

Baozun Inc. [BZUN]
Q2 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
Ken Huang, Chief Financial Officer of Baozun Brand Management

Analysts

Thomas Chong, Jefferies
Jarvis Yin, CITIC
Wan Jiao, CICC
Alicia Yap, Citigroup
Jack Hou, Huatai Securities
Joanna Ma, CMBI

Presentation

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

Wendy Sun: Thank you, operator. Hello everyone and thank you for joining us today. Our second 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's 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 Mr. Ken Huang, Chief Financial Officer of Baozun Brand Management. Mr. Qiu will first share our business strategy and company highlights, followed by Ms. Zhu, who will discuss our financials and outlook, then by Mr. Yu, and Mr. Huang to share more about 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 United States Securities and Exchange Commission and its announcements, notices or 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 aural confusions that may arise from our discussions about financials relating to the GAP brand.

It is 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.

I'm pleased to share that we continue to achieve success in executing our plans. In the second quarter of 2024, Baozun Group achieved a 3% year-over-year revenue growth, reflecting our ongoing efforts to strengthen our core operations and adapt to the evolving market landscape.

BEC has shown solid momentum, with topline returning to growth after ten consecutive quarters of year-over-year contraction. We are encouraged to see a turning point that highlights our effective revitalization efforts in both services and product sales. Notably, we successfully integrated Location, a top Douyin partner, into Baozun's livestreaming business unit. This is a strategic breakthrough as it strengthens our position within the Douyin ecosystem and further enhances our omni-channel value proposition.

BBM is narrowing its losses while accelerating its store expansion and fine-tuning the unit economics of new stores. We are seeing better performance from our new stores, which gives us confidence in further expansion in these markets. This progress was achieved despite the topline pressures BBM faced from cautious consumer sentiment. Additionally, in light of Gap's strong global trend, we have deepened our interactions with Gap Inc, and developed plans to better leverage this trend and its global resources. Our aim is to balance these resources with our localization efforts to drive growth.

This quarter, Baozun Technology has once again been recognized for excellence, receiving another prestigious Gartner award in Direct-to-Consumer solutions. Tailored for the Chinese market, our DTC solutions offer a comprehensive commerce platform that is secure, scalable,

and flexible. This award underscores our ability to build innovative solutions for brands' private domains, empowering their further growth.

On the ESG front, we continue to advance our commitment to sustainability. During the quarter, two of our logistic parks were certified as carbon-neutral, and we also partnered with Nike on an innovative shoe recycling program. Through these efforts, we are not only reducing our carbon footprint but also setting industry standards and making a positive contribution to environmental protection.

With the improving momentum in e-commerce and a continued focus on strengthening BBM's fundamentals, we remain fully committed to our strategic transformation. Looking ahead, we are confident in our ability to drive further growth and deliver long-term value to our stakeholders.

Now let me pass this to Catherine for financial update.

Catherine Zhu: Thanks, Vincent, and hello everyone.

Now let me share with you our second quarter 2024 financial results in more detail.

Please turn to slide #3. Baozun Group's total net revenues increased by 3% year-over-year to 2.4 billion. Of this, E-Commerce revenue contributed 2.1 billion, while Brand Management generated 294 million.

Breaking down the E-Commerce revenue by business model, services revenue increased by 10% to 1.6 billion in the quarter. This growth was primarily driven by double-digit year-over-year increases in revenue from store operations in the apparel and accessories category, as well as from digital marketing and IT solutions.

BEC product sales revenue continued to show progress, with year-over-year contraction narrowing by 4% to 579 million. With the business optimization nearly complete and the ramp-up of our newly introduced exclusive distribution business, we are on track to return to growth in our BEC product sales in the second half of 2024.

BBM product sales totaled 292 million for the quarter, a year-over-year decline of 10% compared with the same period of last year. The contraction was mainly due to weaker consumption sentiment in the fashion apparel industry, and Ken will elaborate more later.

Please turn to slide #4. From a profitability perspective, our gross margin for e-commerce product sales was 11.7% for the quarter. The decrease in gross margin for e-commerce product sales was mainly due to a change in category mix and a higher proportion of cash rebate from brand partners, compared with more weight on procurement rebates in the same period of last year. Gross margin for BBM totaled 52.3%, while our group's blended gross margin for product sales was 25.3%.

Now to bottom line items, please turn to slide #5:

During the quarter, our adjusted income from operations totaled 10 million, compared with 1 million a year ago. This included an adjusted operating profit of 60 million from the E-Commerce segment, and a reduced operating loss of 50 million from BBM.

