Baozun Inc.
Q4 & FY2023 Earnings Conference Call
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Company Speakers
Wendy Sun, Senior Director, Corporate Development & Investor Relations
Vincent Qiu, Chairman and Chief Executive Officer
Arthur Yu, Chief Financial Officer & President, Baozun e-Commerce
Sandrine Zerbib, President of Brand Management

Analysts
Alicia Yap, Citi
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Charlotte Wei, HSBC

Presentation

Operator: Good morning, ladies and gentlemen, and thank you for standing by for Baozun's Fourth Quarter and Fiscal Year 2023 Earnings Conference Call. (Operator Instructions). After management's prepared remarks, there will be a question-and-answer session. As a reminder, today's conference call is being recorded.

I will now turn the meeting over to your host for today's call, Ms. Wendy Sun, Senior Director of Corporate Development and Investor Relations for Baozun. Please proceed, Wendy.

Wendy Sun: Thank you, operator. Hello, everyone, and thank you for joining us today. Our fourth quarter and fiscal year 2023 earnings release was distributed earlier before this call, and is available on our IR website at ir.baozun.com, as well as on global newswire services. We have also posted a PowerPoint presentation that accompanies our comments to the same IR website, where they are available for download.

On the call today from Baozun, we have Mr. Vincent Qiu, Chairman and Chief Executive Officer; Mr. Arthur Yu, Chief Financial Officer and President of Baozun e-Commerce; and Ms. Sandrine Zerbib, President of Baozun Brand Management. Mr. Qiu will review the business strategy and company highlights, followed by Mr. Yu, who will discuss the business development of Baozun e-Commerce, and about our financials and outlook, and then by Ms. Zerbib to share more about Baozun Brand Management. They will all be available to answer your questions during the Q&A session that follows.

Before we begin, I'd like to remind you that this conference call contains forward-looking statements within the meaning of the U.S. Securities Act of 1933, as amended, the U.S.

Securities Exchange Act of 1934, as amended, and the U.S. Private Securities Litigation Reform Act of 1995.

These forward-looking statements are based upon management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict and many of which are beyond the company's control, which may cause the company's actual results to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties or factors is included in the company's filings with the U.S. Securities Exchange Commission and its announcements, notice or other documents published on the website of The Stock Exchange of Hong Kong Limited. All information provided in this call is as of the date hereof, and is based on assumptions that the company believes to be reasonable as of today. And the company does not undertake any obligation to update any forward-looking statement except as required under applicable law.

Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in RMB. In addition, we may elect to use “Adjusted” in place of “non-Generally Accepted Accounting Principle” or “non-GAAP” in order to reduce any confusion that may arise from our discussions about the financials relating to the Gap brand.

Now please turn to Slide #2. And it is now my pleasure to introduce our Chairman and Chief Executive Officer, Mr. Vincent Qiu. Vincent, please go ahead.

Vincent Qiu: Thank you, Wendy. Hello, everyone, and thank you all for your time. 2023 kicked off our journey of transformation. Throughout 2023, Baozun Group demonstrated our resilience and adaptability to transformation. BEC reinforced its omni-channel capability and improved service quality, consolidating our leadership within the digital commerce ecosystem. BBM contributed additional revenue stream and extends our value creation from supply chain to also supply chain fulfillment. We also further enhanced our cash generating capabilities with cost optimization resulting from process re-engineering and more efficient working capital management.

Overall, despite challenging market conditions, our annual operating cash flow and free cash flow both grew by double-digit year-over-year and surged to record highs. This has significantly strengthened the financial health of the Group.

Total revenues of the Group grew 5% year-over-year to 8.8 billion, underpinned by incremental contributions from Baozun Brand Management. BBM executed its strategy of premium-ization for GAP China and achieved an impressive gross margin of 54% for the year. This in turn resulted in much lower operating losses, far surpassing our initial forecast. This breakthrough in our first year is the result of having established a solid foundation for growth and success in brand management. BBM is a key component of Baozun Group's second growth curve.

Baozun International, BZI, represents a longer-term opportunity for which we continue to lay the business foundation and infrastructure. As BBM ramps up expansion following its acquisition of Hunter IP, BZI will play a vital role to expand Hunter into Southeast Asia, starting with

Singapore and Malaysia this year. This is a good example of the synergy and collaboration between our business units.

