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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by for Baozun's Second Quarter 2021 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, 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. Our second quarter 2021 earnings release was distributed earlier today and is available on our IR website at ir.baozun.com as well as on Global Newswire Services. We also posted a PowerPoint presentation that accompanies our comments to the same IR website.

On the call today from Baozun, we have Mr. Vincent Qiu, Chairman and Chief Executive Officer; Mr. Arthur Yu, Chief Financial Officer; and Ms. Tracy Li, our Vice President of Strategic Business Development, Mr. Qiu will review the business operations and company highlights, followed by Mr. Yu, 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 the Securities Exchange Act of 1934 and the U.S. Private Securities Litigation Reform Act of 1995. These forward statements are based upon management's current expectations and power market and operating conditions and relates to events that involve known or unknown risks, uncertainties and other factors of which are difficult to predict and many of which are beyond the company's control, which may cause the company's actual results to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties or factors is included in the company's filings with the U.S. SEC and the announcement on the website of Hong Kong Exchange. The company does not undertake any obligation to update any forward-looking statements except as required and applicable law.

Finally, please note that unless otherwise stated, all figures mentioned during this conference 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. - Co-Founder, Chairman of the Board & CEO

Thank you, Wendy, and thank you all for joining us.

We are satisfied with the progress in achieving our strategic operational goals in the second quarter. Despite sitting on a high base of last year, where the second quarter was the first big promotional events quarter coming out of COVID in China, we were able to deliver a solid GMV growth of 23% year-over-year. In particular, backed by our comprehensive infrastructure and service offerings, we made significant inroads in innovating and executing our omni-channel strategy and further penetrating into the luxury sector, which I will further expand on the next slide. However, as we first alluded to in the first quarter results, the Better Cotton Initiative, or BCI, has negatively impacted the growth of the apparel and accessories category especially for international sportswear brands.

The impact continued into the second quarter and is now both larger and longer than we initially expected. As an indication of the impact, the total outbound orders of our logistics services declined by 29% year-over-year for the quarter. Total net revenues increased by 7%, and the non-GAAP net income for the quarter rose by 4% year-over-year with the additional impact of our increasing investments for future growth.

Moving on to Slide #3. During the quarter, we saw demand flourish for private domain and nontraditional channels. Non-TMALL channels accounted for 32% of total GMV, an increase of 7% from 25% in the same period last year. As we execute our omni-channel strategy, we are glad to help our brand partners generate incremental sales and the customers from a variety of emerging channels.

The luxury and the premium sector continued to be one of our key growth drivers, demonstrating both strong growth momentum and high margin profile. Following our acquisition of Full Jet, we visited the headquarters of several European luxury and premium brands. We received very positive feedback regarding the broad awareness of substantial opportunities in China's e-commerce market. During the quarter, we onboarded 7 brand partners in luxury and the premium sector, and we have laid out a very strong pipeline. We observed that the addition to TMALL stores, the brands are also planning flagship stores across other e-commerce channels. We believe this will be a significant driver over the coming years.

Now let's move to our M&A progress. Operationally, we continue to make structural improvements to our business as we make strategic investments to enhance our competitiveness and value proposition. We believe these structural improvements will position us well to deliver long-term growth by providing our clients with better end-to-end e-commerce solutions.

Now please turn to Slide 4. During the quarter, on the warehouse and logistics front, we made 2 strategic investments. BolTone enlarges our premium warehouse capacities and allow us to extend our verticals coverage. Baobida enriches us with integrated logistics and delivery resources to achieve meaningful regional cost advantage in Suzhou.

Following the end of the quarter, we also announced our potential strategic partnership with Cainiao along with its equity investments in our logistics service subsidiary. Our logistics business group has long been well recognized in the industry as one of the leading providers in highly customized and premium logistics services. Now with expanded capacity and more comprehensive service capabilities, we believe our full chain solutions will continue to drive brand value and generate business leads and financial returns.

During the quarter, we were particularly pleased to onboard a leading domestic sportswear brand as our customer for warehouse and logistics services. We believe this could potentially be an entry point for additional brand partners to work with us for their e-commerce operations.

