

Baozun Inc.
Q2 2023 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
Sandrine Zerbib, President of Brand Management

Analysts

Alicia Yap, Citi
Thomas Chong, Jefferies
Sophie Huang, CMB Bank International
Janet Yung, Bank of America
Andre Chang, JPMorgan

Presentation

Operator: Good morning, ladies and gentlemen, and thank you for standing by for Baozun's Second Quarter 2023 Earnings Conference Call. 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 of Baozun. Please proceed, Wendy.

Wendy Sun: Thank you, operator. Hello, everyone, and thank you for joining us today. Our second quarter 2023 earnings release was distributed earlier before the 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. Exchange Commission and its announcements, notice in the company's filings 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 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 call are in RMB. In addition, we may elect to use adjusted in place of non-Generally Accepted Accounting Principle or non-GAAP in order to reduce aural confusions that may arise from our discussions about financials relating to the Gap brand.

It is 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. Last quarter, we detailed our exciting transformation roadmap where we are expanding Baozun Group into three business lines, Baozun e-commerce, Baozun Brand Management and Baozun International. As demonstrated on Slide #2, these three business lines create an ecosystem in which each complements the other two, and all three concurrently promote each other. This strengthens Baozun Group into a one-stop ecosystem with the most comprehensive services.

Today, I am happy to share our strategic partnership with Authentic Brands Group, or ABG, which exemplifies the advantages and benefits of Baozun Group's one-stop ecosystem. Slide #4 is a snapshot of ABG. ABG is a global leader in brand development, boasting a large portfolio of more than 50 iconic and world-renowned sportswear and lifestyle brands. Earlier this year, ABG's executives visited us to discuss Baozun Brand Management and our potential collaboration with Hunter, a British premium outdoor brand under its portfolio. They quickly recognized that Baozun's vision and ecosystem can elevate Hunter's business in Greater China. Specifically, Baozun's advancements in marketing, technology, and digitalization, as well as our game-changing new retail philosophy and broad international reach, make us the ideal strategic partner.

Accordingly, ABG has chosen Baozun Group to become its strategic partner in Greater China. We have signed a license agreement for Hunter. Beyond a typical license partnership, we are moving further and are in the process of forming up a joint venture with ABG to co-own Hunter's intellectual property in Greater China and Southeast Asia. This marks another milestone in our transformation, where all three business lines will cooperate together to deliver an extraordinary suite of services to leading global brand partners.

Looking forward, we anticipate the challenging macro environment in China to continue. However, we have set key objectives for each of our business lines for the rest of 2023. With a priority in higher business quality, Baozun e-Commerce delivered solid growth in profits and cash flows in the first half of the year. BEC is also prepared to transition into its second growth curve to adapt to the rapidly changing dynamics of China's e-commerce market. Baozun Brand Management, or BBM, made through a smooth transition period, as we have put in place the right infrastructure, supply chain partners, and seasoned team. BBM is now accelerating its China-for-China product offerings, featuring Gap's new local designs and marketing. For Baozun International, we continue to establish infrastructure throughout Asia, focusing on Technology-Enabled Distribution to deliver the maximum omnichannel reach for our brand partners. Currently, Baozun Asia employs around 150 employees across Singapore, Malaysia, Thailand, South Korea, the Philippines, Hong Kong, and Taiwan.

Over the past 16 years in our history, I'm thankful that Baozun has been successful racing in a booming industry. We quickly expanded the business, built the best team, accumulated the best knowledge, and became the industry leader. Now, as the e-commerce industry matures, we have updated our aspiration to focus on refinement towards the extraordinary. Whereas, in a booming environment, our success was built on catching the wave, we now are building future success on making a difference to create the trend. I am pleased that in such a short time since our acquisition of Gap, the team has already delivered notable achievements in its first 5 months of operations. With a solid new foundation in place, the team is accelerating its localization initiatives to drive further enhancements. Furthermore, by adding Hunter to its portfolio, BBM continues to scale, and I am confident that its success will greatly contribute to the next wave of Baozun's success.

Let me now pass the call over to Arthur for a review of our financials and updates on e-Commerce business.

Arthur, please proceed.