We believe that our expertise in technology, applied to operations and business transformation, is at the core of Baozun's identity. We are happy to share that Baozun has been acknowledged as a Representative Vendor in Gartner's 2024 Market Guide for Distributed Order Management Systems. We are proud to be the only Asian vendor selected alongside global retail service giants, such as Oracle, SAP, IBM, and Salesforce. This is a recognition of Baozun's outstanding technical capabilities in the industry.

Looking forward, we remain cautious about the macro uncertainties. Yet, we are confident that our ongoing transformation has strengthened our business fundamentals and our value proposition to brand owners. Our main focus this year is to continue to execute our plans diligently and patiently in a sustainable manner.

With a healthy cash flow and balance sheet, we will be ready to seize new opportunities and provide lasting value to our stakeholders. This January, our Board has also approved a new share repurchase program of US$20 million over the next 12 months. We will execute this program from time to time, taking into account factors such as trading window and marketing fluctuations.

Let me now pass the call over to Arthur for a review of our financials and update on our e-Commerce business BEC, then to Sandrine for more elaboration on BBM.

Arthur Yu: Okay. Thank you, Vincent, and hello, everyone. Let me do a quick review of the financials for the fourth quarter and full year of 2023, after which I will discuss our BEC business in more details.

Please turn to Slide #3. Baozun Group's total revenues for the fourth quarter of 2023 expanded nearly 9% to 2.8 billion compared to the same quarter last year, driven by incremental BBM revenue of 458 million. Due to a weaker economic environment, our E-commerce revenue declined to 2.4 billion.

Further pursuing a high-quality business model, we scaled back on low-margin product sales and trimmed low value-added service revenues. Consequently, product sales revenue of e-commerce decreased 23% year-over-year, notably in the Appliances, Electronics and Fast-Moving Consumer Goods categories. This was partially offset by increased sales from Healthcare and Beauty categories. Baozun Brand Management generated total revenue of 458 million, a sequential improvement of 53%.

Our total product sales revenue grew by 36% to 1 billion, and gross profit for product sales more than doubled to 315 million. Product sales gross margins for Baozun Group totaled 30%, significantly improved from 17% a year ago. The growth of our gross profits and gross margin was mainly attributable to incremental contribution from BBM.

Group income from operations was 6.4 million during the quarter, of which, E-commerce 's operating income was 50.1 million. BBM continued to show good momentum in reducing its operating loss to 43.7 million. Gap's premium-ization strategies with discount control, new

China-for-China product launch and new store openings have all met our expectations. These initiatives will provide a foundation for better profitability in the coming quarters. Sandrine will cover the details later. On the Group level, our net loss significantly narrowed to 2 million during the quarter from 256.5 million a year ago, as we incurred a significant one-time fair value loss during the same period of last year.

Excluding the impact of ESOP, amortization, and other non-recurring business factors, our adjusted income from operations was 75.7 million during the quarter, of which, E-commerce adjusted operating income was 118.2 million, and BBM operating loss narrowed to 42.5 million. Our adjusted net income was 76.8 million during the quarter.

Let us turn to a quick full year summary. We ended 2023 with Group total revenue of 8.8 billion, an increase of 5% year-over-year. Gross profits totaled 6.4 billion, an increase of 4% year-over-year. Our adjusted operating loss totaled 23.7 million.

Please turn to Slide #4. Turning to our cash and cash flow status, as of December 31, 2023, our cash, cash equivalents, restricted cash, and short-term investments totaled 3.1 billion. We continue to improve working capital efficiency through back-end process re-engineering on inventory, billing, and cash collection management. Annual operating cash flow and free cash flow were 454.5 million and 259.5 million, an increase of 19% and 46%, respectively, year-over-year.

Now, let's dive into our BEC business. 2023 is a year of transition for our BEC business. At the beginning of the year, we set a strategic objective of achieving “customer-centric, high-quality, and sustainable business growth” for BEC. This guiding principle steered the team's efforts and allocation of resources throughout the year. As a result, we have made progress in the following three areas, as displayed on Slide #5.

Firstly, the customer satisfaction enhancement. We introduced Net Promote Score, NPS, framework in collaboration with Nielsen in 2022. The objective of this initiative is to implement a robust client service quality management framework, defining precise standards for various services and measuring the outcomes. I am glad to report that our NPS score has improved from 8.07 in 2022 to 8.23 in 2023. This improvement reflects our clients' growing recognition of Baozun's services and directly contribute to our outstanding contract renewal ratio. In 2023, over 97% of our key account clients chose to renew their contracts with Baozun. I am pleased that we are well on track to further improve customer satisfaction in 2024.