Moving on to Slide #5. In addition, on top of the investments and partnerships made to bolster our logistics capabilities, during the quarter, we also acquired eFashion, an e-commerce solution provider that is focused on bringing international fashion brands to China. This will allow us to further penetrate the branded fashion sector, expanding our leadership position.

There is also profound progress in integrating our investments from previous quarters. We have started to offer our e-commerce solutions to Fosun Fashion Group brands, and will begin exploring the joint developments of special offer products later this year.

With iClick, the business development progress is well on track. We co-launched a comprehensive package for our brand partners in cosmetics earlier this month. And we will also become its brand's operation partner for its mini programs.

We anticipate more breakthroughs for the FMCG categories in the Tencent mini program ecosystem later this year. Regarding Full Jet, as I mentioned earlier, we have successfully jointly acquired new brand partners and built up business leads during the quarter. On top of luxury and the premium sector, Full Jet is also actively participating in our business development in the broader apparel category.

We are pleased with our substantial progress in extracting value from our various acquisitions and strategic alliance this year. These new partners have joined the Baozun family with a rich portfolio of brand partners, under various forms of business cooperation. As our business scope has now been very much enriched, we will no longer disclose our number of brand partners going forward as such metric currently only captures brands in store operations and is no longer appropriate to evaluate our full business potential going forward.

Turning to Page 6, I want to give an update on our business process reengineering. As technology empowers future success, we continued integrating technology into our operations and service models for our brand partners. We have had some solid results from our year-long trials with several proof of concepts and prototypes in BOC, our Business Operation Centers. In the first quarter, we applied such model broader in our fashion apparel business unit. And after comprehensive review and evaluation, we now have decided it is time to replicate such model company-wide.

As part of the transformation of our business, we started to build a technology-powered middle-office to further improve our service quality and reduce operational costs. We are integrating our technology infrastructure and management applications into our daily operations. And our ultimate goal is to make our e-commerce operations more digitalized, standardized and systematic. We believe such initiatives will drive up our economies of scale in the long run. And it promotes resource integration, efficiency improvements and the competitiveness enhancements. Backed by our comprehensive middle-office, our regional Service Centers, or RSC, in Nantong and Hefei are operational.

We have moved about 1,000 employees to these RSCs, and the initial trials have generated over 20% in efficiency and accuracy improvements. We are migrating more business units and functions to these regional service centers over the next 12 months, and believe such initiatives will become an effective driver for margin expansion next year.

Lastly, we continue to invest in our people and organizational structure. We truly believe that people are the greatest asset of an organization and as such, we have strategically grown our management team, in particular, to support the broadening of our omni-channel services. We have also enhanced our compensation policies, HR training systems and employee coaching. This enables us to attract and retain the best talents in the industry and ensure that our people grow together with the company.

The upcoming new headquarters move is on track, and we believe the expansion of upgrade of our working environment will support our growing team, boost efficiency and nurture a culture of cutting edge innovation.

Overall, the second quarter has certainly been a very busy quarter for us. But rest assured, we will continue to work tirelessly to further enhance and grow our business. While we anticipate ongoing headwinds from BCI in the second half of this year, online shopping increasingly pervades people's daily life. Therefore, we believe the comprehensive suite of e-commerce solutions that we deploy is key to continuously improve the shopping experience for customers.

Ever-changing e-commerce dynamics are presenting us with both challenges and opportunities. We are actively evaluating the market, and we will review our priorities and make change our strategic middle-term plan accordingly.

Ultimately, we believe that by focusing on our core business proposition, empowering our brand partners to connect with consumers at far greater convenience, we are and will continue to be the partner of choice for all our existing and future brand partners.

I will now pass the call over to Arthur to go over the financials. Thank you.

Arthur Yu Baozun Inc. - CFO

Okay. Thank you, Vincent. Hello, everyone.

Now please turn to Page #9. We saw healthy growth in total GMV, which increased by 23% to CNY 15.7 billion. Our distribution GMV rose by 5% to CNY 1.1 billion, and non-distribution GMV increased 25% to CNY 14.6 billion.

