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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by for Baozun's Second Quarter 2022 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, Senior Director of Corporate Development and Investor Relations 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 2022 earnings release was distributed earlier and is available on our IR website at ir.baozun.com as well as on GlobeNewswire services. They have also posted a PowerPoint presentation that accompanies our comments to the same IR site where they are available for download. 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. Ms. Qiu will review the business operations and the 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-looking statements are based upon management's current expectations and current market and operating conditions and relates to events that involve no or unknown risks, uncertainties, and other factors, all of which are difficult to predict and many of which are beyond the company's control, which may cause the company's actual results to differ materially from those in the forward-looking statements. Further information regarding these and other risks, uncertainties, or factors is included in the company's filings with the U.S. SEC and announcement on the website of Hong Kong Stock Exchange. The company does not take 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 and the comparators are on a year-over-year basis. 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. Hello, everyone, and thank you all for joining us. As you know, in April and May 2022, there was strict COVID lockdown in many key cities of China, including Shanghai, where Baozun's headquartered. In the face of COVID-related logistics interruptions, our team quickly mobilized infrastructure to minimize disruptions and maintain operations. Overall, as shown on Slide #2, our total net revenue declined by 8% year-over-year, while services revenue increased by 7% and demonstrating once again our resiliency to macro uncertainties.

The pandemic has accelerated the need to cope drastic interruptions and the urgency of digital transformation across a wide range of brands that we serve. Please turn to Slide #3. One salient trend is the rapid convergence between online/offline or "OmO". Baozun's omni-channel solution enable OmO by integrating brand partners resources, including digitized avatars of brick-and-mortar stores, mobilized sales associates, and share inventories. That has become the lifeline of e-commerce during the strict COVID lockdown.

We also benefited from the deployment of our intelligent customer service management system, S-ANY, which can support remote execution and enhance quality. With S-ANY, our staff can log into the system from anywhere and the system will keep monitoring real-time data of customer service behavior across channels. With our seamless integrated technology, we are pleased that Baozun has become brand de facto aid and relief when it comes to overcoming uncertainties and challenges like COVID lockdowns.

And as always, we kept developing additional services. For instance, we upgraded digital content and enabled more virtual reality functions for one leading sportswear brand, and also launched short video services leveraging our multi-regional service centers network. All these efforts helped enrich consumer experience and empower many of our brand partners through success during the 618 campaign.

Now, please turn to Slide #4, to share more about our progress on business development. During the quarter, luxury and premium brands continue to surge forward. And we also added more subcategories, including outdoor, cosmetics, and fast-moving consumer goods, thereby enhancing our diversification. Overall, we added a net of 10 new brand partners in the second quarter, and the total number of brand partners for store operations increased to 355. While we prioritized the new partnerships, we inspire existing partners to launch more channels. By the end of the second quarter, we operated approximately 40% of our brand partners in omni-channel approach compared with about 33% a year ago, making a milestone in our omni-channel vision.

This August, our capabilities and track record helped us gain greater recognition in the Tencent mini program e-commerce ecosystems. We were honored to be accredited by Tencent as a partner of excellent category for e-commerce operator and independent service vendor, or ISV, for Tencent Cloud Mall, and outstanding category for business development partner. With these recognitions, we became the only service partner that's in top-listed in both Alibaba Tmall and Tencent mini program e-commerce ecosystems. We are now further collaborating with Tencent on several initiatives, such as in traffic acquisition and smart new retail.

Next, our momentum towards our vision of "Technology empowers the future success". We are seeing strong demand from our clients for technologies and solutions to manage not only retail but also distribution network. For example, our big successful project with leading electronics giants, continue to expand. During the quarter, we completed a nationwide integration in Mini Program and the JD Daojia for all of its over 3,000 stores, enabling us to generate license revenue in recurring stream. We're now in the next phase of incorporating Tmall and Meituan Dianping to this digital platform to fully integrate business flows from factories to stores and to consumers.