Arthur Yu: Okay. Thank you, Vincent, and hello, everyone. Let me do a quick review of the financials of the second quarter of 2023, after which I will discuss our BEC business in more details. Please note that we have prepared segment reporting to provide higher transparency as shown on Slide #5. At this time, we are reporting two segments: E-commerce, which includes BEC, BZI and Group headquarters, and Brand Management, which includes Gap Greater China.

Please turn to Slide #6. We are pleased to report that our E-commerce segment achieved better year-over-year profitability and operating cash flows. This positive outcome can be attributed to our ongoing efforts in business optimization and cost reduction. Additionally, our Brand Management segment contributed incremental top-line growth after the inclusion of Gap Greater China. This resulted in a 9% increase in net revenues for Baozun Group, reaching a total of 2.3 billion during the quarter. Notably, product sales experienced a significant increase of 34%, while service revenue declined by 3% compared to the same period last year.

Within the E-commerce segment, we witnessed improved top-line momentum as consumer sentiment has gradually recovered, particularly during the 6.18 promotion campaign. To further enhance our offerings, we prioritized value-added services in digital marketing and IT services,

while tactically reducing low-margin product sales in the appliances and electronics categories. Notably, the apparel sector displayed a robust recovery in the second quarter, with double-digit year-over-year growth in sportswear.

Please turn to Slide #7. In this quarter, at the group level, our total gross profit increased by 8% to 1.6 billion. Our total cost of the products increased by 12% to 675 million, mainly due to the incremental cost of products for Gap China. For the quarter, product sales gross margin of e-Commerce expanded by 110 basis points to 14.3%, and product sales gross margin of BBM was 52%, which is ahead of our own plan for margin improvement. Our adjusted income from operations was 0.7 million during the quarter, of which, e-Commerce's adjusted operating income grew by 29% to 61 million, reflecting our high-quality strategy and effective cost optimization. These optimization efforts included ramping up regional service centers, reforming compensation initiatives, process re-engineering, and improving working capital efficiency. On BBM, Gap China showed a good momentum both operationally and financially, reducing its operating loss by nearly half on a year-over-year comparable basis. Our new season product launch in the recent months was quite successful and should provide a foundation for better-than-expected financial results for Gap China in the full year. Sandrine will cover the details later in her part.

Turning to Slide #8 about our cash and cash flow status, as of June 30, 2023, our cash, cash equivalents, restricted cash, and short-term investments grew to 3.2 billion from 2.9 billion last quarter. During the quarter, our total operating cash flows was 453 million. This is an improvement of 49 million from the same period last year, mainly due to our efforts to improve working capital efficiency through back-end process re-engineering on inventory, billing, and cash collection management.

Now, let's focus on our e-Commerce business. Overall, we achieved a solid set of business results in this quarter with year-over-year growth in both gross margin and operating profit. With an end to the Covid pandemic, we are delighted to witness that many brand partners are continuing to focus and invest on interactive engagements with consumers and omnichannel strategy on e-commerce. During this year's 618 promotion, Baozun achieved an overall GMV year-over-year growth for the brands we managed. We helped many of our brand partners achieve #1 rankings in their own categories, including sportswear, outdoor, and electronics. On new business development, we continue to see a healthy trend with a stronger pipeline in the second half of this year compared with last year. In this quarter, we added 41 new brands to our client portfolio, mainly from fashion apparel, luxury, healthcare and fast-moving consumer goods.

We continued to make progress in our omnichannel initiatives. As demonstrated on Slide #9, 46% of our brands engaged with us on at least two channels, reaching a record high. Of those new channel expansions, JD, WeChat, and Douyin delivered double-digit growth in revenue.

Please turn to Slide #10. Value-added services remained crucial in creating value for our brand partners. In this quarter, we established the Creative Content to Commerce, or called CCC business unit, to better capture the emerging needs of content creation and livestreaming. We aim to integrate creative content, intellectual property, and brand building strategies with the rising trend of livestreaming and short videos. To date, we have launched five livestreaming studios

located in Shanghai, Hangzhou, Wuhan, Hefei and Nantong, totaling over 10,000 square meters in facilities equipped with state-of-art technology and run by an experienced team.