Now breaking it down by category. We continued to see strong growth momentum in the electronics and FMCG categories, both growing over 100% year-over-year. This is mainly due to our progress in omni-channel strategies, especially on JD and Tencent mini programs. The luxury sector continued its good performance from last quarter with high double-digit growth year-over-year.

On the other hand, our apparel and accessories category declined 23% year-over-year, which is mainly due to the negative impact of the Better Cotton initiative, or BCI, on some international brands partners. While we anticipate the impact of BCI is likely to continue in the second half of this year, we are delighted to see some new businesses from major domestic apparel and sportswear brands which offset the negative headwind.

Now turning to Page #10. Total net revenues increased by 7% to CNY 2.3 billion. Product sales revenues increased by 5%, and service revenues increased by 9%. Given that the majority of the BCI impact is happening in the sportswear category and that most of these brands normally work with us on a full end-to-end consignment model, the fallout has negatively affected service revenue.

Our product sales gross margin was 16.2%, largely flat compared with a year ago but improved from 15.4% last quarter. Our overall gross margin was 64.6%, up 60 bps from 64% a year ago. Our take rate for the non-distribution model was 9.1%, down from 10.4% a year ago. This reduction in take rate was expected as we made progress in our omni-channel strategy. In addition, as BCI reduced the revenue contribution of the consignment model, therefore, the change in revenue mix led to a lower take rate for non-distribution model as a whole. As we look at take rates of the consignment model itself, it actually showed an improvement year-over-year to 12.7%.

Now let's turn to operating expenses on Page 11. Fulfillment expenses decreased to CNY 560 million as outbound orders were lower in the quarter due to the impact of BCI. As a percentage of GMV, the fulfillment ratio improved to 3.6% from 4.5% a year ago driven by efficiency improvements.

Our sales and marketing expenses were CNY 648 million and, as a percentage of GMV, kept relatively stable at 4.1% from a year ago. This is a blended result from improved effectiveness of our digital marketing services and efficiency gains, offset by the investment in talent to build our stronger digital marketing capabilities.

Our technology and content expenses were CNY 115 million and as a percentage of GMV improved to 0.7% from 0.8% last year mainly due to the rise in staff cost for incremental IT investments, offset by efficiency improvements.

Our G&A expenses increased to CNY 98 million. This increase was in line with our expectations, predominantly reflects the variety of investments we have made this year to support the long-term growth. Firstly, we recruited new talents especially for our expanding omni-channel services in conjunction with upgraded compensation packages for our critical roles in order to attract and retain the best talent in the industry. And secondly, we also incurred additional expenses related to our new headquarters. And thirdly, professional fees increased year-over-year due to our increased M&A initiatives in the first half of this year. And finally, we also saw an increase in the account receivables provision. As a result of the above, G&A expenses as a percentage of GMV increased slightly to 0.6% from 0.4%.

Now please turn to Page #12. Reflecting our additional investments and the impact from BCI, non-GAAP income from operations was CNY 162 million, down by 14% year-over-year, and non-GAAP operating margin was 7.0%.

On Slide #13. Non-GAAP net income attributable to ordinary shareholders totaled CNY 151 million, an increase of 3% year-over-year. The basic and diluted non-GAAP EPADS was 2.04 and 2.01, respectively, for the quarter.

Now turning to Page #14. We generated a positive operating cash flow of CNY 499 million and used CNY 213 million for our M&A activities during this quarter. As of June 30, 2021, we had a CNY 4.5 billion in cash, cash equivalents and short-term investments, which is a very healthy level based on our normal operational activities.

And lastly, on 18th of May 2021, our Board of Directors authorized a share repurchase program allowing us to repurchase up to USD 125 million worth of our shares. As of June 30, 2021, we had repurchased a total of USD 12.5 million of our ADSs.

Despite the short-term impact from BCI, we have made good progress during quarter 2 to execute on our strategy to deliver sustainable and profitable growth. In the second half of this year, we will continue to execute our plan by investing in our capabilities and expanding our business, both organically and inorganically. We remain confident in our business model, and we believe Baozun will deliver unique value proposition to our customers in the long term.