Secondly, we focused on driving business growth through strengthening our omni-channel capabilities and expanding core product categories. By participating in high-level discussions with brand partners and key marketplaces, we helped our brand partners formulate effective omni-channel “go-to-market” strategies for sustainable e-commerce business growth in China. This enabled us to acquire over 50 new brands in 2023, including Tiffany, Tumi, and Dyson, just to name a few. From the product category standpoint, we consistently achieved growth in Baozun's market share within our primary categories of luxury and premium apparel on both T-Mall and JD platforms. This has helped us establish a solid foundation from which we will extend our reach into new product categories such as wine and spirits, health and beauty, and luxury automotive in 2024.

Given the dynamic nature of the e-commerce landscape, we are strategically investing in interest and content-based e-commerce. In early 2023, we launched our Creative Content to Commerce division, which included a Shanghai-based livestreaming center. This was followed by the announcement of our acquisition of Location, a leading Douyin partner, in November 2023. Leveraging on our established partnerships, we secured several new contracts on the Douyin channel with industry leaders like ZARA, Crocs, Armani, and Coco Cola, just name a few.

Thirdly, we continued our efforts in efficiency improvement and cost control. During the year, we established a lean management committee to drive cost control and efficiency improvements. Our middle and back-office functions have become leaner and more integrated through process re-engineering. We also scaled up Regional Service Centers by transferring approximately 770 new positions into these facilities, generating an annualized cost saving of 24 million.

We integrated more AIGC initiatives through strategic partnerships with industry leaders such as Microsoft and OpenAI, enhancing daily operational efficiency of over 3,000 employees. Our efforts in working capital management also yielded substantial results, setting new records in both operating cash flow and free cash flow as mentioned in my financial update.

Looking ahead, our primary focus for 2024 remains on executing our business strategy to create high-quality and sustainable business growth. We aim to fortify our market leadership position in the luxury and apparel categories, while also expanding into high-potential categories such as wine and spirit, health and beauty, and luxury automotive. We believe this will naturally expand our market share and TAM in brand e-commerce.

We will continue to enhance our omnichannel capabilities. One of our key focus is Douyin, where we leverage Location's expertise in daily livestreaming in conjunction with Baozun's creative content and e-commerce operating experience. Following the completion of the Location acquisition in March 2024, we are now well-positioned to seize more opportunities from our brand partners and to create additional revenue streams for BEC.

In addition to Douyin, we are also working closely with VIP.com and Little Red Book, aiming to build an extended ecosystem focused on value-for-money, content marketing and traffic acquisition for our brand partners. We are also exploring business opportunities in other emerging channels, such as Dewu and Kuaishou. We believe these new opportunities will extend our success across major e-commerce platforms, positioning us for sustained growth.

Lastly, we aim to further grow our high-quality product sales business in 2024. In the past year and a half, we have been optimizing our product sales business model by emphasizing higher quality. When we refer to high quality, we are aiming for both improved margins and enhanced merchandising and inventory control. As part of this effort, we have elected to terminate certain partnerships where the gross margin level and inventory risks did not meet our standards.

In 2024, we have introduced a new business model, where Baozun serves as the exclusive distribution partner for a brand in China. This model entails managing all sales channels both online and offline, utilizing our omni-channel digital technology. We are confident that by applying Baozun's leading data and system technology, we can seamlessly integrate online and offline channels to deliver a superior performance compared to traditional distributors.

Furthermore, within our product sales business, our self-incubated brand, U Daily Plus, continue to deliver high-double-digit growth in beauty and health category. We are convinced that these new initiatives will drive the growth in both revenue and profit margin for our product sales business in 2024.

Overall, I believe we have established a solid foundation and implemented the right initiatives for our transition. We have confidence that we are now on track to strengthening BEC's top and bottom lines, while continuing to generate healthy cash flows in 2024.

Now, let's pass on to Sandrine.

Sandrine Zerbib: Thank you, Vincent and Arthur, and thank you all for joining us today. It is my great pleasure to speak with you. Please turn to Slide #6. As you recall, in February 2023, recognizing a golden opportunity to reinvigorate an iconic brand, BBM acquired the operations of GAP Greater China. With a clear vision to transform GAP into a lifestyle brand tailored to the modern Chinese consumer, BBM embarked on a journey fueled by innovation and strategic foresight.

