THOMSON REUTERS

EDITED TRANSCRIPT

Q1 2020 Baozun Inc Earnings Call

EVENT DATE/TIME: JUNE 02, 2020 / 11:00AM GMT

CORPORATE PARTICIPANTS

Bin Lu *Baozun Inc. - CFO*
Junhua Wu *Baozun Inc. - Chief Growth Officer & Director*
Wenbin Qiu *Baozun Inc. - Chairman of the Board & CEO*
Wendy Sun *Baozun Inc. - IR Director*

CONFERENCE CALL PARTICIPANTS

Feitong Zhang *China International Capital Corporation Limited, Research Division - Associate*
Hyungwook Choi *Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap*
Ka Wai Leung *Haitong International Research Limited - VP & Sector Coordinator*
Lixin Ju *BofA Merrill Lynch, Research Division - VP & Research Analyst*
Sally Chan *CLSA Limited, Research Division - Research Analyst*
Thomas Chong *Jefferies LLC, Research Division - Equity Analyst*
Tianxiao Hou *T.H. Capital, LLC - Founder, CEO & Senior Analyst*
Wai Yan Wong *HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst*
Yik Wah Yap *Citigroup Inc, Research Division - MD & Head of Pan-Asia Internet Research*
Yuanyuan Long *Crédit Suisse AG, Research Division - Director & Co-Head of China Internet*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by for Baozun's First Quarter 2020 Earnings Conference Call. (Operator Instructions) 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, Investor Relations Director of Baozun. Please proceed, Wendy.

Wendy Sun ***Baozun Inc. - IR Director***

Thank you, operator. Hello, everyone, and thank you for joining us today. Baozun's first quarter 2020 earnings release was distributed earlier today and is available on IR's website at ir.baozun.com as well as on GlobeNewswire services.

On the call today from Baozun, we have: Mr. Vincent Qiu, Chairman and Chief Executive Officer; Mr. Junhua Wu, Chief Growth Officer; and Mr. Robin Lu, Chief Financial Officer. Mr. Qiu will review business operations and company highlights, followed by Mr. Lu, who will discuss financials and guidance. They will all be available to answer your questions during the Q&A session that follows.

Before we begin, I would like to remind you that this conference call contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 as amended and as defined in 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, performance or achievement 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. SEC. The company does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise, except as required under applicable law.

Finally, please note that unless otherwise stated, all figures mentioned during this call are in RMB. It is now my pleasure to introduce our Chairman and Chief Executive Officer, Mr. Vincent Qiu. Vincent, please go ahead.

Wenbin Qiu ***Baozun Inc. - Chairman of the Board & CEO***

Thank you, Wendy, and thank you all for joining us. The world continues to feel the impact of the COVID-19 pandemic. During this difficult time, nothing is more important than ensuring the health and the safety of you and your families. Hope you are all well and stay healthy.

Like most companies in the world, we faced a challenging macroeconomic environment at the start of 2020. Facing the challenge and taken proactive responses, we have shown great resilience and achieved another fruitful operating and financial results. While COVID-19 impacted overall consumption and the growth of e-commerce during the quarter, we mitigated the impact by optimizing and innovating our operational and marketing capabilities.

For the first quarter, both GMV and total net revenues grew by 18% year-over-year, exceeding our previous expectations. Although some brands temporarily delayed their e-commerce plans as a result of the pandemic, we continued to add many exciting new brands to our portfolio during the quarter. We were able to add a net total of 8 new brand partners, including a leading European home furnishing retailer, a few luxury brands as well as a few domestic brands in the FMCG category, which grew particularly fast during the pandemic. Meanwhile, as we deploy our high-quality growth strategy, we also made progress in optimizing our category mix and ramping up newly added brands, which continued to a notable improvement in our blended take rate for the quarter.

In contrast to the wider e-commerce industry suffering from serious logistics disruption, we were able to maintain our LSG operations, which was critical to ensuring business continuity for our brand partners and sustaining their e-commerce strategies throughout the COVID-19 period. Although these efforts led to incremental costs, the ability to offer uninterruptible services and the fulfillment capacity, even during the most challenging environment, have been immensely appreciated by our brand partners. As a result, we are pleased to be more integrated into our brand partners' supply chains and transit from a traditional e-commerce logistics partner to an O2O integrated partner that is supporting many of them in digesting offline inventory and in minimizing inventory risk.