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

Wendy Sun Baozun Inc. - IR Director

Hello, operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Alicia Yap of Citigroup.

Alicia Yap Citigroup Inc., Research Division - MD & Head of Pan-Asia Internet Research

I have a question related to this top sportswear brands that you mentioned. Just wondering, has the consumer sentiment recover from this BCI issue? Because it seems like the alternative channels like top sports and all that are actually seeing some solid recovery of the demand from this global sports brand, so I'm not sure are we seeing similar trend. And as related to these, just wondering also overall consumer consumption sentiment on apparel and also the discretionary accessory, have you seen any slowdown of these purchasing willingness on these apparels and these accessories category? And do you anticipate some of these -- if the consumptions are slowing down, do you anticipate weakness to continue into the 4Q promotional period? And also curious to hear if there's any early preparation work by brand for this year to prepare for single day sales. So any feedback colors on that will be great.

Chunlu Li Baozun Inc. - VP of BD

Thank you, Alicia. Actually, it's a quite large question. So first, I want to answer to the difficult question like BCI impact especially for the sports category. So for the BCI, I think the business continue to negatively impact our fashion and the sportswear category. And it has lasted longer than we expect. But with improving trends, we do see -- foresee it is going to improve maybe in the later part of the next quarter or in the earlier part of quarter 4. And the impact on the business basically reflects in consumers' purchasing intention, live stream restriction and like the celebrity endorsement.

And in addition, the Southeast Asia's coronavirus will continue to cause the disruption to many apparel brand supply chain in the second half of the year. So we do foresee there's a potential in preparing for the 11.11 stock. So that's why from the -- I mean for the tactics part Baozun' team and work with the clients to accelerate our omni-channel outplay at place in recent months, you will see our larger account in the next few months. They will have very aggressive movement in the new channel development and the arm to drive the incremental sales and also to release the stock pressure caused by the BCI and also to conduct projects in the private traffic domain areas to focusing on the CRM experience.

And also, if we go back to the TMALL existing environment, I want to say in the next half year, the traffic gap between brands will become larger. We believe the brands which we are serving right now still have the competitive merchandising strategy. And also, they are supported by the sustainable marketing spending. So this, we think, combined with Baozun's team, further advancing our operational advantage. We will have a relatively positive outcome in the 11.11 part.

And also one thing I want to highlight is on the Winter Olympics will be held in February next year. So we anticipate maybe there's a boost of the winter clothing and also sports, health-related category. And also currently, we are already discussing the resource allocation with TMALL starting from this month actually.

And for the second part, to discuss about the overall consumption and also the consumer, their attitude towards the overconsumption, one thing I want to highlight is, if you see the overall data, the first half of the year, the trend of the overall market is still on the right, like they grow like 17%. So from this, we still can see a steady momentum is still present. But after 6/18, we expect our 2 months downtime due to a clustered shopping behavior highly driven by the low price during the 6/18. So that July and August has always been a relatively sluggish time period, so after 6/18. And moreover, the revisit of the coronavirus has come again on public health which constantly diminish the consumer's desire to buy. And from the July data, you can see the total online transition is sustainable. It still grow but with a single digit growth. And breakdown into category, we see apparel, home appliance and even beauty all show the slowdown momentum. But luxury and health related and community life has increased and stable.

So from our point of view, I think we think the market has shown some -- the trends on the downtime part, but we still have the confidence and see the opportunity in the following area. First is the potential in the new channel development with increased traffic flow derived from the major marketplace. And this is driven by the change of user headings and with time duration here. So that's why Baozun's also firmly in place our omni-channel strategy.

And the second is the rising categories like luxury, healthy, outdoor and also the community life, which will trigger to strive for the greater performance in the next half of the year.

And the third is we think the top and the high-quality brands will gain more advantage on the traditional platform. That's why we will further differentiate ourselves in terms of the brand selection and also our operation service offering.

I hope that solve your questions.

Operator

Your next question comes from the line of Thomas Chong of Jefferies.

Thomas Chong Jefferies LLC, Research Division - Equity Analyst

Can management share some update about the potential synergy with Cainiao? And also, how should we think about our M&A strategy going forward? And are we going to see more investments or cooperation?