Another example is one, we were recently secured a world-leading sports equipment retailer to co-build its digital operating platform. Thus far, we have established a business pipeline with over a dozen of brand partners in technology integration. We believe as brand partners elevate the efforts in digital transformation, technology remains the backbone of our widening competitive advantages.

Now, move on to our progress in logistics and supply chain businesses. Despite the disruptions in some areas during the COVID lockdown, we not only were able to uphold operations at our own warehouses, but also guided our brand partners to quickly transit from a centralized warehouse into a grid managing system. We further deepened our cooperation with Cainiao to leverage its established infrastructure and network. During the quarter, we started to manage Cainiao's warehouse in the apparel category, got some business referrals in luxury and the premium sector, and launched more RFID-based solutions for some of our key sportswear brands. Motivated by these early synergies, we will appraise the existing alliance to further streamline and advance additional strategic objectives.

Enduring all the external uncertainties, we were able to demonstrate our resiliency and accountability. Meanwhile, we are executing our medium-term plan with discipline, and strategically investing in our business transformation to expand our total addressable market.

For example, please turn to Slide #5. In brand management, we see a natural move to expand upstream in the value chain. Leveraging our digitalization capabilities and growing penetration of e-commerce and marketing insights, brand management enhanced value proposition from end-to-end solutions, which will also, in turn, enhance our strategic thinking and cultivate a brand-oriented service philosophy. Since last year, we initiated our brand management efforts on the multiple purchase, including strategic lines through minority investments and self-incubation. We have assembled a diverse and attractive portfolio of 7 brands to start with, covering 2 major categories of apparel and accessories and health and beauty. We are happy to report that we have empowered these brands to a mass of total GMV of approximately RMB 80 million in the first half of 2022. This translated to a year-over-year growth rate of over 50%, strongly outperforming the general retail industry.

Finally, on ESG and sustainable growth, turn to Slide #6. We issued our second annual ESG report this May and launched an additional set of green initiatives, including the introduction of Carbon Neutrality White Paper in June. We are committed to reduce 50% carbon emission by 2030 compared to the 2021 baseline and the carbon neutrality by 2050. This quarter, we kicked off our public welfare initiatives by co-launching used-shoes recycling program with one leading national sportswear brand. As a leader in e-commerce services, we will always bear in our mind to operate responsibly, comfortably and sustainably. We look forward to expanding with our brand partners to mutual successes.

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

Arthur Yu Baozun Inc. - CFO

Okay. Thank you, Vincent, and hello, everyone. Now, let me first do a quick review of financial of second quarter in 2022. Please turn to Slide #7. During the quarter, our total GMV increased by 47% to RMB 23 billion. The strong GMV growth was mainly due to outstanding performance by one leading electronics brand under service fee model. And excluding this particular brand, the adjusted GMV would have grown by 2.4%. Total revenues declined by 8% to RMB 2.1 billion, of which product sales declined 29%, while service revenue increased by 7% compared with the same period of last year.

Now, let's turn to Slide #8 for a breakdown of revenue. During the quarter, revenue from our traditional e-commerce partner business accounted for 50% of total business. Revenue for warehouse and logistics contributed 29%, and digital marketing and IT solutions contributed the remaining 21%. The outbreak of COVID and subsequent strict lockdown in April and May had a general negative impact on our business. However, we are glad to see that our luxury category still achieved double-digit growth. There was also more resiliency in value-added services, where warehouse and fulfillment service revenue increased by 20%, and digital marketing and IT solutions declined only 4%.

And due to COVID lockdown impact, product sales revenue declined by 29%, reflecting a general weak sentiment in product sales as well as our proactive measures to optimize working capital efficiency. And given the current uncertainty in geopolitical events and macroenvironment, we believe it is critical to continue to focus on high-quality revenue stream to minimize risk in the coming quarters. And as such, we have put more efforts on non-distribution model to grow revenues from value-added services, while de-emphasizing distribution model on product sales.

