

**Baozun Inc. (BZUN)**  
**Q3 2024 Earnings Conference Call**  
**November 21, 2024 at 06:30 AM ET.**

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, Baozun Brand Management

Analysts

Alicia Yap, Citi  
Frank Tao, CMBI  
Thomas Chong, Jefferies  
Jiawei Yin, CITIC Securities  
Jack Hou, Huatai Securities

**Presentation**

Operator: Good morning ladies and gentlemen, and thank you for standing by for Baozun's third quarter 2024 earnings conference call. At this time, all participants are in listen-only mode. After the 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 2024 earnings release was distributed earlier before this call, and is available on our IR website at [ir.baozun.com](http://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 report that Baozun is well on track with advancing our strategic transformation. Our total revenues grew by 13% year-over-year, reflecting the strength of our revitalized approach and consistent operational alignment. Both BEC and BBM have enhanced key growth drivers.

BEC achieved a 14% revenue increase, driven by improvements in both the services and product sales. Notably, the Douyin business grew by triple-digit year-over-year, directly resulting from our strategic integration with Location and our commitment to launching innovations that capitalize on emerging trends. These initiatives have strengthened our presence on Douyin, further reinforcing Baozun's leadership in digital commerce.

BBM has also resumed growth with a 10% year-over-year increase—the first apple-to-apple revenue expansion since our acquisition, and, in fact, following years of top line contraction for the Gap brand in China. Our efforts to build partnerships have been instrumental in integrating global resources with local insights and networks, and we anticipate sustained topline growth momentum in 2025.

Hunter has also made solid progress as we continue refining product categories and optimizing our channel network. This momentum was highlighted by the recent launch of a pop-up store in Shanghai's high-fashion district, Zhangyuan. The opening generated remarkable attention during Golden Week, attracting widespread visibility that drives traffic and sales. These initiatives bolster Hunter's brand equity and further underscore our brand management capabilities and localization of brand appeal.

In summary, Q3 has been a pivotal quarter of growth and progress across our business segments. I am confident about sustaining this momentum.

Now let me pass to Catherine for financial update.

Catherine Zhu: Thanks, Vincent, and hello everyone.

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

Please turn to slide #3. Baozun Group's total net revenues increased by 13% year-over-year to 2.1 billion. Of this, E-Commerce revenue grew 14% to 1.8 billion, while Brand Management revenue grew 10% to 331 million.

Breaking down the E-Commerce revenue by business model, services revenue increased by 15% to 1.3 billion for the quarter. This growth was primarily driven by a 40% year-over-year increase in revenue from digital marketing and IT solutions, as well as improved performance in emerging channels, such as Douyin and Tencent Mini-programs.

BEC product sales revenue resumed growth for the first time since the launch of our transformation plan, rising 10% year-over-year to 454 million. This growth was mainly driven by stronger performance in the Beauty and Cosmetics categories, along with increased contributions from our self-incubated brands and those under the exclusive distribution business model.

BBM product sales totaled 330 million for the quarter, reflecting a 11% year-over-year growth compared with the same period of last year. This growth was mainly attributable to our product segmentations and merchandising plans.

Please turn to slide #4. From a profitability perspective, our blended gross margin at the group level for product sales was 28.1%, and gross profits increased by 2% to 220 million.

Breaking this down by our key business lines:

Gross margin for e-commerce product sales was 10.2% for the quarter. The decrease in gross margin for e-commerce product sales was mainly due to a higher proportion of promotional rebates--mostly cash rebates from brand partners--compared to the greater proportion of procurement rebates in the same period of last year. On a like-for-like comparison basis, gross margin for e-commerce expanded by approximately 500 basis points from the same period of last year. Gross margin for BBM was 52.9%, relatively flat compared to the previous quarter.

Now, turning to bottom-line items, please refer to slide #5:

During the quarter, our adjusted loss from operations totaled 85 million, an improvement of 5 million from a loss of 90 million a year ago. This included an adjusted operating loss of 30 million from the E-Commerce segment, an improvement of 10 million compared with 40 million in the same period of last year. BBM's adjusted operating loss totaled 55 million, compared to 50 million in the same period of last year.

Our adjusted net loss attributable to shareholders for the quarter was 67 million, an improvement of 12.5% year-over-year from 76 million in the same period of last year. As of September 30,

2024, our cash and cash equivalents, restricted cash, and short-term investments totaled 2.7 billion.