Arthur Yu Baozun Inc. - CFO

This is Arthur here. So I think we recently announced our potential partnership with Cainiao. So there are 2 main factors we take into account when we have this partnership. One is we will be able to enjoy a better economics of scale if we get into Cainiao's national network, both to reduce the cost and also to reach out to more potential customers. And secondly, there is a very good synergy between what Cainiao is good at and what Baozun is good at. Baozun is very specifically focused on the bespoke and customized the service in logistics for luxury, for the sportswear. And Cainiao is more focused on the standard goods. So therefore, we think the combination of 2 will help us win more market share. So that's on the Cainiao part.

In overall, when we look at our M&A strategy for the second half of this year, we actually focus on 4 key areas to create value. The first one, we're looking at building additional or acquiring additional capability to help Baozun to deliver more value to the customer. So we are looking at the CRM. We are looking at the live streaming and also the data services. So these are the capabilities we are looking forward to build more quickly to enhance our value proposition.

And secondly, as we all know, the TP and also the JD partner, we are still in a very diversified marketplace. So what we're looking for is to do the consolidation. So our recent deal with eFashion has proved really successful in terms of expanding our market share in the apparel category. So we will continue to look for opportunity for further consolidation.

And thirdly, we will look to use more M&A opportunity to enhance our connection with the brand. So our recent deal with the Fosun Fashion Group has created a good example where our underground management company can create more value for the brand by working more closely together. We will continue that.

And finally, we are looking at some opportunity for the overseas expansion. We are thinking of replicating Baozun's capability to the overseas market and mainly focused on the Southeast Asia, where there has a great similarity between the Chinese market and the Southeast Asia market. So that's about our M&A strategy going forward.

Operator

Your next question comes from the line of Tian Hou of TH Capital.

Tianxiao Hou TH Data Capital - Founder, CEO & Senior Analyst

I have a couple of questions. The first one is regarding the GMV composition. So I wonder what's the different categories -- what's the contribution from different categories such as like apparel, consumer electronics, FMCG, what's their contribution right now for the GMV? That's number one.

Number two, as we acquire more brands domestically, internationally, so I wonder what's the GMV contribution from different brand partners.

The third one is regarding the omni-channel. So we saw a TikTok owned by ByteDance, has an e-commerce promotion just the last couple of days. I wonder if you guys participated and what's the result of that activity? That's 3 questions.

Wenbin Qiu Baozun Inc. - Co-Founder, Chairman of the Board & CEO

Okay. I will take the first 2 questions, and then these three can take the last one, yes.

So in terms of the GMV, if you turn to the Slide #5, on the right-hand side, you can see our electronics now account for 25% of the GMV, which is growing at about over 100% year-over-year. And if you look at our FMCG, it actually accounts for 20%. The apparel and accessories totally account for 35%. But as I mentioned earlier, it's actually declining 23% year-over-year due to the BCI impact, mainly on the sports and men and women clothing. But within this overall category, luxury, it's actually performing better, grow at high double digits from a year-on-year perspective. And finally, the appliance is accounted for about 10% of our overall GMV. So that's the composition of our GMV.

In terms of the brand partners, as we may know, Baozun is -- we have been working mainly with the global top brands, and the majority of our revenue contribution from the large global brands so far. But having said that, in this quarter, we have made some good progress. We have win several new contracts from some major domestic sportswear company in China and also some major electronics kind of brands in China. So we are making really good progress in the major domestic brands in China.

I mean the key is to create value. So if a customer wants to grow their business and they will be looking for Baozun to help them to deliver this value, which is why we see more business from the domestic major partners at this moment in time. So that's my question for the top 2.

Chunlu Li Baozun Inc. - VP of BD

And specifically to Douyin situation especially in the past August 18 promotion, I actually -- I think, first of all, the rapid development has indeed diverted users' time from e-commerce to their channel. So the traditional e-commerce platform is facing challenges, and that is for sure.