Now, turn to Slide #9. During the quarter, our cost of product decreased by 26% to RMB 602 million, mainly due to a reduction in product sales. Our gross profit margin for product sales was 13.2% for the quarter, mostly due to a change in pricing strategy, adjustments in category mix, and the increase in costs related to default and imperfect products. But if we take into account service revenue, our overall gross margin improved 7% to 72%, driven by higher revenue stream contribution that generates a higher margin.

Now, let's turn to operating cost and expenses on Slide #10. Fulfillment expenses were RMB 725 million, an increase of 29%, which was largely due to the revenue growth in warehouse and logistics services and some incremental costs related to COVID protection for front-end fulfillment staff. We are glad to see our regional sericite ramp-up and the efficiency of customer service has improved to a point that such costs declined by 2% year-over-year.

Our sales and marketing expenses were RMB 668 million, an increase of 3%, mainly due to increased business development-related staff costs to drive business growth and offset by efficiency improvement.

Technology and content expenses were RMB 112 million, a decrease of 3%. The decrease was mainly driven by the company's cost control initiatives and efficiency improvements, which was partially offset by company's ongoing investments in technology innovation and productization.

G&A expenses totaled RMB 92 million, a decrease of 6%. The decrease was primarily attributable to the company's cost control initiatives and efficiency improvements at a higher base from dual-running period for the company's new headquarters in the same period of last year.

Now, turning to Slide #11. Based on the above-mentioned items, our non-GAAP income from operations was RMB 47 million during the quarter, and non-GAAP operating profit margin was 2.2%.

Once again, we have prepared waterfall diagrams depicting our analysis of how our top line and bottom line evolved year-over-year. As a reminder, this analysis is unaudited and should solely be used as supporting numbers to aid discussion.

First, on Slide #12. This waterfall diagram shows our net revenue work from [Q2] (corrected by company after the call) 2021 to Q2 2022. In red, you can see that the biggest item impacting our revenue this quarter was product sales. As mentioned earlier, the two major factors contributing to this drop were our continuous effort in brand optimization and weak product sales due to COVID lockdown, mainly from one key brand in personal care product categories. Revenue from digital marketing and IT services, which we view as value-added services declined slightly this quarter by 4%. This slight decline in digital marketing and IT revenue can also be attributable to the COVID lockdown that negatively impacts several new project launch from brand partners.

On a positive note, these initiatives in value-added service led to better profitability. And please follow me to Slide #13 for the indicative work of non-GAAP operating profit and cost stream.

As shown, non-GAAP operating profit from digital marketing and IT improved by [RMB 19 million] (corrected by company after the call). We also generated a positive saving of RMB 15 million from cost optimization, while at the same time, we kept investing in new opportunities. We spent RMB 14 million on brand management, overseas expansion and COVID protection and welfare for employees during the lockdown. For our traditional store operation business and warehouse and fulfillment business, the challenging external environment dropped down the overall top line, while also trigger higher operating expenses during COVID lockdown.

Please turn to Slide #14. To counter these headwinds caused by COVID lockdown, we continued our cost transformation and optimization efforts, mainly focused on 4 areas.

Firstly, we proactively minimize the risk by diversifying regional service center functions, including store operations, design, digital marketing, and technology capabilities. Following our success with regional service center in Nantong and Hefei, we have selected more cities for the next phase of expansion, including Jinan, Hangzhou and Anqing.

Secondly, we continue to re-engineer our business processes by centralizing our operating capabilities, where we use one team to serve multi-brand with similar tasks. We also introduced a couple of new automation and intelligent tools to increase productivity and reduce labor costs.

Thirdly, we rationalized our compensation incentives for our front-line employees by introducing the Baozun Business Owner, i.e., BBO, contract which was designed to motivate our employees to take ownership of their roles and offer more entrepreneurial incentives to reward performance.

And finally, after moving into the new headquarter building, we were able to consolidate the office footprint across all departments into one place and further streamline supporting functions such as finance, administration, and procurement to reduce cost.