Lastly, we continue to execute our share repurchase program. Year-to-date, we have repurchased approximately 3.6 million ADSs for 9.9 million US dollars through the open market, reflecting our confidence in the company's future. Please note that our stock repurchase program must adhere to applicable US and Hong Kong statutes and regulations, as well as compliance requirements of NASDAQ and the Hong Kong Stock Exchange, including, but not limited to, daily trading volume, trading windows and impact on management's voting rights. Year to date, we have repurchased approximately 6% of our total shares outstanding at the beginning of the year. As of today, the remaining amount of shares, as authorized by our Board for our share repurchase program, effective through January 2025, is 10 million US dollars.

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

Arthur Yu: Okay. Thank you, Vincent and Catherine, and hello, everyone. We are glad to report that BEC continued its growth in Quarter 3, achieving a 14% year-over-year revenue increase. Our services revenue further accelerated its upward trend and grew 15% year-over-year. Product sales also made a notable recovery to achieve a 10% year-over-year growth following years of contraction. We believe the improving top line momentum reflects the progress of our strategy to transform BEC business toward a healthier, more diversified, and resilient model.

Now, please turn to Slide #6 for operational highlights on services. Our core categories, including Apparel and Luxury, displayed consistent growth, setting a solid foundation for services revenues. Our brand partners are actively engaging with us on creative content and omnichannel marketing to boost brand awareness online. Our continued innovations in digital marketing have earned us prestigious industry recognition, including the top-notch award of Best E-commerce Agency of the Year at the recent ROI Festival.

In terms of omnichannel expansion, our Douyin business achieved triple-digit growth year-over-year. We focused on brand-centric livestreaming and delivered several high-impact projects. These included a branding live stream for a leading luxury automotive brand and a sales-driven live stream for an international theme park brand. In addition, we hosted multiple high-profile fashion show live streams, significantly enhancing both brand visibility and sales conversions for our brand partners.

Beyond Douyin, we also recorded high growth on emerging platforms like Tencent's mini-program and Little Red Book. As a RED Partner on Little Red Book, we have made it a strategic focal point, and will continue to upgrade operations and marketing services to drive substantial growth for clients on this rising content-driven platform.

Now, turning to product sales as highlighted on Slide #7. The growth turnaround in product sales was mainly driven by our efforts in prioritizing high-quality business lines, and the completion of optimization of low-margin projects in previous quarters. Categories such as Beauty and Cosmetics, Kids & Baby, and Home & Furnishing achieved strong double-digit growth. We also expanded our category matrix with new initiatives in Apparel and Trendy Toys, further strengthening our diversification and business resilience.

Regarding our exclusive distribution business, we are focusing on channel expansion and brand marketing. Among the brands we operate, the British high-end kitchenware brand Joseph & Joseph sales performance this quarter far exceeded our expectations. We anticipate continued top line growth and improved profitability for our product sales business in the coming quarters.

In addition to building a healthy top line growth, we also implemented efficiency-enhancing measures through the application of AIGC tools. During the quarter, we launched our intelligent customer service assistant, S-Whiz, to quickly understand and respond to consumer needs, delivering personalized, high-quality service.

Finally, let me provide a quick update on the recent Double 11 shopping festival. Our total order value reached a record high with double-digit year-over-year growth. Among all brand partners who participated in the campaign, more than half achieved year-over-year growth, and 20% of the brands more than doubled their gross sales.

Across channels, including Tmall, JD, Douyin and the VIPshop, we achieved double-digit growth. While the recent double-11 was encouraging, the record-high return rate also dragged down overall operating efficiency. As we headed into Quarter 4, we remain cautious due to persistent macroeconomic pressures and a slower-than-expected consumer recovery. We are committed to helping brands succeed in the competitive market in China.

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

Ken Huang: Thank you, team, and thank you all. Please turn to slide #8 for additional insights into BBM's progress through Q3.

I'm pleased to report that BBM achieved a 10% year-over-year revenue growth, marking the first topline turnaround for GAP in recent years on an apple-to-apple basis. More encouragingly, Q3 demonstrated steady sales momentum, with sequential improvements from July through September. This growth reflects the early success of our strategic initiatives, despite ongoing macro challenges.