As a digital strategy enabler, our role is not only to ensure that the brand partners are able to merchandize and fulfill orders but more critically to support them in navigating this challenging environment and driving growth opportunities. Throughout this process, we strategically enhanced our ability to revamp e-commerce and generate high-quality leads and the demand for brand partners. For example, we continued to strengthen initiatives to expand consumer touchpoints. We increased our efforts in actively engaging with users through live streaming and the leading short video social platforms, such as Douyin and Kuaishou, which consumers spend increasing amount of time on while staying at home. Meanwhile, we adjusted and optimized our operations and strategy to adapt to a stay-at-home economy, which is characterized by increased time spent indoors and the growing consumer theme for indoor entertainment, remote working and health and wellness.

Let me share with you an example. In early March, before any recovery in e-commerce traffic, we helped one leading international food and beverage chain to organize its marketing campaign built around the theme of the so-called Cherry Blossom Festival. We organized a digital cherry blossom show and hosted a campaign to allow people to express their best wishes. We are very proud to have partnered with this brand to promote their thoughtful campaign and contribute to building their digital consumer relationships. Just to quantify the results, this specific marketing campaign helped the brand owner to generate over 0.5 million viewers. It was also top-ranked by Alibaba's most successful live streaming efforts over that time period and drove an increase in conversion rate, a significant achievement that resulted in strong online sales during the pandemic.

I'm deeply proud of the great tenacity and agility our organization displayed during the pandemic, and in particular, our technological aptitude during the pandemic. Rooted on our vision, "Technology empowers future success", we have consistently focused on developing technology-driven systematic business contingency plans and innovative and tactical solutions to facilitate our brand owners' success.

Lastly, we are very encouraged by the economic recovery we have been seeing in China since March, which has further strengthened in May. We believe that the pandemic has accelerated the adoption of online retail. And our brand partners will continue to enhance and prioritize their digital go-to-market and expansion strategies. Our proven capabilities in driving innovation and digitalization have positioned us well for a post-pandemic boom in demand. We are confident in our ability to capture these mid- to long-term growth opportunities and reaffirm our commitment to driving our brand partners' e-commerce businesses to the next level.

I will now pass the call over to Robin to go over our financials for the quarter. Thank you.

Bin Lu *Baozun Inc. - CFO*

Thanks, Vincent. Despite the uneven impact on different categories caused by the COVID-19 pandemic, our balanced category mix allowed us to nimbly navigate through this challenging environment. While the pandemic impacted our margins in the first quarter, we ensured business continuity and reinforced our differentiation and the leading position in the market. We strengthened our reputation by demonstrating our outstanding flexibility and reliability to adapt to changing conditions. We are proud of these accomplishments despite such adverse market conditions and the scalability in our business executions even during one of the toughest times. As China's economic recovery continues, we firmly believe that we remain on track with our high-quality growth strategy and we will reestablish growth in our non-GAAP operating profit in the second quarter of 2020.

With that in mind, I will now go over the first quarter 2020 financial results in detail. We believe a year-over-year comparison is the best way to review our performance. All percentage change I'm going to give will be on that basis. Once again, please note all figures that I mention will be in RMB.

Total GMV during the quarter increased by 17.6% to CNY 9.2 billion. Within that, distribution GMV grew by 10% to CNY 782.9 million and our non-distribution business GMV increased by 18% to CNY 8.4 billion. Total net revenues increased by 18.4% to CNY 1.52 billion. Breaking this down, product sales revenue increased by 13.5% to CNY 701.1 million. And the service revenue increased by 22.9% to CNY 822.5 million during the quarter.