As of June 30, 2024, we maintained a steady balance in cash and cash equivalents, restricted cash, and short-term investments, totaling 2.9 billion, in line with the balance in the previous quarter.

Lastly, we continue to execute our share repurchase program. Year to date, we have repurchased approximately 2 million ADSs for 4.9 million US dollars through the open market, reflecting our confidence in the company's future. As of today, the remaining amount of Board authorization for our share repurchase program, which is effective through January 2025, stands at 15 million US dollars.

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 review the BEC business performance for the second quarter of 2024. Please turn to slide #6:

Despite the challenging macroeconomic environment and slowing down of e-commerce growth in China, BEC delivered good results in the second quarter this year. Total revenue growth turned positive for the first time since 2022, increasing by 6% year-on-year. This growth was primarily driven by a strong performance in our service business during the 618 campaign and stabilization of our product sales business.

In the second quarter, BEC's service business grew by 10%, driven by strong performances across key categories of Sports and Fashion apparel. Notably, during the 618 Shopping Festival, traditional marketplaces such as Tmall resumed growth, with especially strong momentum in outdoor and sportswear. As a result, BEC achieved double-digit GMV growth for all the brands we operate during the campaign, significantly outpacing overall market performance.

In terms of the channel performance, Douyin experienced exceptional growth this quarter following the successful integration of our newly acquired Location business, now contributing over 5% of our BEC revenue with triple-digit year-over-year growth. Little Red Book related revenue also achieved a triple-digit growth from a low base, showing good potential to become another growth driver for BEC. We believe that these two live streaming and content-based EC platforms not only provide brands with a new sales channel but also allow them to conduct more effective brand marketing to build their brand image.

In addition to our offerings on Douyin and Little Red Book, we further enhanced our services in digital marketing, IT system and logistics, underpinned by our recent investment in data and technology. During the quarter, we engaged with a large FMCG client to revamp its Order Management System and upgraded its customer service platform for Tmall. In terms of Logistics, we onboarded a world's leading outdoor brand to provide a comprehensive B2B logistics and warehousing solution in China.

Our expansion of service capabilities helps us to extend and strengthen our relationship with existing clients and provides us with a competitive edge when acquiring new clients. As a result, our new business development efforts delivered strong performance with over 30 new wins this quarter. Our existing client renewal rates reached a historical high at 95% in the first half of this year, ensuring our future revenue stability and potential growth.

Now let's turn to product sales business. During the quarter, BEC's product sales business has reached the end of our rationalization process, with only a single-digit decline year-on-year. The revenue was impacted by weak performance of the Small Appliances and Electronics category during the 618 campaign, which was offset by strong performances in the Beauty and Health Categories. We also continued to add new brands under the exclusive distribution model, where we enjoy a higher gross margin with full control over sales and marketing activities. This quarter, we signed an agreement with the UK kitchenware brand Joseph & Joseph to become their exclusive distributor in China. Overall, our exclusive distribution brands have achieved good momentum in their initial phase, and we anticipate further improvement in revenue and profitability following the ramp-up period.

Lastly, to enhance bottom-line performance, we continue to drive cost optimization and efficiency improvements through lean and Six Sigma projects. This quarter, we rolled out Six Sigma training to more frontline staff, combined with upgrading our lean operation system and increasing the adoption of AIGC tools. We also completed a project to integrate our business processes, systems, and operations among our group companies, including the integration of the newly acquired Location business. In 2024, we expect to complete over 100 lean and Six Sigma efficiency projects, which are projected to deliver a financial benefit of more than 20 million.

In the first half of this year, we continued our strategic plan to turn around the BEC business and successfully delivered financial performance in line with our expectations. We are confident that this strategy will help us achieve our full-year target and transform the BEC business back to growth in a sustainable and profitable manner.

Now, I will pass to Ken for an update on BBM.

Ken Huang: Thank you, team, and thank you all. It is my great pleasure to speak with you.

Please turn to slide #7 for additional updates on BBM. During the second quarter, weak consumption sentiment led to a double-digit decline in retail traffic, particularly in the fashion apparel segment. Despite the headwinds, we advanced our localization strategies by fine-tuning the customer experience, improving conversion rates, and expanding our offline network. We also implemented cost optimization initiatives to further reduce expenses. As a result of these efforts, we were able to narrow BBM's total revenue to a 9% year-over-year decline and achieved a 17% year-over-year improvement in our adjusted operating loss for the quarter.

In the 18 months since taking over Gap China operations, we have embarked on a strategy to move away from perpetual discounts by enhancing product design, segmentation, and supply chain efficiency. This quarter, we enriched our core categories, such as T-shirt, by introducing functional features such as Quick Dry, Cooling and Sweat Absorption. Overall, despite the weak consumption environment, we maintained a healthy gross margin of 52.3% for the quarter.