Our vision was to re-interpret American style for the modern Chinese consumer by localizing key elements of the core GAP brand DNA. We pursued a mission to make GAP products and messaging culturally relevant again in Greater China. The goal was not only to revitalize GAP products, but also to reignite consumer love and loyalty, moving away from a discount-driven model to one that resonates deeply with the aspirations of the modern Chinese consumer.

We took over a business which had just closed 86 stores and was plagued by abnormally high levels of discount all year round. And in just 11 months, BBM's multi-cultural talent and diverse teams, coupled with impeccable execution and technology-driven solutions, achieved remarkable results.

The transformation of GAP China from a discount-driven brand to a consumer-centric powerhouse is evident in the following as indicated on Slide #7.

First, Team, Systems, and Processes: We focused on assembling the right team and implementing robust systems and processes to execute our turnaround strategy effectively. This included restructuring, hiring key personnel, and optimizing operational workflows, as well as putting in place a whole new set of systems to support our business.

Then Premiumization of the Brand: We embarked on a comprehensive strategy to elevate the brand by focusing on product design, product segmentation, supply chain enhancements, and improving store image. Our goal was to break free from the cycle of perpetual discounts, and focus instead on appealing to consumers thanks to our products and brand image. We introduced our new locally-designed China-for-China products, aiming to deliver the right product for the right people at the right time.

We launched the new products with an integrated go-to-market approach, combining celebrity endorsements, new store openings, and social media campaigns. We imposed discount control as the key factor driving the increase in gross margin percentage, which has reached about 1,100 basis points, excluding royalty.

We also opened our new store concept, which is more boutique as opposed to previous big box type of concept. We're enhancing the brand DNA, transforming our stores into more than just commercial channels, and creating immersive brand experiences. Our stores are now smaller in size, but higher in square meter efficiency, optimizing space for a better customer experience. We've implemented scenario-based and serialized collocation of merchandise, creating relevant festive atmospheres that resonate with customers. In-store pop-ups and campaigns are generating social buzz and further enriching the store experience for consumers.

Leveraging WeChat and omni-CRM, we're gaining insights into each customer and offering seamless engagement beyond the physical store. We successfully opened 10 new stores in 2023, including a flagship destination store in Guangzhou, as well as new stores in Chengdu, Shenzhen, and Beijing. We've enhanced the retail experience, achieving a 50% increase in square meter efficiency for newly-opened stores versus the existing portfolio on a full year basis.

Additionally, our existing stores have seen a notable 19% rise in same-store comparable sales. Our new stores have been warmly welcomed not only by our customers, but have also gained brand recognition within the retail industry.

We're proud to report that we achieved our objectives in these areas within the timeframe. In fact, in some aspects, such as gross margin, we not only met, but exceeded, our 2023 targets. This demonstrates the effectiveness of our strategies and the dedication of our team in turning around the business.

In 2024, based on our strengthened foundation, we will continue to build on the momentum to solidify the brand fundamentals and revitalize growth for the Gap brand in China. While we pursue 2024 top line growth, safeguarding our gross profit remains paramount. We will achieve this through stringent discount controls and increased special production tailored for our online business. We expect that these efforts, combined with continued control of expenses, will lead us to achieve Gap China turnaround in 2025, as planned.

Lastly, we have completed the acquisition of Hunter's intellectual property and established a joint venture with Authentic Brands Group. We now co-own Hunter's IP in Greater China and Southeast Asia, and BBM has become the licensee for operations in Greater China and part of SEA. Currently, we're in the preparation phase, focusing on tasks like store transfers and product planning.

The coming second quarter will be the official kickoff of our endeavors with Hunter. We have ambitious plans for Hunter's growth, including expanding into new categories and diversifying our distribution channels to unlock the brand's full potential in China, as well as in Singapore and Malaysia in Southeast Asia. Leveraging our Baozun International BZI business unit, we aim to further support and accelerate Hunter's business expansion in this region.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). The first question today comes from Alicia Yap with Citigroup.

Alicia Yap: I have two questions. One is, what is the latest consumption shopping sentiment that you have observed over the past 2 months in 2024? What is management's expectation of the macro overall and the consumption outlook for this year? While we think it's still early, so not sure, have you started to plan for this year's 6-18 promotional festival? What do you expect that could be different this year versus previous year for the 6-18 promotion period?