Close collaboration with GAP Inc.'s global resources remain central to our development plan. This close partnership enables us to tailor products to local preferences while preserving global brand integrity. We also incorporated global campaigns, such as "Get LOOSE" for regional appeal, to create a seamless and satisfying experience for our customers.

We continue to optimize planning and execution across design and supply chains to enhance efficiency and consistency from concept to delivery, ensuring better alignment of product availability with demand. During the quarter, we introduced channel-specific exclusive products and implemented a more strategic pricing rhythm aligned with the product lifecycle. On Douyin, in particular, we participated in the Super Brand Show for both Adult and Kids & Baby, which drove the channel to account for over 40% of our online sales for the quarter. We expect exclusive products to continue being a major driver of our online sales in the coming months. This approach enabled us to achieve higher conversions while maintaining stable gross margins.

In Q3, we opened 24 new stores, including high-performing stores such as Urumqi, Xi'an, Shaoxing, as well as Beijing and Shanghai. These new stores delivered strong conversion rates,

healthy gross margins and impressive monthly productivity in terms of sales per square meter. As mentioned in our previous communication, we continue to fine-tune our new store opening philosophy to maximize store productivity while capitalizing on opportunities in emerging markets. Additionally, we have enriched the shopping environment to be family-friendly and enjoyable for all ages.

Going forward, our expansion strategy will focus on “quality” locations—high-traffic neighborhood areas in emerging cities. At the same time, we are leveraging local partnerships in new tier-one and tier-two cities to ensure that new openings align with market demand and long-term potential. We believe collaborating with strong local partners will not only enhance our success but also mitigate market risks. A recent nationwide roadshow with existing and potential landlords and franchise partners highlighted their increased confidence and commitment to the brand’s growth. They expressed appreciation for GAP’s consistent brand identity and our flexibility in localizing products and operations.

We are on track to meet our annual target of 50 new stores, increasing total store footage year-over-year by the end of 2024. Additionally, we opened two new Hunter stores, one in Shanghai and one in Singapore, bringing the total number of offline stores to 146 under our management by the end of Q3.

In summary, despite the challenges of a gradual consumer recovery, we remain disciplined in our strategic direction. Our focus on localized engagement, coupled with GAP’s global brand strength, positions us well to expand our footprint, drive topline growth, and maintain healthy gross margins.

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). Alicia Yap with Citigroup.

Alicia Yap: Congratulations on the solid results. I have two questions. First is that can management elaborate the overall performance during this year's Singles' days? Specifically, which category performed better than your expectation? And which category performing slightly worse than your expectation? And then how is your Gap China sales during the Singles' days? Also wondering if there's any differentiated shopping behavior that you observed this year compared to the previous year.

And then second question is related to your advertising tool. So with more platforms are rolling out the AI advertising tool. So how will Baozun actually embrace the AI technology to capture even bigger opportunity? So have you seen, or do you anticipate, there could be more smaller

brands, especially the domestic brands, might be more eager or need to seek help from Baozun on helping them to do the better targeting digital ad campaign in the future.

Arthur Yu: Hi, Alicia, this is Arthur. Thank you for the question. Let me provide some answers for the two questions. The first one regarding the performance of the Singles' day for this year, I think we delivered actually a solid performance from our own perspective. So basically the categories which are our strengths, like the apparel, sports and luxury, all performed pretty well during the Double 11 campaign. The ones which are not meeting our expectation are the small appliance and also travel, which is the hotel and theme park, which are slightly below our expectations. The key character for this year is actually for Baozun it is a true omnichannel Double 11. So basically, as I mentioned earlier, all the major channels under us has shown a double-digit growth, which means our business model is towards more an omnichannel business model.

And also, there is a character which we have seen is the period of Double 11 has become longer and also, the return rate and cancellation rate has been higher. So this giving the campaign period more challenging, but the service provider like Baozun actually stand out during this period because our service capability and also our infrastructure and IT provides a stable service to the brand which they really like. So this is what I would like to further comment on Double 11.