But in this part, I want to divide into 2 angles. First of all, I think in the past few months, even in August 18, majority of the GMV is still driven by the KOL live streaming. So from this point of view, you can see actually brands used to select KOLs from TMALL like Lijiaqi or Weiya. And now they do have more choice from the other channels. And a certain portion of their budget is shifting to Douyin too. And the more and more celebrities and KOL are also opening accounts in Douyin and the competition is stronger. But I think for the brands it brings more choice, and also I think it will relate to financial benefit for them, too.

But for the other angle I want to emphasize is on the sales on live streaming. I think Baozun's team also, we successfully launched more than 10 self-testing projects in the past few months. We're helping brands to verify the incremental value of the emerging channels in the

past few months. Some good news is, roughly, there's a lower overlapping reach for e-commerce consumer between Douyin and also the traditional channel. Across different categories, I think it's less than 20%. It's relatively 10% to 20%, right. And also, it's also proved the strategy -- prove the value, say, we can have different product strategies, which means the top selling product on TMALL is only slightly overlap with the top selling products of Douyin, which is very, I mean, helpful for our brands if they want to differentiate the 2 channels.

And also, we're also seeing some good signs on the consumer on Douyin also in a little younger, like 3 or 5 years younger than their TMALL client base. But on the other side, I think the stable monthly sales and also the traffic cost and the sustainable cost outcome need to verify in the longer term. And from Baozun's point of view, we will continue to invest in our operation and also our capability in this area. And thanks for the attention of this.

Operator

(Operator Instructions) Your next question comes from the line of Charlie Chen of China Renaissance.

Y. Chen China Renaissance Securities (US) Inc., Research Division - Analyst

Actually, I have only 1 question related to regulatory issues. As we know that Chinese government has conducted a series of regulatory activities to basically regulate the Internet industry and which includes prevention of personal data abuse, et cetera. So how does this regulatory -- specifically for personal data abuse, how would this action impact your business in terms of your relationship with brand partners? Will they increase or decrease the investment in digital marketing? And will they change the way that they do marketing activities online? So have you done anything to position yourselves in preparation for this kind of potential changes?

Arthur Yu Baozun Inc. - CFO

Okay. Thank you for the question. Yes, as you mentioned, recently, there's a lot of different regulations ongoing from different aspects. Yes, let's talk about the consumer information protection thing and data security. Yes, I think we have already received the acknowledgment from TMALL already about the reactions we need to take together with TMALL to face newly in place regulation for consumer data protection. Yes, basically, I think from the system point of view, we are almost ready to connect to the TMALL in a new way, keep us from the sensitivity of customer data.

So in general, the business process will be smooth no matter what kind of new programs added into this process. So from the consumer experience, nothing changed. All business process will be normal and in good shape. So that is the number one.

Number two, for your question about the brand perception for this and their actions, I think for -- right now it is not very clear because the new system is not in place yet. So after that, we know that how we are going to do the digital marketing in a different way. But right now, I think the brands are quite ready for this change. And I don't think there will be a big change for their digital marketing expense on TMALL platform. And Baozun is ready to help them in doing things in a smart way, allowing to consume digital market investments. So that is basically -- I think there is not a big influence for the general business process, yes, but we take this very seriously. Yes, thank you.

Wenbin Qiu Baozun Inc. - Co-Founder, Chairman of the Board & CEO

And just one more point. So I'm Vincent. So given that we have been continuously making the investment into the technology. Baozun now has a stronger data security and private securability, so we have achieved Level 3 classification for the data security from the government. These will differentiate us from our competitors.

Operator

Your next question comes from the line of Joyce Ju from Bank of America.

Lixin Ju BofA Securities, Research Division - VP & Research Analyst

I have 2 questions. The first one is related to the category growth. Because for this quarter, we have seen like FMCG actually grew very strong. And like you mentioned, luxury also grows nice and while sportswear and electronics sees annual decline. Just want to get more color or update in terms of the third quarter and fourth quarter specifically with your outlook for the category growth perspective.

And the second question is, we have seen this quarter the gap between the GMV growth and revenue growth seems like pretty wide. Just want to get more details or color in terms of how we should actually understand this and what's the trend going forward.