We benefited from the relatively healthy growth in categories, such as sportswear, luxury, FMCG and food and health. On the other hand, men's and women's clothing, which accounted for a relatively lower portion of our total GMV, faced challenges and generated relatively slower growth. All in all, GMV of our apparel category, which includes sportswear, luxury and the men's and women's clothing, still grew by approximately 30% year-over-year during the quarter. In contrast, the demand for personal care products in appliances category was very soft due to the COVID-19 pandemic.

Total costs and operating expenses were CNY 1.5 billion compared with CNY 1.2 billion in the same quarter last year. In particular, cost of products increased to CNY 590 million from CNY 509 million last year, primarily due to increased sales from the distribution model. Due to incremental contribution from new brands and deeper discounts offered to promote sales during 2019, our gross margin for product sales declined to 15.8% compared with 17.6% a year ago. Our blended gross margin was 61.3%, representing an increase of 80 bps from last year, which was mainly due to an increase in the proportion of service revenue.

Fulfillment expenses increased to CNY 413 million from CNY 288 million last year, mainly due to increased revenue contribution from the consignment model, increasing use of premium delivery services and the incremental expenses related to COVID-19. Especially with many economy delivery partners suspending operations during the peak of the outbreak, we switched to more premium delivery partners to maintain ample fulfillment capacity, which also led to a higher fulfillment expense ratio. As a percentage of GMV, our fulfillment expense ratio increased to 4.5% from 3.7% a year ago.

Sales and marketing expenses increased to CNY 366 million from CNY 311 million last year. And as a percentage of GMV, our sales and marketing expenses ratio remained flat at 4%. Technology and content expenses increased to CNY 96 million from CNY 88 million a year ago. We continued to invest in innovation and productization during the pandemic in a very disciplined, focused and streamlined manner. During the first quarter of 2020, our investment in future innovation and productization totaled CNY 26.7 million compared with CNY 23 million last year. In driving greater operating leverage against the expanding scale of our business, technology and content expenses as a percentage of GMV improved slightly to 1% from 1.1% last year.

G&A expenses increased to CNY 50 million from CNY 45 million last year, which reflected our increased spending in administrative, corporate strategy and business planning staff as the business scales, offset by some cost control initiatives. During the quarter, income from operations decreased to CNY 13 million from CNY 46 million in the same quarter of last year. And on an non-GAAP basis, income from operations was CNY 37 million with non-GAAP operating margin of 2.4%. Offsetting interest income, interest expenses totaled CNY 7.3 million compared with CNY 6.1 million a year ago. The increase in interest expense was mainly due to the issuance of convertible bonds in April 2019, which includes a debt accretion treatment, which is a noncash item under CB financing accounting standards.

In the first quarter, net income attributable to ordinary shareholders of Baozun totaled CNY 2.2 million. Basic and diluted net income attributable to ordinary shareholders of Baozun per ADS were both CNY 0.04 for the quarter. Non-GAAP net income attributable to ordinary shareholders of Baozun totaled CNY 26 million. Basic and diluted non-GAAP net income attributable to ordinary shareholders of Baozun per ADS were both CNY 0.44 for the quarter.

As of March 31, 2020, we had CNY 1.7 billion in cash and cash equivalents and short-term investments compared with CNY 2 billion as of December 31, 2019. The decrease in cash and cash equivalents and short-term investments was mainly due to some delays in payments from a few brand partners during the pandemic. But we are seeing accelerated collection so far in the second quarter.

Turning to guidance. Provided the macroeconomic environment does not deteriorate further, we anticipate that GMV will grow through the second quarter of 2020 by at least 25% compared with the same period last year. We expect total net revenues during the second quarter of 2020 to be between CNY 2.05 billion and CNY 2.10 billion, which represents a growth rate of 20% to 23% compared with the same period last year. We expect service revenue to grow at a faster rate than total net revenue during the second quarter of 2020.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from the line of Binnie Wong of HSBC.

Wai Yan Wong ***HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst***

I think it's very understandable with the pandemic situation on the 1Q result. And congratulations on the 2Q stronger-than-expected outlook on your 2Q top line. My first question is that if you look at the pandemic, as you're hitting a lot more of the MNC brand, international brands, given that they form a key part, a majority part of our customer base, how would that impact their advertising or the online marketing budget? How would that impact us as well? And then second question is that with regards to the upcoming June 18 promotions, how will you see the sales compared to last year? Do you see actually like a pent-up demand, a stronger-than-expected recovery in customer demand? And also, this year, how will brands so far positioning differently?