Given the shift of China's e-commerce market dynamics, we view the next 12 to 18 months as a transition period for our e-Commerce business into a sustainable and quality-focused growth.

Now, let me share our key initiatives during this transition period. Please turn to Page #11.

Firstly, we will put our brand partner's needs at the center of everything we do. By staying ahead of the curve and adapting our experiences to the dynamic e-commerce landscape in China, we ensure that our brand partners receive the best possible support and solutions to be successful in this market. We will continue to strengthen our structured client management framework and to improve our service quality through the NPS program, which we co-developed with NelsonIQ. This program enables us to gather valuable feedback from our brand partners and make necessary improvements to enhance their overall experience. We also actively collaborate with our brand partners to co-develop industry best practices on e-commerce. For example, we worked with a leading luxury brand to implement 1-on-1 live customer services; we helped a leading outdoor sports brand to implement an omnichannel CRM solutions; and we implemented an online-merge-offline solution with single inventory for a leading electronics brand. By combining our expertise on e-commerce with our brand partners' industry insights, we aim to stay at the forefront of the e-commerce innovation while delivering exceptional value to our brand partners.

Secondly, we will focus on the quality of the business. Given the current challenging macro-environment, we will continue our efforts in portfolio optimization. By evaluating our low-margin accounts and implementing measures to minimize risks and improve working capital efficiencies, we aim to strengthen the overall quality of our client portfolio. At the same time, we will enhance our internal control and risk management, which will help us to be better equipped to navigate challenges and maintain the long-term sustainability of our business.

Thirdly, we will continue to invest in building our capability to provide end-to-end services across different categories under different business models. We will strategically invest in and strengthen the categories where we have already built a competitive edge, such as apparel, sports, luxury, and electronics. At the same time, we will expand into those categories that show improving demand with low online penetration, such as health, beauty, beverages, and wine. We will continue to strengthen our value-added services including digital marketing, IT, logistics and warehouses to provide a one-stop shop to brands seeking a strategic partner in e-commerce in China. We have also engaged in some early discussion to become the sole distributor for some international brands in China. On the other hand, we will continue to incubate our own brands domestically. We witnessed an early breakthrough during the quarter with our self-incubated brand, You Daily Plus, generating sales of 22 million.

Finally, we aim to enhance our cost effectiveness and efficiency through the implementation of technology and business process re-engineering. This will involve expanding our Regional Service Centers and integrating internal efficiency and quality control technologies, such as Service-anywhere, S-ANY, and Design-anywhere, D-ANY. We are also actively collaborating with leading academic institutions to enhance our talent pool and provide training opportunities, at the same time decreasing our labor expenses for entry-level employees. Furthermore, we will

continue to promote the Lean Six Sigma process to enhance both quality and efficiency. We are in the process to integrate AI technologies, including our self-developed automation platforms, ROSS and AIGC, into our daily operations. We are confident that these initiatives will result in improved operating efficiency and reduced costs.

We are embarking on a transition journey in the e-commerce business to adapt to the changing market dynamics. This transition program will require some time and effort to realign our people, resources, and business processes. However, we have full confidence that once this transition is successfully executed, our e-commerce business will be better positioned to drive sustainable growth and achieve even greater success in the market.

Now let me turn the call over to Sandrine to elaborate more on BBM. Here we go, Sandrine.

Sandrine Zerbib: Thank you. Thank you, Vincent and Arthur. And thank you all for joining us today. It is my great pleasure to speak with you.

Please follow us to Slide #12. Let me first re-emphasize that BBM is a holistic omnichannel partner for global brands. We focus on growing a portfolio of premium consumer lifestyle brands that we manage with a data and technology-driven China-for-China approach. We began our journey earlier in 2023 with Gap, and we are currently under way of transforming Gap China from a discount-driven approach to one that focuses on building consumer love for our brand and products. In the second quarter of 2023, although the macro recovery was not as strong as everyone had hoped, we implemented our transition plans and successfully improved AUR, Average Unit Retail, and gross margin. Our store-level operating profit, after royalty fees, turned positive, and we exceeded our initial forecast on the bottom line.