Arthur Yu Baozun Inc. - CFO

Sorry, I think the second question is not very clear to us. Can you repeat?

Lixin Ju BofA Securities, Research Division - VP & Research Analyst

Sure. I think the GMV growth and the revenue growth this quarter seems there is a pretty wide gap. Just want to understand how this actually -- what's the reason behind. And going forward, should we -- how should we expect that gap to narrow or to sustain?

Arthur Yu Baozun Inc. - CFO

Thank you. Okay, Joyce, this is Arthur here. I think, as I mentioned in the prepared remarks, the increase in the GMV mainly contributed by our omni-channel strategy and mainly from the JV channel and also the mini program channel. And those 2 channels, we are strong in terms of the...

(technical difficulty)

Hello, can you hear me, guys?

Wendy Sun Baozun Inc. - IR Director

Oh, yes, yes.

Arthur Yu Baozun Inc. - CFO

Yes, okay. Yes, I will continue. So in the second half of the year, we will see continued growth in the electronics and in the FMCG category, which is mainly driven by our omni-channel strategy from JV and from the mini program. Regarding to the second question, I think you mentioned the take rate is actually dropping. So this is anticipated. As we are now deploying more resource into the omni-channel, the new channel, as I tried to explain in the last time, is lower margin than the mature channel in the TMALL. So therefore, as we grow faster in the omni-channel, especially in the mini program, we are still in the stage of making the investment to grow the business for over a longer period of time. So after we have built a significant size of the business, our investments will have a greater return, and we will see the margin improve in the medium and longer term. And we see no reason why the new channel cannot add profit as the traditional channel. So this is what we are looking for.

Operator

Your next question comes from the line of Ashley Xu from Credit Suisse.

Ashley Xu Crédit Suisse AG, Research Division - Research Analyst

There are 2 from me. Firstly, I want to check how many brands have already tested on the new Douyin platform or have launched official stores. And from our communication with the international brands, what do you think are holding some of them back given my impression is that most of the international brands have been more cautious in testing this new channel?

And my second question is about the apparel growth. If we exclude the names that have been impacted by the BCI issue, what would be the growth for the rest of our brand portfolio?

Chunlu Li Baozun Inc. - VP of BD

Regarding the pipeline on the Douyin part, actually, I think I agree with you because right now, the current players the majority are driven by the local brands. And most of them is actually implement our clearing operation strategy. It's not a very traditional -- I mean, I'll say it's a formal channel developed strategy on Douyin. Regarding the overseas brand right now, I think right now, the first wave of the category is still on the apparel and sports category and followed by some of the consumer views and also cosmetic product. But I want to emphasize even the brands, they opened their flagship on TMALL. The business is right now is majority driven by the KOL live streaming, which means their economy, I mean, environment on Douyin is not very mature right now, it's still driven by the supply chain and also by

the KOL itself.

But on the other hand, we also see there's -- I mean, the channel value part is we expect from the brand itself. That's why they open their flagship store, and they want to try different angles in the next few months. So we treat optimism with cautious on the channel. Yes.

Arthur Yu Baozun Inc. - CFO

Ashley, it's Arthur here. On your second question, can you repeat your question once again because I wasn't sure I'm 100% clear about your question?

Ashley Xu Crédit Suisse AG, Research Division - Research Analyst

Yes, because we already disclosed that the apparel category is declining 23% year-over-year. Just want to get an idea about the brand portfolio that are not impacted by this BCI issue. Like if we separate the brand into 2 groups, how much is the unimpacted names growing?

Arthur Yu Baozun Inc. - CFO

Yes. I think if you look at our overall portfolio, so we have a wide range of different portfolios. So even though Baozun is traditionally very strong in the sportswear, in apparel, with the sportswear and apparel are impacted by the BCI. But within this category, the luxury is actually a spotlight where we have growth in a high double-digit year-over-year. So that's one of the category. Even that we've seen the wide -- I mean the wide category of apparel is actually growing.

Outside of the apparel, if you look at the FMCG and you look at the electronics, even our omni-channel strategy will actually grow very healthy. So some of the category even grow in high double digits or even over 100% year-over-year. So this is a proof of the Baozun business model where we have a wide range of different categories within Baozun and helping us get through the difficult times like the BCI story.