Now, let's turn to Page 15 about our cash flow. As of June 30TH, 2022, our cash and cash equivalents totaled RMB 3.1 billion. In light of the macro uncertainties, we continue to prioritize working capital efficiency enhancements and launched new initiatives to further advance our back-end process to improve inventory management, billing and collection activities. As a result, we are pleased to sustain a positive operating cash flow of RMB 405 million during the challenging period of COVID lockdown. Meanwhile, we moved forward with our share buyback efforts and purchase of convertible senior notes, which totaled RMB 992 million during the quarter.

And lastly, our Board of Directors has approved us to pursue the voluntary conversion to dual-primary listing on the Hong Kong Stock Exchange. As of today, we are happy to announce that we have received the acknowledgment from Hong Kong Stock Exchange regarding the conversion to dual-primary listing. We expect the primary conversion to become effective on November 1st, 2022. After the

primary conversion becomes effect, Baozun will become a dual-primary listed company on the NASDAQ Global Select Market and the Main Board of Hong Kong Stock Exchange. By becoming primary listed on both exchanges, we anticipate expanding our assets to a wider investor base.

Overall, despite some turbulence in macro environment, our ability to conduct business during the lockdown highlights the flexibility and resilience of our business model. We will continue to prioritize resource allocation, drive cost transformation and improve working capital efficiency. We believe our solid balance sheet, our improved momentum in value-added service, and our well-diversified brand partner portfolio will not only prepare us to get through the tough macro environment ahead, but also enable us to emerge as a stronger business with sustainable long-term growth.

So this is my financial review section, and that concludes our prepared remarks. Thank you, everyone. Operator, we are now ready to begin the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question today comes from the line of Alicia Yap from Citi.

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

I have 2 questions. The first one is related to the progress and traction for the non-Tmall channels. It seems like this quarter, the contribution declined from last year to 24%. Could management share more color the reasons of this mix and how we should be thinking about the future growth opportunity for all these alternative channels? For this quarter specifically, is this suggesting the brands remain quite resilient or actually returning more to the Tmall channel? And then the second question is, can you update us on your relationship with iClick? How is the business cooperation with iClick so far? Is the investment and strategic business collaborations are working as planned? Any color that management could provide would be appreciated.

Arthur Yu *Baozun Inc. - CFO*

Okay, Alicia, I will take your questions. So this is Arthur here. So first of all, on the non-Tmall percentage. So basically, the number you have seen is based on including a very strong performance of one major leading electronic brands during the 618. And if we exclude this one leading electronic brand, actually non-HMO residents 48% of both our GMV this quarter compared with 43% last year, which is an improvement of 5% year-over-year. And this is actually demonstrated our omni-channel strategy has continued to make the efforts. We also see that more brand is starting to utilizing the non-Tmall channel to grow their e-commerce business. And as we have mentioned earlier, we have made good progress in not only Tencent, but also we made good progress in JD and other private omni-channel as well.

On your second question regarding the cooperation with iClick. Basically, just a recap the main purpose of us making the investment into iClick is to enjoy the operational synergy by Baozun operating the back end of operations and iClick having a front-end kind of system, which allow us to jointly pitch more customers. So basically, the integration will fully completed, and we have seen good progress in terms of the joint BD and as a result, you can see, we mentioned earlier, our Tencent ecosystem has made a major progress in this year, where we were awarded 2 good rating one in 2 categories, one in the e-commerce operation and another in the ISV. Both of them is actually in the top category of the Tencent ecosystem. And that cannot be achieved without the support along with iClick. So after that, we actually become the only one company in China, which enjoys the top rating in Tmall, which is the 6 star rated TP and also the top rated in the Tencent system, making us the best service provider for both the public domain and private domain. So this is what we have seen the progress and the strategic opportunity we open along with the investment into iClick.

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

This is very helpful. Arthur, congrats on this solid achievement.

Operator

The next question comes from Thomas Chong from Jefferies.