Regarding to AIGC, we actually started to apply AIGC technology to our business operation a couple of years ago. And from our perspective, AI will help the business from two aspects. Number one is improve the efficiency. As I mentioned in the prepared notes, so in this quarter, we successfully adopted a new tool called S-Whiz, which is helping our customer service agent to simplify the way they do work, improving the service quality at the same time, reducing the average lead time for each of the operations. So this is one. And the second thing the AI can help our operation is to give a better informed decision-making tool to our brand. And from Baozun, we recently pushed out what we call Baozun Business Intelligence, which are helping the brand to collect and analyze the market data to inform them with a better merchandising and planning strategy. So those are how we apply AIGC tools in the day-to-day operations. And we have seen the good results from those.

Alicia Yap: Thank you.

Wendy Sun: Maybe Ken can address the Gap-related question.

Ken Huang: Yes, and for the sales of Gap performance on Double 11, I can explain, and the final ranking in mass apparel on T-Mall actually increased three positions compared to last year. The sales on both GMV and net sales increased by double-digits and this performance is not only on T-Mall platform. This year, we even performed stronger on JD and the other platforms. So in total, we are satisfied with our performance of Gap sales on Double 11. Thank you.

Alicia Yap: Thank you.

Operator: Frank Tao with CMBI.

Frank Tao: I have a question regarding your business operating strategy. We've noticed a slowdown trend in the GMV growth rate of livestreaming e-commerce platforms this year. And I

would like to ask, how does management see this trend? And will there be some adjustment to your business operating strategy in the coming quarters?

Arthur Yu: Okay. Thank you. This is Arthur. I will comment and then maybe Vincent can add more if it is required. So basically from my point of view, as I mentioned, we are already omnichannel operations. So the trends in the different channels will not fundamentally change our operations because what we are now offering the service and solution to our brand is to helping them to better planning which EC platform should they put more resources and advertise going forward to do the e-commerce business. And based on that, we have developed a lot of tools and a lot of the analysis to help them make a decision in terms of how to decide where to put results onto. So this is the first one. And second one, given our stronghold is on T-Mall, and during this year's Double 11 and 618, we have seen a strong recovery in terms of the overall T-Mall performance. That is also a good sign, which is helping us to drive our business forward.

Vincent Qiu: Yes, this is Vincent. So right now, our capability is already established across all the channels and all the service components. That means that we have the capability to deliver services to each of the platforms, no matter if it's a streaming commerce or not. And also, so we support all the channels and just as Arthur mentioned, our business intelligence right now can have a close look of all the channels dynamics, and tell us a little about the future trends, so we can allocate resources, depends on the judgment for the future potential of each of the platforms to get a better result. Thank you.

Frank Tao: Thank you.

Operator: Thomas Chong with Jefferies.

Thomas Chong: So I have two questions. My first question is about so how is the monthly sales performance in recent months post-Double 11? And my second question is how should we think about the outlook for categories like luxury, apparel, FMCG, and consumer electronics appliance?

Arthur Yu: Okay. Thank you for the question. I think given this year's Double 11, there's a lot of heavy promotion and big discounts given by all the platforms. Post-Double 11, we have seen softening sales from all categories, but with the weather getting colder, especially for the apparel category, we hope there will be a recovery in terms of the sales going into the December. So this is the overall.

In terms of the luxury, apparel, and FMCG, those categories, I think overall, we have seen the growth rate being flat year-over-year and our outlook into the next year is relatively cautious. Having said that, I think what Baozun has been doing is to be able to provide a high-quality service for the brand partners we operate.

Given the current market condition, all the brand partners are starting to put a lot of emphasis in terms of their infrastructure and capability building, which means they like the partners like Baozun who has a very good capability across all the omnichannel, which become a partner to help them to make a decision in terms of how to drive the business forward. And we think even though the overall market outlook is relatively cautious, but under this market, there are huge opportunity for Baozun to operate and to succeed.



Thomas Chong: Thank you.

Operator: (Operator Instructions). Jiawei Yin with CITIC Securities.

Jiawei Yin: Congrats on the solid quarter, and I have two questions. The first is that JD.com has also invested a lot in the clothing category for this year's Double 11 campaign and the growth rate is also very impressive. So how is Baozun's layout in this channel? And my second question is that we have seen many media reported that the return rate of the Ralph Lauren brand is very high. So what are Baozun's comments on this? And has there been a significant increase in consumer return rates, especially in the clothing category for the brands operated by Baozun?