We also accelerated the pace of our offline network expansion by opening 9 new stores, resulting in a net increase of 2 stores and bringing our total to 126 stores. In addition to opening new locations in tier-one cities such as Shanghai and Guangzhou, we also entered several new tier-one and tier-two cities, including Changsha, Xi'an, Shenyang, and Guiyang.

Leveraging insights gained from traffic and consumer feedback, we have continued to refine our new store experience and site selection tactics. We focused on “quality” neighborhood locations and high-traffic areas, with an average new store size of 500-600 square meters and higher store inventory capacity to increase sales efficiency. Additionally, we introduced an expansion strategy in collaboration with local partners in second-tier cities, allowing us to leverage local resources and enhance investment efficiency for further expansion.

The new store openings have exceeded our expectations. It is encouraging that the new stores in Guiyang Dolphin Plaza and Shenyang Joy City are generating unit sales and profits higher than average. The early success of these stores also boosts our confidence in the market potential of these emerging locations.

We aim to continue strengthening our presence, tapping into new markets, and capitalizing on emerging growth opportunities. Overall, we are on track with our target to open more than 50 stores for full year 2024. After accounting for our proactive optimization and the natural retirement of some existing leases, this expansion will increase our offline network by more than 5% in space footage compared to the end of last year.

Recently, we have also deepened our interactions with Gap Inc and developed plans to better leverage the brand’s upward trend and global resources across product development, supply chain, merchandising and marketing. Both sides see positive long-term opportunities for casual style in China, and we aim to closely collaborate to balance our localization efforts with Gap’s global themes. Our store displays now emphasize categories and stylish outfits to create leisure themes, highlighting Gap’s three key categories: Denim, Khakis, and Sweatshirts.

I’m happy to report that despite the current macro challenges, our fine-tuning initiatives have led to positive sales growth in August. With improved customer experience and growing contribution from new stores, we expect our topline will return to growth in the second half of 2024.

In summary, as we enter the next phase of our BBM journey, our focus has expanded to include top-line growth while safeguarding margins. Although we have observed a slower recovery in consumer sentiment, we remain committed to executing our strategic plans. Our goal is to build a profitable business that appeals to mass-market families in China by delivering localized products that align with GAP DNA of casual and quality. We invite you to follow our progress.

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

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Thomas Chong with Jefferies.

Thomas Chong: My question is about the recent consumer sentiment and expectations for the Tmall and the non-Tmall. So how do we see the competition of e-commerce segment in the second half of the year? And any thoughts on the upcoming Double 11?

Arthur Yu: Okay. Thank you for the question. And I think first of all, from the first half of the year, we have seen a recovery in terms of the Tmall growth, compared with last year. Although Douyin's growth rate is slowing down, but it still has double-digit growth. And we think this trend will continue through to the second half of the year. And another trend we have seen is the emergence of the true omnichannel operation for e-commerce. So for example, some potential channels like the Little Red Book or Kuaishou, they all attract more attention from the brand. And a big proportion of our brand is operating on a full channel basis online, instead of one single channel.

For Double 11, what we anticipate is the Double 11 will start earlier than last year, and the duration will be longer, based on our experience in the 618. And also the planning is becoming more complex, which creates a value-added opportunity for Baozun to help our brand partner to be successful. So internally, we have already started the planning process for Double 11, and we think with our help, we can replicate the good performance we have delivered in 618.

Thomas Chong: Thank you.

Operator: Jarvis Yin from CITIC.

Jarvis Ying: Congrats on the solid quarter, and I have two questions. The first is that recently, we have seen some e-commerce platforms shifted from price competition to GMV growth. Does this trend influence the advertising strategy of the brands operated by Baozun?

And my second question is that we have seen a good performance of Gap Global this year. So can management share some details about the future trend of Gap fashion design? And will Baozun consider introducing more global style?

Arthur Yu: Okay. So for the first one, in terms of returning to the GMV focus, I think that's a good opportunity for Baozun because for the large-scale brands we operate, that's good news for us, as all the platform, especially Tmall, now give more attention to the big brand, the big international brand we operate. So we think that's a positive sign for us.

Now about the Gap, can I pass on to Ken?

Ken Huang: Yes, it's true, we also see Gap Global's performance is quite well. And we also see Gap is investing a lot on their new design products and marketing, so we do plan to increase our global adoption of Gap Global products, but we will do it season-by-season based on the market feedback, so to make sure our strategy change will have a positive impact to our financials.