Junhua Wu ***Baozun Inc. - Chief Growth Officer & Director***

Okay. So Binnie, this is Junhua from Baozun. So thank you for the question. So the first one, you asked me -- so let me clarify, the question was about Q1, you said, how did those international brands spend their marketing budget for online? Is that right?

Wai Yan Wong ***HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst***

Actually, I'm more curious on the outlook. I think 1Q is very understandable, the impact there. But I think I'm more concerned in regards to the rest of the year, given the pandemic might hurt some of the international brands, their sales performance overseas. And then would they -- their allocation to the online marketing budget in China. So I'm more curious on the outlook.

Junhua Wu ***Baozun Inc. - Chief Growth Officer & Director***

Okay. I got it. So we all know that we had a very tough February. And so basically, every platform, they canceled all their online campaign and the traffic dramatically engaged a very negative downtrend. But starting from this March and especially after the campaign called the Queen's Day and new arrivals for spring/summer campaign, so we had a relatively very nice March. And all those kind of traffic in terms of the volume and the quality has back to normal. So right after the first quarter, so all those international brands, they've been reallocating all their marketing spending, especially from their offline resources, their trade marketing to online. So actually, we had a relatively -- a bigger range of online marketing services budget to serve in the future, especially when a lot of international brands realized that the current phenomenon kind of the trend, like live stream and rich content marketing, is being very efficient, driving a lot of traffic and consumer engagement for online and making transactions. So all in all, we are looking forward to see the recovery is getting better, and we are very confident in allocating more online marketing budget and especially provided by Baozun services. And that's your question number one.

So your second question is related to the 6/18 performance overall compared to last year. So actually, this is the second day of the 6/18 campaign. So I can only give you some color based on the 2 days of performance. Yesterday was the Children's Day, also the first wave of the 6/18 campaign, 1 of the 3 waves around the whole campaign. So we had a very good performance by the pre-warm season and the pre-sale period. So basically, in terms of the volume and the volume of the traffic and the quality of the traffic, so we can definitely see a higher conversion rate compared to last year. So the mechanism of the 6/18 campaign was very different from last year's. Last year, they had a very big interactive engagement with consumers. But this year, they strengthened all their mindset into a different category by organizing them very well one after another, adjusting their focus on the right accurate consumer group to target a higher conversion rate. So if you look into the traffic volume, so compared to last year, will I not see a huge increase? But if you consider the conversion rate and consider the quality of the traffic, exactly better than last year. So we can see that based on better investment, consider the pricing strategy and the assortment strategy from a lot of international brands and our brands served for this campaign, so we are foreseeing a better 6/18 for this year.

Wai Yan Wong ***HSBC, Research Division - Head of Internet Research of Asia Pacific & Analyst***

That's very helpful. And congrats again on a strong outlook on 2Q.

Operator

Our next question is from the line of John Choi of Daiwa Capital.

Hyungwook Choi ***Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap***

My question is on your 2Q guidance. I think on the prepared remarks, it says that the service revenue is likely to grow faster on this coming quarter. Could management elaborate more detail on this, given that I guess it's likely to come from the advertising, et cetera? And how would that impact our profitability? I think also, I think it says year-on-year operating profit will likely continue to improve. And just quickly on top of that, I think since the recovery since March was also mentioned, can you kind of show the latest trends? I think you just mentioned earlier that it's June 18. But what are the some of the categories that you see more obviously improving versus 1Q?

Bin Lu ***Baozun Inc. - CFO***

John, it's Robin. We provided the outlook for Q2. Actually, from our guidance and our description, we see -- in fact, in Q1, we see the very soft demand from our distribution model, which is mainly in the personal care products for the appliances. And after today, I think we do see a very slow recovery about this category, which may have some impact on our product sales in Q2. On the other hand, for the men's and the women's clothing category, I think we see a faster recovery right now. And so the other categories like the sportswear, like the luxury, we see very strong demand. We get started -- 6/18 now and then we see strong growth for this to come. So that's the overall picture of our category goals.