Thomas Chong Jefferies LLC, Research Division - Equity Analyst

I have 2 questions. First is about the recent trend. Can management comment about the impact of the macro headwinds and the consumer sentiment to our overall business and also the trends of different categories in July and August so far? And my second question is about our cooperation with Cainiao. Our management provides an update about the cooperation and also share our thoughts about the expansion into Southeast Asia market?

Arthur Yu Baozun Inc. - CFO

Okay. So maybe, Tracy, you answer the first one, then I will take the one about Cainiao.

Chunlu Li Baozun Inc. - VP of BD

Yes. Thank you. I'm going to cover the first one. So regarding the digital consumption actually would be monitored closing in this 3 months. After 2 months, the rough time, actually the accumulated consumer demand has had helped us to achieve a very successful 618 as Vincent mentioned. And since these 2 months, we can see the traffic and GMV is up from July to August. So the overall consumption has gradually recovered, although it hasn't been fully recovered to the same level compared with last year, but we think the trend is good. And that it is the very similar situation on the consumer sentiment here, the market is facing the challenge of the free traffic shorten and the lower rate of the conversion and also the higher rates on Cainiao the returns across categories. And I think this is the shared landscape across different categories, 5% up and down across different categories. But we can see the platform are taking many initiatives to upgrade the APP's consumer experience, like they initiated the market delivery address in one order in those 2 weeks.

So we believe all of those investments will harvest the consumer preference in longer term. And from Baozun side, actually, in the past 1 quarter, we put a lot of attention on the consumer experience, too. We're actually working with our brand partners to launch new features like to digitalize the post sales, consumer care service we have many of our clients to enable the cleaning and maintenance service for over 1,000 products so that our consumers can enable to enjoy the same premier service online and offline, and also our design hub to launch the 3D display modeling service, and also the Gift Card and also the Tmall exclusive capsule in the CBD period. So all of these tactics, I think, will help us to communicate with the young generation. And also, I think in the longer term, we will build the confidence in the consumer sentiments and the consumption.

Arthur Yu Baozun Inc. - CFO

Okay. Thank you, Tracy. I will answer the second question I think this question actually has two parts. On the cooperation with Cainiao, we are making good progress quarter-on-quarter. So basically, we have cooperated mainly in 3 areas. So the first one, we have been jointly BD in several luxury and primary apparel brands with some good results. And we see that as one of the major opportunities for us in cooperating with Cainiao. And secondly, Baozun was able to utilize Cainiao's national-wide capability on logistics and warehouse. So during the 618, we were able to use the Cainiao capability to operate the grid management system, which allows the delivery in a faster speed to the customers. So that helped us to achieve a good result in the 618 campaign. And thirdly, both Cainiao and Baozun actually technology, very strong company. So basically, in this quarter, we started co-operation on the RFID technology, and we adopt that technology on a few international sportswear brands, which helped to improve the efficiency and to improve the customer satisfaction.

So we see a great future and continued success in working together with Cainiao. On your second part of the question in terms of expanding overseas market. So basically, since early this year, we have started to expand outside of China. So far, we have offices in Singapore and also in Paris, in France. And we start to build our footprint in both Asia outside of China and also Europe with additional people and additional network on the ground. So as of this quarter, we actually can see about 200 million GMV, which were generating from outside of China, and this amount is actually growing quarter-by-quarter.

Our international growth strategy is focused on replicating our China e-commerce success and take the learnings we have in China and adjusted for the local practice and also to utilize the local know-how to make it a second generation of e-commerce in each of the markets we aim to operate. And in our approach to grow internationally, we will consider both the organic growth and also the inorganic growth, as we mentioned in the past as part of our M&A strategy. So that is about our overseas expansion.

Operator

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

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

I have 2 questions. The first one is the big picture one. As we all know, there's actually a lot of change in macroeconomic condition in regulatory requirements, in industry dynamics and also the competitive markets. So I want to know from a management perspective, what's the top priority of Baozun right now? Is there any change in the company's strategic direction? And my second question will be regarding the like upcoming Singles Day promotion. I'm wondering how is the preparation from the brand's perspective? Have we made any plans and how's the momentum look like at this time?