Please turn to Slide #13. As you may recall, we took a series of quick actions to improve store efficiency, including strictly controlling discounts; updating existing store visuals with a focus on mix and match storytelling; and enhancing sales advisors' training. Thanks to these actions, our blended gross margin reached 52%, a healthy level even post-royalty fee. I want to highlight that this gross margin achievement is key to Gap China's success.

Overall, we generated a total revenue of 324 million, a decrease of 26% year-over-year, largely explained by the closure of 86 stores before we took over, which is equivalent to a decline of 40% year-over-year on store count. Our same-store growth reached 11% in the second quarter of 2023.

As you can see, despite the disappointing macro recovery, we still managed to implement our transition plans, improve gross margin, and reduce loss. We believe the new foundation for Gap China is in place, as we have successfully upgraded the supply chain and significantly increased store efficiency, as well as recruited talents for all key positions. This third quarter, we will start selling our new locally-designed China-for-China products, and we will expand to a larger product portfolio in the fourth quarter.

Now that the foundation is in place, we are ready to accelerate new store openings and marketing investments, and I'm very excited about our plans for the second half of 2023. Building on the new foundation, we aim to open up to 10 stores, beginning with a flagship destination store in Guangzhou. Designed with a new narrative that is younger and more interactive with prioritized

product layout, the new stores will be infused with our local design language. Walking into our stores, you will resonate with our Modern Preppy, Urban Workwear, and Premium Blue aesthetics, around which we have organized the product range. Walk deeper, and you will discover cool co-branded designs, as well as upgraded segmentation for men, women, and kids. Our improved quick response agile supply chain has enabled us to reduce our design to shelf lead-time from previously 3 to 6 months to a matter of weeks.

We're also rebuilding our online brand image and upgrading our consumer base. We'll further leverage our omnichannel capabilities to amplify our channel differentiation plans. Our IT transition is on track, and we are ready to transition to Baozun-enabled systems by the end of September. In addition, our CRM will also be upgraded with effective membership systems. In marketing, we will focus on the I AM Gap and NEW Gap taglines to elevate brand marketing in the fall season and raise brand influence. We have actually included the I AM Gap brand theme in our presentation, and I encourage you to read it to understand our upgraded DNA. We feel very good about where Gap is heading, and we look forward to sharing with you more and more on our next call together.

Now let me introduce an exciting addition to the BBM portfolio. We have been very selective in narrowing down to a possible few lifestyle brands. We and our strategic partner, ABG, see Hunter as an excellent fit for BBM.

Please turn to Slide #14. Hunter is a British heritage brand of original footwear and outerwear that currently sells exclusively online in China. Over the past 2 years, Hunter has seen rapid growth in China and has been profitable. We see Hunter as an iconic premium lifestyle brand with excellent growth potential in Greater China, aligning perfectly with BBM's mission. We believe the combination of BBM's China-for-China strategy, combined with our technology and data-driven approach in product and consumer operations, will empower Hunter for sustainable future growth.

Post-Covid, the outdoor lifestyle has become a trend, and Hunter has strong brand reputation in this dynamic segment. Like Gap, Hunter was a BEC brand partner, so we have experience with Hunter's business, and we are comfortable with our ability and resources to grow its top line and bottom line in China. Unlike Gap, which is a long-term license, we will co-own Hunter's intellectual property in Greater China as well as Southeast Asia. Naturally, our BZI division can help to grow Hunter's business in that region. We anticipate needing to add only several additional members to fully run Hunter's current business, and we have already identified the personnel. As such, we don't anticipate the addition of Hunter to our BBM portfolio will cause any disruptions to our Gap business.

In conclusion, Hunter is a good addition to BBM that not only offers excellent growth potential, but also establishes our strategic partnership with ABG towards greater and deeper future collaborations. Hunter kicks off our partnership with ABG, and we aim to form up strategic alliance that broadly covers business development and planning, brand management, marketing and public relations for ABG's brand portfolio.

With all this being said, I shall now hand the call back to Arthur. Thank you.