Hyungwook Choi ***Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap***

Yes. Just on the service revenue, is that on back of those -- apart from that, any color on the advertising or other services that are going to be ramping up on 2Q?

Bin Lu ***Baozun Inc. - CFO***

Yes. For the other services in Q2, we see a recovery. Some of them very strong from the brands about the digital marketing services and some other services, especially with -- right now, it's very hot, the live streaming, the digital market channels. And we see this strong rebound from Q1 to Q2.

Operator

Your next question is from the line of Alicia Yap of Citigroup.

Yik Wah Yap ***Citigroup Inc, Research Division - MD & Head of Pan-Asia Internet Research***

Congrats on the solid result. I have a qualitative questions on your brand relationship. So during your communications with your global brands the last 3 to 4 months, are there any noticeable changes of their commitment or the strategy in terms of how the view of the production changes they need or the marketing initiatives towards the China market? With issues in home markets, more foreign brands treating China as the must-win battle this year, so what kind of operation changes that you anticipate you need to support them? And then on the other hand, are there any brands that actually become more cautious in light of the recent U.S.-China tension?

Junhua Wu ***Baozun Inc. - Chief Growth Officer & Director***

Okay. So this is Junhua. So let me ask the first question related to the brand strategy might change during the post-COVID-19 stuff, and Robin can give you some color in terms of the relationship between the U.S. market and the China market. So yes, for the first quarter, a lot of the national brands, especially when they have a lot of offline DTC business, direct-to-consumer business, they realize that online becomes very efficient for their overall business proportion. And they have been allocating offline resources to online in terms of their marketing budget, in terms of offline inventory and in terms of allowing their internal talents. So right after the first quarter, when we realized that China might already pass through all the COVID-19 stuff, and globally, we had another outbreak from -- with a lot -- affecting a lot of our international brand partners.

So their global headquarters and the headquarters in their country has been shutting down a lot of their offline stores, which increased their attention to the Chinese market. So they've been paying more attention about how can we do more business and rely on a strong partnership with us to do more online business, especially when their global has been facing the same kind of issues for the second half of the quarter. So I think in the long run, and especially in the fashion, sports and luxury categories, so we're seeing a lot of attention shifting from their headquarters to China. And we are -- feel very comfortable and confident about can engage better business results in the future.

Bin Lu ***Baozun Inc. - CFO***

Okay. Alicia, let me the second part of your question. In general, if you see any change or impact from the U.S.-China-related issues, I think the reason is most of the brands in China has been famous brands that has been localized in China for many years, whether its their supply chain or their branding has been in China people for many years, and we didn't see any interruption about this right now. But regarding the supply chain, some of the cross-border products has been interrupted a little bit because of the shortage of supply chain and now we see the recovery now. But fortunately, the cross-border business is only very immaterial part of our business in our whole picture. So we think everything is normal. And more importantly, China is recovering very fast right now. And the offline store opens, the brands, they pay more attention to the online sales so that effectively, we have integrated offline and online together. And I think we can benefit from that in the long run.

Operator

Next question is from Thomas Chong of Jefferies.

Thomas Chong ***Jefferies LLC, Research Division - Equity Analyst***

Congratulations on a solid set of results. I have two questions. My first question is more about the second half outlook. After COVID-19, how should we think about our performance in Q3 and Q4 in terms of the GMV side? And secondly, can management also comment about our GMV mix by different categories, like apparel, consumer electronics and FMCG in Q1 and Q2, respectively?

Bin Lu ***Baozun Inc. - CFO***

Okay. Thomas, it's Robin again. You may notice we don't provide a whole year outlook with this earnings release because we think there's still uncertainties in the macro issues. So we don't provide for the second half of the year. However, based on our judgment right now, I think that we are pretty positively in Q2 performance and with our strength of our high-quality growth, which we can take that trend in Q3 and Q4. But as a breakdown, as there are uncertainties in the macro, we cannot provide detailed numbers on that. But what I want to see is just as I specified in the prepared remarks, our non-GAAP operating profit will be recovered in Q2 and also include our non-GAAP operating margin will be improved versus last year. Thank you. So for the second question, I think I can keep going to answer the second question. In Q2, we see, just now as I said that we see the very good continued growth in luxury, in sportswear and then men's and women's clothing recover faster. But personal care products in our product sales as specific models still very low??