So I think it includes three parts. First is, we will adopt Gap's Global products, which is successfully launched in the global market, and which also has a very good cost. And the second is, we will adopt their designs by the use of localized fabrics, fittings and details such as color trend in order to meet Chinese customers' needs. And the third one is we will continue to expand our self-development on some special categories, and also in local IT collaborations, able to maximize our self-designed product sales potential. Thank you.

Jarvis Yin: Thank you.

Operator: Wan Jiao with CICC.

Wan Jiao: I have two questions. The first one is we have observed that you have been engaged in share repurchase in the recent quarters. Could you please share your outlook on the future share repurchase and long-term plans for shareholder returns?

My second question is could you please share some new changes in the services provided to foreign partners, such as the progress of creative content e-commerce?

Vincent Qiu: Thank you for your question. This is Vincent, I'll take the first one, and then Arthur will answer the second question. Yes, we are continuing doing the share repurchase. And in the visible future, we will maintain this pace and trying to secure and give a good chance for the investors for their benefits. And in the future, of course, the shareholders' benefit is also very important for us.

So not only the share purchase, but other things, like we will strive for better performance of each category of our business, and try to turn around the whole business to positive this year, and also the BBM holistically next year. So all this, we think, are very essential parts of our shareholder returns. And also we also will develop a synergy between the business units. Like BBM and also BEC are trying to innovatively deliver some new services and solutions for existing over 400 clients to create new value for them in the future. So that is basically our thoughts in delivering good return for shareholders.

Arthur Yu: Okay. For the second one, as you have seen, we delivered a 10% year-over-year growth on the service revenue. And that's what underpins mainly by improving the service quality and also expanding the service scope we're providing to our clients. So as you mentioned, the client is moving to an omnichannel kind of model at the moment. And Baozun with our data and technology, we can provide a true omni-channel solution, including all the different channels and how to operate on those channels.

And that is greatly appreciated by our clients, especially at the current moment, the increasing competition from all the channels makes the e-commerce landscape very complex. And our clients need us to help them through the service to drive the sales online.

In terms of the creative content parts of the business, for this quarter, we have successfully integrated Location business, which we recently acquired. And the outcome is very good because we combined the creativity and the innovation of a small entrepreneurial business, like Location, with the very efficient foundation of Baozun Group as a whole to really unleash the potential of

the Location business. And that part of the business has grown triple-digits during this quarter, and our outlook is very strong on that part.

Operator: (Operator Instructions). Alicia Yap with Citi.

Alicia Yap: Two questions -- first is can management comment and share if there's any of these reasons, intensify competitive landscape among the e-commerce player in China might have affected, or even benefited, Baozun given our relatively more diversified exposure to both the Tmall and the non-Tmall channels?

And then second question is can management also share your view in terms of some of the latest consumption trend into the second half? Especially wondering if you have seen the improvement in the Gap offline store traffic? And then for your online business based on your conversation with the brands, just wondering how do you expect your digital marketing solution revenue and the warehousing business might trend in the second half?

Arthur Yu: Okay. Thank you, Alicia, it's Arthur. I will take the first half of the question, and then I pass on to Ken to comment on the Gap part. I think it's a good question in terms of the intensified competition landscape impact. I would say intensification definitely will lead to some issues like higher return rates and more discounts being offered. On the other hand, those change and competition has definitely offered an opportunity for Baozun, and I think the impact is more positive than negative for a few reasons.

Number one, I think the omni-channel capability for Baozun is our strength, and it's supported by our investment into the technology over the last 10 years. And that competitive advantage is very difficult to be replicated by our competitor. So that's we believe under this kind of situation, we will stand out as a good company to offer a good service to our client.

And secondly, given the different EC platforms start to compete with each other, and they introduce a lot of new rules and new ways of operating, the advisory role of Baozun is becoming more important to our client. And we can use this opportunity to work more closely with our clients to define their overall EC strategy instead of just to be an operator for one single channel.

And thirdly, this also strengthens Baozun's position in the middle of the brand and platform. And in the first half of the year, we have been approached by quite a few of the EC platform who wants to collaborate with Baozun to innovate together for the client. They would like to know what the clients really need, and given the more than 400 clients we've been dealing with, that gave us a good position to work closely with the platform to innovate together. So because of this, I think the competition is definitely creating a lot of challenges, but I think there's more opportunity for Baozun. Thank you.

Ken Huang: Okay. For the traffic question, actually, it's improving, especially in August. We are going to have sales YoY increase in August, and we also expect for the second half, we will have a YoY increase in the Gap sales. I think talking about this traffic question, I think it's quite different in different cities, different malls, and all the destination neighborhood stores. So I see the opportunity to Gap because compared to other competitors, Gap still has big room and flexibility to optimize our channels.