Arthur Yu: Okay. Thank you, Sandrine. In summary, we have achieved another milestone in our transformation where all three business lines will cooperate together to deliver an extraordinary suite of services to our brand partners. BEC continues to benefit from business and cost optimization and is transitioning itself into a second curve of growth. BBM has put in place a new foundation for Gap China, and accelerating its China-for-China strategy. Baozun International is on track to build infrastructure and expand its mission.

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

Questions and Answers

Operator: Yes, thank you. At this time, we will now begin the question-and-answer session. (Operator Instructions). And the first question today comes from Alicia Yap with Citi.

Alicia Yap: I have two questions. First, can management share with us the latest consumption sentiment you have seen for July and August so far? What are the spending sentiments by brand, if you can give some color? And any major difference in terms of the international brands versus the domestic brands in terms of the ad budget spend willingness?

And then second question is can management help us to update on the store traffic for Gap China? With more offline activity post-reopening, have you seen meaningful traffic improvement since taking over the business?

Arthur Yu: Okay. Hello, Alicia, it's Arthur here. So I will take the first question, and then I will hand over to Sandrine for the second one. So for the first one, as we all know, in the Quarter 2, with the 6.18 promotion, the overall consumption is in a pretty positive recovery trend. But unfortunately, in July, what we witnessed is the trend has stopped with both TMall and JD into a negative territory in terms of the growth. But the good thing is, in August, we have seen some recovery, even though it's still slightly below our expectation, but it's on the trend to recover. So hopefully, with the summer holiday ended, we will see that continue, people will start to spend.

In terms of the categories, so far we have seen some good momentum in the third quarter to date on luxury, on jewelry and also travel-related products, so based on for the outdoor and also the suitcase. So those we have seen experiencing a double-digit growth.

In your final question about the domestic and international brands, we actually see both the international brands and domestic brands have the willingness to spend if the ROI is good, so which leads to the quality of operations for both TMall and JD. So that's where we see the customer, either international or domestic, are looking for the good quality and stable team; they're looking for data analytics; they're looking for technology to help them, which gave Baozun a strength to stand out from our peers.

So that's why I mentioned in the second half of the year, we have a stronger pipeline than the past year. So after the Covid, the brands, both international and domestic, are starting to spend their money wisely. Therefore, the capability of Baozun can play a big part in this area.

So I will hand over to Sandrine for the second question on Gap.

Sandrine Zerbib: Okay. So Alicia, to answer your second question, let me stress the fact that our same-store growth for the Q2 is 11%, and now if I look at August, it has picked up to more than 30%. And if I look at year-to-date, as of today, we are close to 30%. So all in all, this is very positive and it's actually the combination of increased traffic, to answer more directly your question and increased conversion in spite of stopping, or at least drastically reducing, the discounts in store, and therefore, actually increasing our margin quite significantly.

So all in all, yes, we see traffic and conversion picking up very significantly, and momentum continuing to go up until today in August. And we expect that the last 4 months will be continuing on this trend, and potentially even accelerating because this is when we're going to really start accelerating not only store opening, but also marketing investments with the I AM GAP and a new Gap campaign, as well as launching the new products that are designed China-for-China. I'm done with my reply.

Alicia Yap: Okay. Thank you so much.

Operator: Thomas Chong with Jefferies.

Thomas Chong: My first question is regarding the growth outlook for non-TMall channels. Can management comment about how it is trending and its contribution to GMV in the future?

And my second question is about our international strategy. Can management comment about any strategic update and our thoughts in second half and next year?

Arthur Yu: Okay. Thank you, Thomas. I will take the first one; then I will hand over to Vincent for the international expansion. In terms of the non-TMall channels, as I mentioned in the early prepared remarks, we actually have seen an increased trend that the clients are looking for omni-channel. Therefore, our Tmall contributes has actually come down in terms of the total GMV, and non-Tmall is representing 34% of the overall GMV for Quarter 2. And that trend has continued with the clients looking for the omni-channel strategy. And in Baozun, we have 46% of our entire portfolio, the clients are using more than one channel. So that number has increased by about 5% over the last few quarters. So we are seeing that trend to continue.

Okay. Let me hand over to Vincent for the second question.