Arthur Yu Baozun Inc. - CFO

Yes. Okay. Thank you, Joyce. I think maybe, Vincent, you can share some high-level thoughts on the first question. And Tracy you may be able to cover the second one?

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

Sure. Thank you. Thank you, Joyce, for the question. Yes, talking about the priorities of the strategy, I'll pick three. I think the first one is, of course, the China e-commerce market, which is our core business. I think despite all the negative impact from different angles, we still think the Chinese e-commerce market will be quite robust, and there's still a lot of potential to grow in the future. So we will still focus a lot in this area, trying not only to have more valuable customers, but also make our operations and technologies more efficient to support the future growth. That is number one. Number 2 is we think technology, as always, we keep investing in this area. And right now, we think we are stronger and stronger in the industry. And we want to touch the existing and the potential new users through this technology arm. And we are seeing really good progress in the first half of this year as well.

And I think also the charm between this tool is that when this tool can be connected to each other or leverage to each other, we see a very much, much better result of effect of 1 plus 1, much bigger than 2 effect. I mean that when we talk to potential technology clients, our experience in China e-commerce will help a lot. And when we talk to e-commerce customers technology will also play a very important role. So I think the charm between the 2 is very important. So number 3, I think, will be overseas expansion. As you see, we have a lot of progress, too. And we use this business plus investment approach, which Arthur just said, organic and inorganic together. So we are quite confident we can continuously make progress in the second half of this year as well. So I think this 3 are quite important top priorities for today's work. And it's quite in line with our medium-term plan. So that is the first part of our thinking. The second one about the double 11 thing, I think, Tracy, you can answer this.

Chunlu Li Baozun Inc. - VP of BD

Yes. Sure. Thank you, Vincent. So actually talking about Double 11, I think it's still in the early stage because we haven't moving the real stage to talk about the inventory and the investment level. But through the top conversation with their leadership team in marketing brands, I think their ambitious is still there. For the next second half of the year, I think most of our brands, their new product launch plan and also the marketing investment is still at the same level right now. But from the attitude part, right now, they are sitting on the fence.

For some of the brands, I think, they have the healthy economy situation based on their omni-channel landscape and also their product bonus part, their marketing investment stock level is a little bit higher. I mean, prepare for the double 11, but we still put close monitoring on ROI and cost structures. But at the current stage, I think when we see the double 11 in the next maybe 3 months later, I think the most important thing is we need -- I think in the recovery, we are still in the recovering period actually from Baozun's operation plan point of view, we think we need to take at least a 6-month plan to focus on 2 things.

First is to move the focus of daily sales to margin part and new product part, not that discount concentrate. And the second is on the resource contribution and the stock level and the budget part to put efforts on the big promotion. And the third part is to mitigate actually the impact of the missing of the top KOL host and to build a metric for new live stream ecosystem. So that is the top 3, including the daily sales and the big promotion and also the live stream part, we will build into our 6-month plan to work with our brand partners to mitigate the impact of COVID-19. I hope this will help to solve the problem, and we keep close communicate with brands and share more information later.

Operator

And your next question comes from the line of Charlie Chen from China Renaissance.

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

I got 2 questions here. The first one is about the performance of some international brand partners from some of the international apparel brands, financial reports, you can see their performance in China has been rather disappointing as Baozun has been an existing long-term partner with some of the key international apparel brands. What is the management strategy to basically turn around this trend or is there any other brands that can compensate the revenue shortfall from the international apparel brands? So that's the first question. And the second question is a follow-up question. So Baozun has been the partner of Internet marketing for a lot of brands for a long time. So going forward, I want to get some color on how to -- how about Baozun sustain the growth or even create the second growth curve? In particular, is there any further penetration that we can do with international brands in China? Or we should bring some international brands into Chinese market? Or on the other side, is there strong enough demand from domestic brands in Internet marketing? Or do we have any plan to bring those domestic brands outside of China to the overseas market. So I wanted to get some color on that.