Operator

Your next question comes from the line of Andre Chang of JPMorgan.

Andre Chang JPMorgan Chase & Co, Research Division - Analyst

My question is regarding the investment in the current environment. There are a lot of changes in the regulatory front and the overall consumption front. So I wonder what's your plan about how to use the cash in the second half of this year and next year. How should we think of the investment and also the impact on the nonoperating front if any like one-off items we should pay attention to into second half this year and the next year?

Arthur Yu Baozun Inc. - CFO

Okay. Thank you for the question. I think, first of all, I would like to restate that Baozun is, overall, our operating cash flow is positive, which means we are able to create the plot for ourselves, which is a very important factor if you take into account in the current situation where financing more funding is more and more difficult. So with that, we currently have CNY 4.5 billion in cash reserves which we can either use it to secure our operations or we can make investments to build our capability to grow faster.

So as I mentioned in the question earlier, we have 4 different areas for the future investment. So -- but overall, we will use cash more cautiously during this period because in this period cash is the king. So we will put more emphasis on the liquidity of the whole company. And when we select the target for acquisition or target for investments, we will be more cautious and we will make an investment when we have a higher certainty that will be more successful. So that's how we are going to plan to use cash.

Operator

Your next question comes from the line of Robin Leung of Daiwa.

Chun-Yin Leung Daiwa Securities Co. Ltd., Research Division - Research Analyst

It's Robin asking on behalf of John Choi. I have a follow-up question on the take rate trend. This quarter, the decline, I think management mentioned that is because of the BCI and also new channel contribution. But this quarter, the non-TMALL is actually lower than 1Q, but

the year-on-year decline is even more. So how should we think about the trend in the second half? Which factor between the BCI and also new channels is impacting the take rate more? And should we expect the take rate to decline by over 1 percentage point every quarter?

And also, my second question is on the revenue outlook in the second half. If we look at the 2 years CAGR, this quarter, it's growing at mid-teens. Management did mention the domestic sportswear brand will help to offset. But I think usually, it takes a few quarters to pick up. So should we expect 3Q and 4Q will also grow at mid-teens? Should we expect a meaningful rebound in 2022?

Arthur Yu Baozun Inc. - CFO

Okay. So on the first question on take rate, I think there are 2 factors impacting the take rates. Number one and the largest impact is the omni-channel strategy. As I mentioned earlier, we are in an investment phase, so that will dilute our take rate. But also the second factor is the BCI. As we know, the BCI impacted category is traditionally Baozun's high take rate categories. So if you take the BCI impact out of this, if you look at our non-distribution model as a whole, where we have a consignment model excluding the BCI impact, it actually shows an improvement to 12.7% year-over-year. So basically, it's actually -- if we take out the BCI and we take out the omni-channel strategy, then it's actually an improvement year-over-year.

And as I mentioned earlier, over a period of time, when we have the economy of sale for those new channels, there is no reason why we cannot stand back to the normal take rate as we are currently enjoying in the TMALL channel. So that's on the take rate.

On the second question in terms of the growth of the GMV, I think we are confident that even with the BCI impact for the third and fourth quarter, we still have a high confidence in our omni-channel strategy. And the BCI impact probably will likely to be there in Q3 and Q4. But given the strong pipeline in our omni-channel kind of customer, we are confident we will maintain a very good growth rate in terms of the GMV.

Operator

Thank you. Seeing no more questions in the queue, let me turn the call back to Ms. Wendy Sun for the closing remarks.

Wendy Sun Baozun Inc. - IR Director

Thank you, operator. In closing, 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, please feel free to reach out to us. Thank you for joining us today. This concludes the call.

Wenbin Qiu Baozun Inc. - Co-Founder, Chairman of the Board & CEO

Thank you, operator. Thank you, everyone.

Operator

Thank you all again. You may now disconnect.

Arthur Yu Baozun Inc. - CFO

Thank you. Bye-bye.

Chunlu Li Baozun Inc. - VP of BD

Thank you.

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