Vincent Qiu: Okay. Okay. Thank you, Thomas, for your questions. For the second question about the Baozun International overseas strategies. Of course, Baozun International is, of course, a key element of our strategy. And I think in the past 1.5 years, we have finished constructioning the infrastructures, including the team-building capability and also territory coverage. So we have several offices in different countries with a ground team to help us to combat not only brand e-commerce business, but also brand management business. So with that addition, just

now as Sandrine mentioned, we have a new member, a very capable guy, who joined us for the BBM expansion in the region.

So for the strategies, I think one thing about localization, we want the local team can do the BD service provisioning and also all the other elements of the e-commerce business themselves in the region, so that is more localization. And we also have another keyword called landing; means that the Baozun International team will help our global e-commerce clients or brand management clients to land in that area. So there's two key elements. Right now, I think we are doing a quite good job. And also this year, we will start to conduct the Hunter business in the region after the joint venture and license agreement. And also next year, we have some other brands, strong brands, in our pipeline. So early next year, we will roll out more management business in the region. So I think it's quite promising. Thank you, Thomas.

Thomas Chong: Thank you.

Operator: Sophie Huang with CMB Bank International.

Sophie Huang: I have two questions here. The first one is regarding livestream e-commerce update. Last time, you stated a plan to enhance livestreaming e-commerce capacity. So would you mind sharing more color on livestreaming update? And what is the feedback and the performance of brands engaged?

The second question is about the Hunter acquisition. What is the rationale behind this deal? And how do we look at the synergy and financial impact from the Hunter acquisition going forward?

Arthur Yu: Yes, hi, Sophie. I will take the first one on the livestreaming, and then I will pass to Sandrine for the second one. In terms of the livestreaming, I think our idea is to combine the best of Baozun capability, which is for a long-term, we have been strong in terms of the content creation and also operations with the world-class facility and operations, which we are starting to build. Those two things can combine together to achieve a very good kind of model for our brand partner to find the new growth area in terms of the e-commerce. So this is a new area that Baozun can get into, but our strength in terms of the connection with the brand, and also the content creation, will help us to stand out.

So far this year, in the first half of the year, we have seen some good progress in terms of some luxury brands. We started to perform the Douyin, which has achieved very good results. And also very recently, only this month, we launched a new Douyin GQ show on Douyin, which has achieved a very good result. So if you look at Douyin, you can find in terms of the details on that one; I'm not going through the detail. But what that proves is Baozun's capability, plus our investment into the livestreaming, can create a good result for our clients.

Okay. Now I will hand over to Sandrine.

Sandrine Zerbib: Okay. So Hunter, what's the rationale to add Hunter to the portfolio. So second brand in the portfolio. The first reason is that it really fits the philosophy of how we want to build this portfolio because Hunter is a premium lifestyle brand in essence. It has a strong DNA, it has very iconic products, that's a second reason. On top of this, it's in a category which is like urban outdoor, which has a lot of momentum, and especially after Covid, we have seen a lot of growth.

Then to add to this, we know the brand. We know the brand because we've been its e-commerce partner for a couple of years. We, therefore, saw it growing very fast in the last 2 years, and also being in China, at least a profitable brand. And all these are actually positive reasons to go this direction.

On top of this, also among the criteria, which are important for us, it's a brand that sells strongly online, actually for the time being in China, it's only online. So online potential is very strong. And it's a brand that we believe that we can do China-for-China to expand the product portfolio in an efficient way.

So all this combined together made us think that it's actually a good brand for our portfolio. And in addition to this, this time, we can have some ownership over the brand, which makes a big difference versus a pure license.

And then in terms of financial impact, at the beginning, it's relatively marginal. We plan to grow this brand significantly in Greater China, but also in Southeast Asia because we have the IP in Southeast Asia as well. And the good thing is that, as we said, it's a brand which is operationally positive from the very beginning. So of course, at the beginning, we will have to add some royalties. But overall, it's a brand which is operationally positive from day one, which is not a turnaround like we have experienced previously.

Sophie Huang: Okay. Thank you, very clear.

Operator: Thank you. (Operator Instructions). Janet Yung with Bank of America.