Arthur Yu: Okay. Thank you for the question. This is Arthur. Yes, we have also seen a good performance from JD platform. And Baozun has been working very closely with JD as their strategic partner to drive the growth of the apparel and sports category. And in 2023 and 2024, we have been voted as the most high-level strategic partner "Jing Zhuo Yue" partner, which means we have achieved a result they think we are a good partner to them.

So basically, from performance-wise, our Gap brand is one of the top-performing brands in JD. And also from a luxury brand perspective, top-10 brands operating in JD, 5 of them are operated by Baozun. So this means how we help JD to push that forward. But having said that, overall size in terms of the apparel and sports category on JD is still very small, compared with T-Mall, which represents a huge opportunity for Baozun to further succeed in this platform.

Now turning to Ralph Lauren, so we also noticed the news about the high return and cancellation for Ralph Lauren. We are very sorry to see that, but we are not in a position to comment. This is our brand business, but what I can share with you is how we help Ralph Lauren to smooth the negative impact in terms of the cancellation. Because we operate the technology in terms of e-commerce for Ralph Lauren, and during the Double 11 period, once there is a cancellation, our system can help the Ralph Lauren business to put the product back onto the shelf within a very short period, sometimes only within a couple of minutes, which means even though there is a high cancellation rate, but the impact to the brand is very minimal.

So as a result, the cancellation rate is very high, but the impact to the business is minimized to the levels which are not impacting business hugely. And what I can share with you is the net GMV target on Ralph Lauren for Baozun, we have exceeded that target, and also the brand are happy with our service.

In terms of the overall apparel, high return and cancellation is still an issue. Even though we tried from an operation perspective to solve that problem, but still from this year's overall performance, we still see a high-single-digit increase in terms of the return and cancellation rate overall. I hope that answers your question.

Jiawei Yin: Thank you. That's very clear. And I want to ask one more question. We have seen that the output of BBM Department is quite encouraging compared to our observations for brands in apparel industry. So can management share more about the top line trends as well?

Ken Huang: For BBM, I think first is the big portion is still Gap, but Hunter is also performing very well on Q3. And for Gap, as we explained before, because our online growth in Q3 is very

encouraging, especially our performance on Douyin Super Brand Show, as well as our product and commercial strategy. Like what you asked the question about JD, when a brand is facing the different platform strategies, this requires the brand to have a more flexible product strategy and also commercial strategy to be faster responsive to the platform. And this flexibility in Baozun and BBM help us to increase our online sales higher than our expectations.

And for offline, although the overall traffic is not fully recovered, but quarter-to-quarter is improving. And with our expansion into the new tier-one and the tier-two cities and the new stores performance, especially the sales per square meters also help us to increase our sales performance. I hope this answers your questions. Thank you.

Jiawei Yin: Very clear, thank you.

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

Jack Hou: Congratulations on the solid results, and I have two questions for you. The first one is about with this year, Double 11 promotion, maybe we saw a slightly warming consumption sentiment versus third quarter. We all know Baozun operates many brands and many categories. So how does Baozun expect the consumption trend and opportunities in the next year? And I have a follow-up on our outlook for next year as well as we're approaching the end of this year. Could management share some color on our outlook for next year, maybe on top line and the margin?

Arthur Yu: Okay. Thank you. I will take the first question. For the second one, maybe Vincent and Catherine can add on in terms of outlook for Baozun. So the first one in terms of the outlook for consumption, we think for next year, the overall consumption will further stabilize. So after the up and downs during the Covid period, a lot of the brands have chosen to be cautious on the China market.

From a broader perspective, we have seen the brand want to spend more money in terms of building the internal capability, which we will put more emphasis on helping them to do so. And from our own perspective, we will focus more on service quality and innovation as a key to maintain our stronghold in terms of apparel, luxury, and sports. At the same time, we will use our capability in those core categories to expand into other new categories which to drive the growth. So, this is from a broader perspective.

Vincent, Catherine, do you want to comment on the outlook?

Vincent Qiu: Sure. Looking forward, we think two things. Number one is that we are seeing that more and more policies and initiatives from the government. We think this will better the economy in general. So we have a reason to be a little more optimistic for next year. And also I think most importantly, our focus will be in optimizing our operations to make our own business better. This is even more important than the others. So I think next year for us, all the aspects of the business operations, we will look into the potential seriously and make that to be realized more in 2025. Thank you.

Jack Hou: Very helpful, thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to the company 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.