And then second question is for the BBM business. Just wondering, have you noticed any meaningful difference in terms of the user spending habit? For example, the average purchasing value at the offline store versus what you have been operating, which is the online store, the behavior for the user, that you can make some comparison? And then if there is opportunity for you to acquire or add a few more brands to your BBM business, could you share with us your decision-making criteria and what kind of brands that you're most eager to add to your portfolio of management?

Arthur Yu: Okay. I will take the first one, Alicia, for your question, and then I will pass on to Sandrine and Vincent to talk about the second one.

Regarding the consumption sentiment, I have to say the sentiment is still not recovered very quickly, and the consumer confidence, as we can see, the figures is still very low. But within that, there are some highlight points where we can see some category has performed actually better, for example, outdoor, healthy food and nutrition. So those are the spotlights which we have seen some good recovery on the consumption.

Regarding to 6-18, we haven't formally kicked off the plan for 6-18. That will start in May. However, we have already focused on to improve the daily sales, for example, doing a good operation and doing a good customer service and try to engage with the customer, which is trying to build a customer base and getting ready for the big promotion in 6-18. And the difference I have seen for this year is the daily sale is becoming more and more important, which means the ongoing operation from a capability perspective is becoming more and more important. So that's for my first question.

Sandrine Zerbib: Yes, thank you. Thank you, Alicia, for your question. So the first part of your question is about the online versus offline consumer behavior. It's pretty clear that the premiumization progress that I talked about is going faster offline than online. Nevertheless, online, we have also been able to achieve a much better gross margin than previously. So it's a question of cycle and time, it takes longer.

Then regarding your second question, we are actually looking at multiple opportunities, but we are being extremely selective. With in mind, I would say these criteria, the four criteria I'm going to say, which are really the key criteria, the first one is obviously the segment and the categories in which these brands belong to. We're looking for brands that are operating in very dynamic segments and there are still pockets of growth which are very interesting in China. The second key criteria is that these brands need to have some true potential to develop in the greater China and potentially Southeast Asian markets. The third one is the synergies with our current portfolio, particularly with regards to supply chain, but not only. It's really synergistic brands we are looking at. And the fourth one is brands that will enable us, through the right transaction, to act on what has been really key so far to the successful progression of Gap, which is China-for-China, meaning that we need to be able to work on the product. And we need to be able to really make a digital difference with our technology leadership. These are really the four key criteria for us.

Alicia Yap: Thank you.

Operator: Thomas Chong with Jefferies.

Thomas Chong: My question is first, can you talk about the growth outlook for non-Tmall channels and the contribution to our GMV? And then secondly, as we highlight in the prepared remarks, we are looking into operating efficiencies, improving profitability. So I just want to get some more color about the trend in our operating expenses and our margin outlook. And then finally, please talk about our use of cash and our thoughts about M&A.

Arthur Yu: Okay. Thomas, four questions. Yes, let me take them one by one. The first one, outlook for non-Tmall channel, as I mentioned in my earlier part, omni-channel is a trend, and it's a strategy we will follow in 2024. And we have put a lot of emphasis on the Douyin and Tencent channel. We also are looking into the new channels like the VIP.com and the rest. We believe, given the complexity and the evolving of the China e-commerce landscape, omni-channel is becoming more and more important.

From a number of perspectives, our non-Tmall channel has increased, but however, we are not looking at the number by itself. We are looking at capabilities because the capability will allow us to do omni-channel. It doesn't matter where the traffic goes. We will be able to adjust along with the brand very quickly and very easily. So that's the first one.

Your second question is about operating efficiency. So from the BEC's perspective, we established a lean management committee looking at how to capture the cost saving and efficiency opportunity in a very structured way. And in that program, we have already delivered very significant savings. So for example, as I mentioned, our regional service center program has transferred 770 positions from Shanghai to lower-cost location, which generates more than RMB20 million of savings. That's just one of those examples. We have a set of those examples in terms of how to drive the cost of savings.

In terms of the BBM, we currently focus on two things. One is from the third-party procurement. We actually put a lot of emphasis to deliver over 30% of savings in terms of the third-party procurement. And secondly is the overhead control. When we take over the business, we have streamlined the overhead to save the money.

I will pass on to Sandrine to talk about the growth margin improvement in Gap as well, which also driving the market improvement.