Operator

Next question is from the line of Tina Long of Crédit Suisse.

Yuanyuan Long ***Crédit Suisse AG, Research Division - Director & Co-Head of China Internet***

I have a quick question on the portfolio refinement project. Because management has mentioned in the past that we want to phase out some under-earned brands. So how is any progress on that front in the first quarter? And also, what will be the roughly net number of brands we have in the pipeline to add for the full year or for the first half? Also, what business model we will actually -- for those new brands we actually adopt?

Bin Lu ***Baozun Inc. - CFO***

Sure. It's Robin. I think high-quality growth is one of our core strategies. Under that strategy, the refinement of the portfolio is one of the paths to achieve the high-quality growth. And then normally, biweekly, we have the in-and-out meeting to evaluate our pipeline -- I mean evaluate the price we are observing with profitability and some other factors. And is our normal routine work to do and the fact that we have a very strong pipeline to pent-up. And so we -- that's why we can't do that. But we don't provide the numbers for the whole year because the same reason uncertainty for that. What I can tell you is that now we are discussing this very strong pipeline to partners to continue just like, for example, in Q1 and even in this outbreak of the COVID-19, we still have --8 net adding in our new stores and new brands.

Operator

Our next question is from Joyce Ju of Bank of America Merrill Lynch.

Lixin Ju ***BofA Merrill Lynch, Research Division - VP & Research Analyst***

I have a question actually regarding the platform development. We know like this year, we actually see in the brands actually performing very well on the Tmall, like we operate it. But I think last year, we also mentioned a lot, we tried to kind of exploring new platforms, such as WeChat, such as like Little Red Book. And this year, we also know a lot of other platforms also introducing new function of like live streaming shopping. And just wondering from Baozun perspective, have we actually seen a lot of activities in terms of launching new platforms for brands, like, say, in like TikTok or like Kuaishou or like other live streaming platforms or if we see any new channels evolving during this like post-pandemic situation?

Bin Lu ***Baozun Inc. - CFO***

Joyce, it's Robin again. My answer is yes. There are more platforms coming up. And as our standpoint, we -- as you know, we are ramping up our business with mini programs in WeChat. And we made great progress, for example, I think we are in the trend of forming up business model. For example, we integrated live streaming to operation, online versus offline and the group management together. And they are -- basically, the pandemic will help the brands a lot and the new program innovation. And also, we are testing the Douyin and Kuaishou, as mentioned in Vincent's remarks. I think also all of the them are in very early stage and even for the numbers is not mature for us. But I think that is a different step we are making greater progress than we made with others. Our activity to integrate all those platforms and test other platforms and form Baozun specified business models to work with that.

Lixin Ju ***BofA Merrill Lynch, Research Division - VP & Research Analyst***

Yes. I just wanted to have a small follow-up on this question, like as we are doing different like new projects with integrating with those new platforms, we actually will see an expansion -- further expansion in our IT headcount in order to launching these kind of technology -- new technology or new platform integration?

Bin Lu ***Baozun Inc. - CFO***

My answer is no. I don't think we have much spending on the IT headcount. And as we cited last quarter, our growth rates for the IT headcount is under 15%. In our numbers in Q1, you can see our growth rate is over 10%. So I will give the trend that headcount growth rate very minimal and almost flat for the whole year.

Operator

(Operator Instructions) Our next question is from the line of Tian Hou of T.H. Capital.