Arthur Yu Baozun Inc. - CFO

Okay. So on the first one, maybe I'll just share some brief thoughts, and Tracy, you can add color on top of mine. So given the current challenge, we're actually looking at two ways of countering the challenge at the moment. Number one is you can see we put more emphasis on the value-added service, the things like our digital marketing, our IT solutions, and also our logistics and warehouse services. These are value-added services on top of the e-commerce operations, which, on one hand, is going to generate new revenue streams and also place a path to helping us to get into a more penetration into the new customer base. So that's one. Secondly, we have made a lot of efforts and have seen good progress in terms of the BD since last year. We now have established a central business development team across all the different categories. And at this moment, we have created a long list of potential BD, and which we have seen good opportunity to go further in terms of getting more brands onboard with our capability on offer. So maybe Tracy wants to add more.

Chunlu Li Baozun Inc. - VP of BD

Sure. Thanks. I think I can add more elements on the second point because actually, I think BD has been proving one of the keeping driving factor for our business right now. We have 3 highlights in the first half of the year. I think the first one is we have very solid progress on the Jingdong and the brand side, omni-program channel, with at least 20 significant store opens by this year, and its cross-category in luxury, in beauty and in sports category.

And also we can see from the Jingdong channel actually they show relatively higher growth, especially in the 618 and their potential on sales haven't been fully unleashed, considering most of the stores are in early stage of the operation. So it should contribute more in our business landscape for next year. And secondly, I think for the category part, besides the apparel and 3C digital, we also have very good progress in lifestyle-related category to work with the higher quality brands actually is including foreign and local brands in food and house-living things related, we are able to balance the category mix and seek sustainable growth.

Arthur Yu Baozun Inc. - CFO

Thank you. Thank you, Tracy. And also, I think for the second question on the second curve in terms of the business, I think it's a very good question. So before we talk about the second curve. Actually, the main priority for us is to make sure our existing e-commerce business is grown in a very solid way. So basically, as I mentioned earlier, we will prioritize quality over above the pace of the growth. We will protect our margin and protect our cash flow. And we hope that e-commerce, which, as Vincent mentioned earlier, which is strong, which still presents quite a significant opportunity in the Chinese market. We will tackle this market to protect our existing business and profitability. And on top of that, so we will focus on a few areas, which in line with what Vincent just said, our strategic priority.

The first one is technology and digital enhanced value-added service. So this is the core capability of Baozun, which we have been building over the last 15 years. We have made a big investment and our capability is very unique and highly valued by the enterprise clients, which they need our OMS and our back-end system to integrate for their e-commerce operations. So given today, many of our enterprise customers pushing into the D2C initiative and also driving this potential transformation, we have seen in the market a growing

demand for those technology solutions, which Baozun is very good position to offer. So that's on the technology. On top of the technology, if we combine the technology, the transformation capability we have, and also the e-commerce operation capability we have, we actually will be able to enter into the brand management space by utilizing our digital capability to transform our brand end to end.

In the slides, we have shown earlier, the brands we invested and we deeply managed end-to-end has showed an over 50% growth year-over-year, which is quite a good result. At the same time, from the learning of managing our brand end to end, we will be able to build more experience and more learnings, which we can come back to feedback to our existing [APP] customers to benefit. So that's where we see the second part of our growth. And then finally, as I mentioned earlier, is the overseas expansion. So basically, technology, brand management, and oversea expansion will play a big part in our second curve of growth.

Operator

(Operator Instructions) Your next question comes from the line of Yang You from CLSA.

Yang You CLSA Limited, Research Division - Research Analyst

Congratulations on the solid results. So I have a question on the margin outlook of the second half. So would we expect further margin improvement compared to what we have last year? Will we see any further benefits arising from our continuing cost transformation efforts? And also a small question on the use of cash. So how should we think about the capital expenditure in the second half?