Janet Yung: My question is regarding the product sales. Since you have mentioned that the optimization of product distribution model and time portfolio has put some pressure, downward pressure, on our product sales, it has been going on for a while. Can you give us an update on the progress? And looking into the future, how long do you think it will last? And what product categories still have much room to improve? And can you give a sense of how much further impact it could potentially have on the product sales and margins?

Arthur Yu: Okay. Thank you, Janet. And I think as I mentioned in the earlier call, our focus of the BEC business is on quality and on the operating cash flow. And the rationalization has made a good contribution to our portfolio, and the quality of the portfolio has enhanced. Therefore, you see the results in Quarter 2, we have a fairly healthy positive cash inflow of 450 million, which is a very good result. And a lot of this comes down to rationalization of product sales portfolio.

As you may remember, we started this journey about a year ago and now it is coming to the point that our product sales portfolio has significantly improved. So we will continue our journey in terms of improving the quality, and we will add on new good-quality product sales, like the sole distributor model I talked about earlier, to our product sales portfolio. We think from Quarter 4 this year, you will see a positive trend in terms of the growth from this area.

Janet Yung: Thank you very much.

Operator: Andre Chang with JPMorgan.

Andre Chang: I have a follow-up question on Hunter, the deal and the company's strategy on BBM going forward. So it's a relatively short interval from us doing the deal of Gap, and now, the deal with Hunter. And we also talk about like potential more cooperation with the Authentic Brands Group. So can management help us understand how we consider how far we can go based on our current financial resources? And how do we think about the opportunity cost?

Say, we are doing several deals in a short period of time, what about the potential going forward? And what's the reason for us to have the confidence to accelerate progress on the BBM front?

Arthur Yu: Okay. Go ahead, Sandrine.

Sandrine Zerbib: Well, I'll go ahead and I'll let you complement if you feel, especially on the resource question. Actually, we started working on BBM even before the Gap deal. So we've been looking and selecting brands very carefully, and we continue to be extremely selective. So for one, Hunter, we have looked at dozens and dozens of brands, so we're not rushing; in any manner, we're not rushing.

However, going forward, what we want is indeed to build a portfolio that brings significant revenue and profit and value to Baozun Group. So we will continue to be extremely selective, but we will continue to look at the best opportunities, especially when they fit the portfolio philosophy so well. When they are positive operationally from the beginning, have a marginal impact financially, and enable us to also create value by acquiring ownership, and not only being in the license mode. So that's the way I would summarize, but I'm sure that Arthur wants to complement on this.

Arthur Yu: Yes, I think I totally agree, Sandrine. Just one more point I would like to add, Andre, is we have been operating as the TMall partner for Hunter over the last 2 years. And we know this brand operationally and financially, so the same as Gap. As a result, you can see we managed to turn the situation around only after 5 months. And we have confidence, given the information we know about Hunter, to make a significant improvement in the short term, given where we are by utilizing the resource and platform and capability of Baozun Group. So that's why we go ahead to make this deal.

And also, this has opened another cooperation model with the ABG Group, who owns more than 50 different brands in China that owns IP. And through that cooperation, we may explore all different venues of cooperation with ABG Group. So that will help us to grow both the BBM and BEC business as well.

Vincent Qiu: Thank you. Some more color from me, from my side, Vincent here, is that for the positioning angle, we are positioning the premium fashion category. So no matter Gap or Hunter, it's totally within this positioning. Secondly, I think it's going more upstream because Hunter represents co-ownership of IP of brands. And thirdly, I think, as always, we think financial fundamentals, or the strength of our financials is very important. So in the meantime, we will carefully evaluate our financial capabilities. So Hunter decisions may consider all these kind of aspects. So I think it's quite mature and solid and a careful selection. Yes, thank you.

Operator: Thank you. And this does conclude the question-and-answer session. I would like to turn the floor to management for any closing comments.

Wendy Sun: Okay. Thank you, operator. On behalf of the Baozun management team, we would like to thank you for your participation in today's call. If you require any further information, feel free to reach out to us. Thank you for joining us today. This concludes the call.

Operator: Thank you. Now, as mentioned, the conference has concluded. Thank you for attending today's presentation. You may now disconnect your lines.