Tianxiao Hou ***T.H. Capital, LLC - Founder, CEO & Senior Analyst***

Congratulations on the first quarter in this kind of really hard time. So my question is regarding the brands. So we already have a lot of international brands. I believe that there are a lot of domestic brands are also -- have a strong need or demand for online e-commerce operation and services. So I believe you guys inevitably will get into domestic market. So regarding domestic brands, is there economic stickiness and the core value different than the international brands? And also, what do you think about domestic brand development in 2020? Is that going to be one of your primary targets? So that's the first question. A very quick second question is can you give us some updates regarding the mini app development for the brands you are developing -- you're helping? So that's two questions.

Bin Lu ***Baozun Inc. - CFO***

Okay. This is Robin. Back to last year, we talked about domestic brands. That's right. It was one of our strategies to achieve our performance. And in Q1, basically new brand addition, almost half coming from domestic brands. I think with the testing for the last year, we knew there was a different arena in the domestic brand. For example, they need more integration between the online and offline and they need more system support than the international brands and also they need more like dynamic digital marketing services from us. And I think we accommodate this kind of capabilities to the domestic brands.

These trends regarding the -- our take rate, we don't think there is much difference as a group, much difference from the international brand. It's different brand by brand. But there is no much difference between the international and domestic. strategically, the ones that turn out, like the services or customized services provided to the different groups. So we are very confident on the domestic brand and more confident than last year about this kind of achievement. So Tian, what's your second question, please?

Tianxiao Hou ***T.H. Capital, LLC - Founder, CEO & Senior Analyst***

Regarding the mini app, yes.

Bin Lu ***Baozun Inc. - CFO***

Yes. I think in the last question I'm making about that, we are integrating we called a 4-in-1, which means we integrate the live streaming to store operations, CPS, strategically we call online with offline under one inventory and also group operations together, the 4-in-1 service. And we are figuring out how we can work with the brand partners for that. Even this afternoon I talked with our management in the mini app group and they are very confident on their progress. And also, with COVID-19, more and more offline stores pay more attention to the mini app, and they want to execute better and which give us great opportunities in the future.

Operator

Next question is from Sally Chan of CLSA.

Sally Chan ***CLSA Limited, Research Division - Research Analyst***

I actually have two questions. One is on the 2Q guidance that we gave. We gave a GMV guidance of at least 25% year-on-year and revenue of 20% to 23% year-on-year. Since our guidance is quite conservative, if we consider the pent-up demand and then if we try to reconcile that with the broader Tmall GMV growth for today, I'm just wondering if management could give some color on the drivers that we should be considering here.

Is it we're just seeing more conservatism, given we had a great 2Q last year in some of our key categories, like small appliances did really well? Or is it because of more of like a category mix, like maybe fashion is still not fully back to normal? And on that, do you have any comments on the apparel inventory levels? How is the provisioning for that? And then the second question is actually on the margin guidance. Because you gave a guidance of 7% to 8% adjusted EBIT margin, I think midpoint of that at the conference call last quarter for this year. So just wondering if we have some update on the guidance, given 1Q margins were actually much more resilient than what we expected.

Bin Lu ***Baozun Inc. - CFO***

Yes. Driving back to the -- I'd like to answer your second question first. We don't have change in our last quarter's explanation about the midpoint between 7% and 8% of our non-GAAP-based operating margin. We are very confident to achieve that so far. And just now, I said, in Q2, we will get the fully recovered of non-GAAP-based profit and our operating margin. So for the first question, it's not very clear in your -- over the phone. If I answered right, I would say we have different categories. It doesn't getting recover faster, some get slower and some are pretty soft as I said just now. And also, we see the category mix, we can achieve what we announced in the outlook. And especially, for example, the luxury, they get a much faster growth rate than the average and also for the new brands that haven't been in the last year, we've seen much expanding market share on percentage-wise over the total GMV and also contributed to the -- because of the ramp-up contributed to the take rate. So that's kind of like very positive for us. And overall, we are very confident on our progress right now. So you may have a further question for the first one.

Sally Chan ***CLSA Limited, Research Division - Research Analyst***

Yes. So maybe some -- do you have like some comments on the sort of the apparel inventory levels? I think some platforms are sort of indicating the higher expecting inventories in the industry. So just wondering how are we positioning for that to help other brands as well?