Arthur Yu Baozun Inc. - CFO

Thank you for the question. For the first question on the margin, we will keep driving the cost transformation, and also we will prioritize our cash flow for the improvement in the second half of the year. But in terms of the overall market dynamics, there are still a lot of uncertainty, which caused by the potential COVID lockdown and also the slowdown of the overall economy, which has negative impact into the product sales margin and also the overall growth. So which I would just only to say we will try to protect and improve our margins with the initiatives we have on the ground. But in terms of the end result, we have to wait and see, but we will keep the market updated when we have a little bit more coming in towards the later part of this quarter. On the second one, in terms of the cash, so at this moment, we actually prioritize the cash above the growth. So basically, during the period of uncertainty, cash is the king.

So on one hand, we are improving our working capital to reduce the inventory level at the same time to increase the speed of collection, trying to improve our operating cash flow. At the same time, in terms of the investment activities, we put a higher quality for our investments in this year. And also given the uncertainty into the Chinese market, we actually put some of activity, especially the consolidation of the similar TP on hold in China. But outside of China, we do look at opportunity to further grow as we mentioned, in terms of investment into the brand management, the investments into the overseas expansion are the 2 directions that we will keep making the investment. And finally, as we have always said, Baozun is a technology company and the investment into the technology will be one of our priorities and we think that will help us to build a sustainable business into the future.

Operator

And your next question comes from the line of Yang Bai from CICC.

Yang Bai China International Capital Corporation Limited, Research Division - Analyst

My question is also about brand partners. As the macro environment is weak, did you lose any big brand partners this quarter due to they choose to do operations by themselves or due to foreign brands closing offline stores in China?

Arthur Yu Baozun Inc. - CFO

Okay. So maybe I will share a little bit insight and Tracy can add more. So basically, what we have seen at this moment is the brand partner starting to put more cautious approach in terms of the e-commerce, how they run the e-commerce. On one hand, given they also focus on the efficiency over the growth and several of the brand partner has put quality over the growth speed. They're actually looking for a stable partner to work with them to develop a long-term approach. So this is what we have seen the churn has been reduced over the last couple of quarters, we see uncertainty increase. And secondly, in the China e-commerce market, it's actually the evolvement of this market has changed very quickly. New channels coming out every several quarters, new ways of operating the e-commerce has changed over time to time in a very fast pace.

So in order to catch the market, the brand partner actually needs the service provider like Baozun, who has the capability to keep in the front of everything is happening on e-commerce. We will be able to learn from the many different brands and will bring that knowledge and also experience from the e-commerce and add value to our brand partners. So that gave us a good advantage in terms of keeping and expanding our service into the brand partners. So that's some of the insights I have seen. Tracy, you want to add more?

Chunlu Li Baozun Inc. - VP of BD

Yes, I think exactly as a strategic partner, actually, right now, the key is about the long-term direction things. At Baozun, we working with our brand development, I think at least the 18-month operation plan to counter the impact of COVID-19, like in this 2 or 3 months is a quiet period, how to rationalize the investment and save the effort, test the water. That is the key. But for the next 6 months, it's a recovering period. As I mentioned, how to move the focus of the daily sales and also prepare for the big promotion, and to mitigate the top KOL missing issues. But turning into the next year in the developing period and how we can work with the brands to use marketing values on the channel content and the marketing campaign to rebuild the brand equity and recall the consumer group. And that is the key. I think in the longer term, we will work with the brands to surpass the impact of the COVID-19.

Operator

I will now hand the call back to Wendy for closing remarks.

Wendy Sun Baozun Inc. - IR Director

Okay. Thank you, operator. In closing, on behalf of the management team, I would like to thank you for all your participant today. To reach out to us. Thank you for joining us, and this concludes the call.

Operator

This concludes today's conference call. Thanks for participating. You may now disconnect. Speakers, please standby.

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