorporated this year because we are exercising extreme caution in the way we select the brands, both in terms of which category they belong to, and our analysis on their potential in China, particularly in this period of relatively low consumption sentiment.

Vincent Qiu: Yes, some more words to say. This is Vincent. For the potential new brands, actually, we have a quite strong pipeline for both BEC and BBM business. And also, right now, we have a lot of different ways to work with a new brand. We can work with a brand for the pure e-commerce service, or we can take some exclusivity on distributorship, and we can also do some M&A or license. So we have a lot of different ways working with them. So but talking about the M&A, we will be very selective and careful, just like what Sandrine just mentioned, yes, but right now, we have a lot of different ways of working with them. So that is a key message. Thank you.

Operator: Sophie Huang with CMBI.

Sophie Huang: My question is about the livestreaming e-commerce update. After acquisition of Hangzhou Location and our investment in content, is there any change on brand engagement or GMV performance? In the long run, how do we think about the revenue or scale from live streaming e-commerce?

Arthur Yu: Thank you, Sophie. I think first of all, our integration with Hangzhou Location is well on track, and with the capability of Location, plus the client relationship and tools from Baozun, we have already won a number of new deals. And the teams are very busy every day, working until midnight in order to fulfill the new deals, so that's a good sign. Our goal to acquired Location is focused on building our omnichannel capability. So that said, with the overall trends, trend is moving into omnichannel. Both the traditional e-commerce channel like Tmall and JD are important, but also the new livestreaming channel, like Douyin, Little Red Book and Kuaishou, are becoming more and more important. So the acquisition of Location give us that capability to make sure we can offer that one-stop solution to our brand partners.

In terms of the GMV performance, if we look at the livestreaming-related GMV we generate, we actually have a high-double-digit growth for this year. But the overall size is small, is still a small proportion within the overall GMV. But we can see that's not the quantity what we are looking for. It's the quality of our service and the breadth of our offering, which makes Baozun different. And that's the reason why we put a lot of investment and effort on building the Location business into the wider Baozun ecosystem.

Sophie Huang: Okay. Very clear, thank you.

Operator: Thomas Chong with Jefferies.

Thomas Chong: I have two questions. The first one is, could management share some recent consumer sentiment and expectation outlook for different categories like apparel, FMCG, electronics?

And my second question is could management share some color on the 618 Shopping Festival, the consumer sentiment for BEC?

Arthur Yu: Okay. Thank you for the question. Consumer confidence has still not recovered to the pre-Covid level. We track the Consumer Confidence Index, and so far, in the first 3 to 4 months of this year, it's constantly below 90 mark. And that number before Covid is above 110, which means the consumer confidence has still not recovered. But on the other hand, we see the trend of some of the categories are doing pretty well. So for example, in Apparel, we see the Sports and Outdoor, those two categories are doing pretty well. And in the Luxury, we have seen the Jewelry is doing pretty well, and also, the JD platform is doing better on Luxury than Tmall.

For FMCG and consumer electronics, it's a mix. We see some brands are doing well and some are not doing that well. The ones doing well all have some good new product introduction. And also, the local brands are performing better than the global brands in general. Okay.

Operator: Alicia Yap with Citigroup.

Alicia Yap: I have two quick follow-up questions. One is that I noticed the digital marketing and IT solution revenue actually grew quite well on the year-over-year basis this quarter. Is that mainly due to low base, or is it contributed by newly-added brands, or is that because of the strong demand in general?

And then second question within the online stores revenue, the Luxury category on the year-over-year basis, it looks a little bit weaker. So just wondering is that within your expectation, or do you think that could be driven by some of the consumption shift away from luxury?

Arthur Yu: Okay. Thank you, Alicia. The first one, the digital marketing and IT, it's not related to the low base, so that's to start with. What we have seen is the online traffic is becoming more and more expensive and the different ways of doing advertising online is becoming more and more complex. Therefore, brands need to increase the investment to generate the same traffic compared with the past. So that requires brands to invest more in the digital marketing.

And also, the content is becoming more important. So many of our brands are waiting to invest on content to drive a better customer kind of conversation from an online perspective. And some of the content, the brands are using China-for-China strategy. So for example, in the past, some of the content are being made in Europe and in the U.S. by headquarter. Now, increasingly, with Baozun offering high-quality livestreaming center in Shanghai, we actually managed to acquire those business, which used to be done in the headquarter. So those are on the digital marketing.

Our IT capability is helping the brand to increase the long-term capability. And with the top line growth slowdown from the brands, the brands are spending money on transforming the internal processes and system, and the digital is becoming a key for most of our clients. So that's why they start to spend more on IT. So those are on digital marketing and IT.

In relation to your question on luxury, I think it's a mixed result for the luxury brand. Overall, the sector is slowing down a little bit because of the consumer confidence and also the consumption. People are spending less frequent on the luxury products. On the other hand, some brands are increasing their penetration on e-commerce because in the past, some of the luxury brands have low penetration online business mainly focused on offline. With those brands start to move some of the business online, we still see the luxury has opportunity for Baozun to capture.

Alicia Yap: Thank you, Arthur.

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

Wendy Sun: Thank you, operator. On behalf of the Baozun management team, we would like to thank you again 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: Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.