Sandrine Zerbib: Well, for the gross margin, obviously, the procurement is an important part of it, as Arthur mentioned, but key all year round has been our absolute control over discounts. We convince consumers to come and see us and buy our products, both online and offline, not just because they're discounted, but because they are good products with a good brand. So in order to get these results, we had to exercise extreme discipline on discounts, that's number one, but also, to bring the right products at the right time in stores, which are more attractive and with the right marketing communication and marketing messaging. This is in order to attract consumers.

Arthur Yu: Yes, thank you, Sandrine. And on the use of cash and also M&A strategy, so for the cash, as you've seen, because of our high operating cash flow, we keep a relatively high net position. So we will use our cash to deliver the shareholder value in both short term and long term. In the short term, as Vincent has announced, the board has approved a repurchase program on our share. And we will start that program once we have opportunity. And in the longer term, when we're looking into using the cash to do M&A, we are very selective under the current market situation. We're looking at a target for both strategic fit and also high operating financial status. So in this way, we will be able to use our cash very effectively to drive the longer-term value for our shareholder. So that's my answer, Thomas. Thank you.

Thomas Chong: Thank you.

Operator: Next question from Wan Jiao with CICC.

Wan Jiao: My first question is that you mentioned that Baozun will launch the footwear brand Hunter in the Southeast Asia. Could you please share some details about the strategies of Baozun's international business in the 2024?

And my second question is that could you please share your investment plan in AIGC and how AIGC will be used in company's business?

Vincent Qiu: Okay. Thank you, Wan Jiao, this is Vincent. The first question is about our international business, we call it BZI. I think after this almost 2 years' efforts, right now, we have established a full team who can deliver e-commerce services to our target brand, number one, that is. And number two, we also established a brand business team as well. So that means that we can not only provide the traditional e-commerce services in this region, just like we are doing in China, but also we can help the brand to have the online and offline business, omni-channel business, in Southeast Asia as well. Yes, so this gives us a lot of potential to help brands to expand their business into this region.

So right now, we have established several offices in different countries to run a business for e-commerce services and also the brand business. So Hunter is a good example for the brand business. We are going to open online stores and offline stores this year, middle of this year, and we are also conducting marketing for brand marketing in Singapore and Malaysia. So Singapore and Malaysia will be the first two places we are going to run Hunter business in Southeast Asia. And also our experiences, data, technologies will be all utilized into this omnichannel Hunter business. So that is for your first question.

The second one is about AIGC. I just want to talk this in two levels. First level is that in the whole group, no matter it's BEC or brand business BBM, these two business units, we all use

AIGC in general. It means that when we want to generate, no matter it's text or photos or videos, we utilize the results from OpenAI, Microsoft, these kind of big players. So you can see AIGC capabilities in almost all functions of our business units. So that is in general, we are adapting this capability from outside players.

Secondly, based on the general capability, we also have some specific directions. We want to put more resources to create some leading-edge for the business to help them against their own competitors. So right now it's still early stage. Some of them are proof concepts, some of them are meaningful products, but we hope we can make progress this year because compared to your previous years, right now, we work much more closely with brands, especially Gap and Hunter. So I think we can have much better results than before in this direction. Yes, that is for your second question. Thank you.

Wan Jiao: Thank you.

Operator: Colin Shan with CITIC Securities.

Colin Shan: I'm Colin Shan from CITIC Securities and I have two questions about BBM. The first is that we saw significant narrow-down of Gap's loss in the past quarters. And the offline same-store sales achieved double-digit growth in the fourth quarter. During this process, what progress is better than your expectation? And what measures can be further adopted to improve the margin of Gap in the future?

And the second question is that in your experience of running Gap, what's a key know-how of fully running an international brand in China's online and especially offline market directly? And how would that experience be leveraged in your further operations in other brands such as Hunter?

Sandrine Zerbib: Okay. Thank you, Colin, for this question. So on your first question, I think what was a good surprise really was the faster improvement of the gross margin than we expected. We had planned for improvement of gross margin; it was actually at the heart of our plan, but honestly, it has been even better and faster than what we had expected. Of course, there is still room to further improve overall the fundamentals of the business, but still, I think it's important to notice that it's actually the most pleasant surprise, I would say.