Bin Lu ***Baozun Inc. - CFO***

Yes. About the inventory, we do not own apparel inventory, we are in the consignment model. However, we felt that brands to integrate offline and the online needs and we help the mini app to sell the inventory to better create more opportunities from our system support and because we understand the inventory issues. But what I can see is that we get a faster recovery than we expect.

Operator

Next question is from Billy Leung of Haitong International.

Ka Wai Leung ***Haitong International Research Limited - VP & Sector Coordinator***

Congrats on the results. Just a question on our Q2 guidance again. Now the GMV expectation is slightly faster than our revenue guidance. So that implies probably a sequential decline in take rates. Now I know it's only a little bit. But could we just -- can management just run through our assumptions behind these 2 numbers, the GMV guidance and the revenue guidance for quarter 2? And just to follow up on that, we mentioned about live streaming services. Could we just try to understand, in addition to these live streaming services, is that going to be take rate-enhancing or take rate-dilutive?

Bin Lu ***Baozun Inc. - CFO***

Okay. So what we can with take rate, we use our service revenue and service GMV. I think the question you gave about the revenue guidance, I mean, mainly because of our personal care products in our consignment model, it's still much lower than we expect. So I don't think there's an impact on our take rates overall. And you can see with our, I mean, numbers in Q1, you see we have improvement in the take rates in Q1. That's kind of like the case. And about -- what was the second question?

Ka Wai Leung ***Haitong International Research Limited - VP & Sector Coordinator***

The second question is on live streaming services, whether or not that's going to be positive or negative on our take rates in the longer run.

Wenbin Qiu ***Baozun Inc. - Chairman of the Board & CEO***

Thank you for all the questions. This is Vincent. Yes. Live streaming is an emerging service way for the brands to touch point with the consumers, of course. We all can see this trend. It is happening very fast. So as a company, we're very actively participating in this kind of marketing activities with brands. So we help the brands to organize the whole thing and generate the marketing service revenue, we just deliver the service to get the revenue. So -- but I think the market -- live streaming market is changing very fast. We are really seeing some trend from the KOLs down to the KOCs, for example. So we closely follow this trend and try to develop a better business model when we engage with the brand clients with -- no matter, KOL or KOC kind of activities. Of course, partly getting more service revenues and giving more balance for the brand in a short- to mid-term time period.

Operator

And our last question from the line of Natalie Wu of CICC.

Feitong Zhang ***China International Capital Corporation Limited, Research Division - Associate***

It's Feitong Zhang on behalf of Natalie Wu. And congrats on outstanding results. My question is regarding to the margin trends. You've explained the drop in the gross profit margin is due to a newly required brand partner. How should we expect the gross profit margin going forward in the second quarter and for the full year? And also, my second question is regarding to your cash flow. Given the pandemic, how was our free cash flow in the first quarter? And how should we expect our cash flow and cash position going forward post the pandemic under our high-quality strategy? Two questions.

Bin Lu ***Baozun Inc. - CFO***

Okay. So it's Robin. About the gross profit margin, I would say in Q2, we still see the soft demand from the personal care products, which will drag down a little bit our gross margin. Compared with the Q1, I would see there is some recovery about gross profit, but it's not back to the normal level which we always saw in the past at 18% to 20%. We still need some time to get back to this normal level. About the cash flow, I think the key reason in Q1 was there's some delay on the payment from the key partners because these are like shut down office or some other reasons. I mean in Q2 so far, we see a very accelerated payment from the brands and back to the normal side, even faster than expected. So I think we are pretty positive on the cash growth in the later quarters if there is no further deterioration of the macro issues.

Operator

Ladies and gentlemen, that ends our Q&A session. And I'd like to hand the conference back to Ms. Wendy Sun.

Wendy Sun ***Baozun Inc. - IR Director***

Thank you, operator. In closing, on behalf of the Baozun management team, we would like to thank you all for your participation into this call. If you have any further questions, feel free to reach out to us. Thank you for joining us today, and we wish everyone to stay healthy. This concludes the call.

Operator

Thank you. Ladies and gentlemen, that concludes your conference for today, and thank you for participating. You may now all disconnect.