So we will continue to take advantage of this opportunity in the second half to optimize our store locations, and make sure we're opening our new stores in good locations with good traffic, and also help our sales growth in the next year. Thank you.

Operator: Jack Hou with Huatai Securities.

Jack Hou: I have a question also regarding the competition. So with intensified competition in e-commerce sector, we have seen e-commerce platforms are continuously paying efforts on merchants' support and efficiency improvement. For example, the launch of marketing tools of Quanzhantui on almost all e-commerce platforms. So what's management's view on Baozun's core competitiveness and barrier in the next stage development?

Arthur Yu: Okay. Thank you for the question. It's Arthur here. I think there are a couple of areas we would like to build our competitive advantage. The first one is our focus on our customer, our clients. So basically, since 2022, we launched the NPS Program, the Net Promoter Score Program, with the aim to offer a good service, a stable service to our clients. And as a result, we have done a good job in terms of improving the renewal rate of our clients.

At the same time, we enhance our service offering to our customers underpinned by our investment in technology and data. So that, for me, is our whole competitiveness under the current kind of the market situation, so that's number one.

Number two is looking internally. We start to launch a lot of lean program aiming at improving our operation efficiency. That will give us a lot of competitive advantage from a cost perspective. On one hand, we offer a good service. On the other hand, that service is being offered in an affordable and good value from a financial perspective to our client. And that gave us an ability to acquire more market share under the current environment.

And finally, the third one is our recent push into the high-quality product sales business and the introduction of the exclusive distribution business model. And we believe the exclusive distribution model can give us more scope to operate and to leverage our strength in terms of e-commerce and marketing and digital. And we would like to operate as a digital enhanced distributor for the global brand in China. And given the current situation in the market, we believe this will be another driver for our business.

Jack Hou: Thank you.

Operator: Joanna Ma with CMBI.

Joanna Ma: Two questions here. The first one is about can management share some updates on your observation of community consumption trend and your outlook for the second half? Will there be any adjustments on our business strategy related to this?

And another question is for our BBM business. How should we think about the loss reduction trajectory amid the current macro backdrop? And regarding the long-term growth strategy, can management share with us your investment plan or key priorities on investment to drive for long-term growth?

Arthur Yu: Okay. I will answer the first one and I will pass on to Ken to comment on the second one. I think the first one in terms of the trend for the quarter consumption, the overall trend is still weak due to the cautious the spending by the overall consumers, and also that is being impacted by the wider macroeconomic environment.

Having said that, I think when we're looking at the 618 performance, the brands we supported to carefully planning the campaign, and can also still a good growth momentum. So for example, the brands we operated during the 618 has delivered a double-digit growth year-over-year. So even though the market is a little bit soft, but if we do well, we can still find opportunity to grow.

Ken Huang: Okay. So the second question, regarding the current macro backdrop, I think from our point of view, we see actually an opportunity for Gap's business because Gap is targeting mass market. And currently, we see the mass market trend is still okay. And as mentioned before, it's also an opportunity for us to optimize our channels, our stores. So on one hand, we will continue to keep our cost optimization actions.

And on the other hand, we will still continue to improve our products, including adopting more products from Gap Global's successful experiences, and invest our brands in new tier-one and the second-tier cities to boost our sales in our target market and the target audience. So we are optimistic on our progress of Gap's financial targets, 3 years business plan.

Vincent Qiu: For the long-term strategy and also the investment thoughts, this is Vincent to share some of our thoughts. And despite the challenge from the macro economy, I think based on solid efforts, our long-term growth will be driven by three things. First is the BEC's growth and then BBM's growth, and then synergy in between. So we are happy to see that although the environment is very challenging, but the BEC in the first half already turned back to growth. It's a very happy thing to see. And then we see that BBM here is also very confident to be back on track on growth for the second half of the year. So it's a very good thing to see.

And for the key priorities for investment, I think there are several keywords. First one will be cautious because we need to make Gap and Hunter the acquired brands to be very successful. And then the macro economy is not very optimistic, in a visible second half of this year, so we need to be cautious. Second, cautious doesn't mean do nothing. We're still looking for good opportunities. We will do it with caution, that is the second one. And the third thought will be we need to maintain a very healthy financial position of Baozun as a group because this is very important in today's environment. And the number four is that we need to have a very strong capability because when we want to invest, we need the financial resources, but we also need a very strong team to integrate the target business into our core business, just like we did successfully for Location integration.

So that is the key ideas when we think about the long-term growth and also investment strategies. Thank you.

Operator: This 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 Baozun management team, we would 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.