Now, what room we have to further improve, it's going to be through obviously, further working on refining products and product segmentation. That's pretty clear, but also by using data. We explained that in the first phase of our work, which was 2023, we already did quite some work to change all the legacy systems of Gap China and to bring a new platform of systems, thanks to Baozun technology. Now really in the second phase, we want to go much further in terms of data, enabling us to be even thinner in our understanding of consumers, and also enabling us to have almost instant reaction in terms of messaging and product once we have this very refined information. So that's for the gross margin.

The gross margin also overall requires continued discipline. It's a lot about the discipline on discounts. And overall also, regarding our strategy growing forward, now I think clearly, we want to go back to a growth strategy with more store opening, continued improvement of our store productivity, and a multichannel approach to our online business. So that's for the first part of your question.

On the second part of the question, I think in terms of synergies, clearly, it's going to be about the product machine, number one, and number two, the systems. But in terms of overall learning from the experience, it's also about how important the teams and the people are in this business. It's all about people, and I think this is something we really worked hard to put the right team together and we're quite happy with our team.

But it's also about constantly trying to enchant the consumers' experience with interesting stores, interesting stories, interesting products. And this in a time of weaker consumption, this necessary enchantment of consumers is even more important. That's for my answer to your questions, Colin.

Colin Shan: Thank you, Sandrine, and very clear for my question about BBM. And I have a follow-up question about the BEC. Since the beginning of the year, almost all e-commerce platforms are talking about and emphasizing about the price power. And from the perspective of Baozun and from the perspective of brands, how do you view the competition situation of China's domestic e-commerce platforms? And did you see any consumption characteristics changes in consumers' behavior and how Baozun react to this trend?

Arthur Yu: Yes, thank you, Colin, and it's a good question. Yes, we have also observed the increased emphasis on the price point and also the service level from each of the platforms. We believe it's actually a good trend because it will make sure the platform actually delivering a better service to the brand and also to the consumer. From a consumer perspective, quality has always been a thing. So a good quality brand will always have the market.

Value for money doesn't mean good quality brands will not be favored by a lot of consumers. So instead, the latest technology and the transparency of all the e-commerce platform provides a good opportunity for consumers to compare and choose where they buy and that drives two things. Number one is how to define an omnichannel strategy for those brands on the current e-commerce dynamic is very important. So that's where Baozun can use our experience and our technology to help.

Secondly is the experience, how to improve the online purchasing experience for the brand to help them to increase the conversion. This is also what we can do using the data and technology to enhance. So with that trend, we believe where Baozun positioned, we are very strong in technology, we are very strong in data. We have a huge experience across different categories, will allow us to grow the market share in the current dynamic of e-commerce. Thank you, Colin.

Colin Shan: Thank you.

Operator: Charlotte Wei with HSBC.

Charlotte Wei: I'm asking on behalf of Charlene, so I have a question regarding the product sales segment. We understand that product sales has been under the adjustment and some challenges for 2 years. How should we think about this trend entering into 2024? So is there any chance we can see this segment, the revenue growth or decline can stabilize this year? And what are the key drivers and the challenges this year?

Arthur Yu: Yes, thank you for the question. For the product sales, first of all, it has already started to see the stabilization in quarter one, and we will see the product sales revenue, as our plan starts to increase from quarter two and quarter three onward. For the full year, we expect to see an increased product sales revenue from BEC.

From the business management perspective, we put a lot of emphasis on better control of the risk from the product sales. What we emphasize on is two things. Number one is inventory and number two is the commercial terms. We will make sure we rationalize the inventory level to reduce the risk and enhance our cash flow. At the same time, in the negotiation, we will put a strict requirement on our commercial terms to protect our gross margin. So that's the first one.

Secondly, as I mentioned earlier, we introduced a new business model on product sales this year, which is focused on acquiring the exclusive distribution ownership for a brand. So in this model, Baozun will have a full control of all sales channels, both online and offline, and using our data and system technology, we will be able to enhance the efficiency throughout our system. And we believe we will do better than traditional distributors by using our data and technology.

And thirdly, as I mentioned earlier, our own incubated brand, U Daily Plus, has seen a double-digit growth. And in 2024, we expect to see that part will further increase, and that will also help to drive the product sales revenue. With those initiatives, we believe we can drive both the top line and bottom line of our product sales business. Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Wendy Sun for any closing remarks.

Wendy Sun: Thank you, operator. On behalf of the Baozun management team, we'd like to thank you for all your participation in today's call. If you have any further questions, just feel free to reach out to us. This concludes the call. Thank you.

Vincent Qiu: Okay. Thanks, everyone.

Operator: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.