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Q4 2020 Baozun Inc Earnings Call

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen. Thank you for standing by for Baozun's Fourth quarter and Full Year 2020 Earnings conference call. (Operator Instructions) As a reminder, today's conference call is being recorded.

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

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### Wendy Sun Baozun Inc. - IR Director

Thank you, operator. Hello, everyone, and thank you for joining us today. Our fourth quarter and full year 2020 earnings release was distributed earlier today and is available on our IR website at [ir.baozun.com](http://ir.baozun.com) as well as on GlobeNewswire services. You can also find a PowerPoint presentation that accompanies our comments today on our IR website at sections of Quarterly Results and Webcast and Presentations.

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 BD Vice President. Mr. 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. Those forward-looking statements are based upon management's current expectations and current market and operating conditions and relates 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 filing with the U.S. SEC and the announced -- announcements, notices and other documents published on the website of the Stock Exchange of Hong Kong Limited. The company does not undertake any obligation to update any forward-looking statement, except as required and applicable law. Finally, please note that unless otherwise stated, all figures mentioned during this call are in RMB.

It is now my pleasure to introduce our Chairman and Chief Executive Officer, Mr. Vincent Qiu. Vincent, please go ahead.

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

Thank you, Wendy, and thank you all for joining us. It's been a busy and exciting quarter, and I'm now pleased to report another solid set of results.

During the fourth quarter, brand partners accelerated their digital transformation in response to rapid changes across the e-commerce landscape in China. The nature of online consumption is evolving rapidly. Our unique positioning as a leader of solution-driven platform for brands puts us at the center of this evolution, with technology that enables us to keep our brand partners ahead of the curve.

If you are following along with our presentation, I'll start on Slide #2. We executed on our strategies throughout the fourth quarter. We would like to share a few key highlights with you, including a record-breaking Double 11 campaign, strong momentum in brand acquisition with a net add of 6 brand partners to reach [266] (corrected by the company after the call), and the continuous operating margin enhancements.

Overall, our non-GAAP operating profit grew by 54%, while non-GAAP net income increased by 67%. We believe these achievements demonstrate the effectiveness of our high-quality growth strategy and reflect the long-term cumulative results of our investments in technology infrastructure.

Now moving on to Slide #3. Empowered by technology and innovation, we have been able to achieve continuous breakthroughs that improve customer experience and enhance operational efficiency. 2020's 11-day long Double 11 campaign has become a touchstone, validating the efforts we have put into creating such solid, effective and efficient infrastructure.

During the quarter, we upgraded our dynamic technology system and expanded capacity to 5 million orders per hour to support a record-breaking order surge. In addition, we launched a variety of automation and one-click toolkits, including SKU rollout, labeling, short video processing and sales intelligence applications from our proprietary Retail Operation Support System or ROSS. By leveraging Baozun cloud infrastructure, AI algorithms and big data analytics, we launched a virtual intelligent dashboard system that improves operational efficiency while reducing risk.

From a digital marketing perspective, we focused on deployment of creative and innovative engagements to drive consumer exposure and conversion rates. Deployment of data-driven analytical tools and the insights enables us to help brand partners better understand their customers and engage with them more effectively through precise targeting and the positioning insights. This fourth quarter, we established a 1,000 square meter live streaming studio that allows us to integrate in-store live streaming into daily operations and streamline our portfolio of live streaming solutions.

On the warehouse and logistics side, to cope with this year's extended double peaks during the Double 11 campaign, we not only upgraded our capacity and equipment but also used algorithms to optimize real-time big data monitoring across the entire order flow process to improve order fulfillment efficiency. All these efforts enabled us to launch instant arrival services for several of our brand partners that allowed us to deliver over 80% of packages to consumers within 24 hours, which in return greatly enhanced customer experience.

All these efforts greatly enhanced our value proposition for brand partners, allowing them to extend touch points and capture emerging opportunities for omnichannel strategies. As a third-party service provider, our infrastructure and the tech assets allow us to allocate resources in an optimal way based on a universal online strategy.

As we look ahead, on Slide #4, we reiterate our vision of "Technology empowers future success." And we will continue delivering, to our brand partners, a customer-centric e-commerce solution to reinforce our value proposition. To capitalize on the opportunities, we are launching a 3- to 5-year medium-term strategic plan to achieve our objective of sustainable and profitable growth.

First, we will adopt a "customer first" approach to drive growth by focusing on service differentiation to meet brand partners' diverse needs. We will explore business opportunities and implement customer segmentation strategies to attract potential new business from both our existing and new brand partners. Though we have been the market leader in China's brand e-commerce service industry, we believe there are a lot of opportunities for us to become #1 in more subcategories to increase market share.

Secondly, we will drive through new business expansion. We believe that as e-commerce in China evolves, there are increasing opportunities to explore new channels such as Tencent mini-programs, Douyin and the JD platforms. In the meantime, we will continue

to explore new business models in accordance with the new channels.

Thirdly, we will seek even greater optimization of our cost structure through technology-driven business process re-engineering and service-quality-oriented location strategy. As our initial step, we recently established 2 additional remote service centers in low-cost cities of Nantong and Hefei, which we believe will improve search quality and reduce costs from the second half of 2021.

Lastly, on Slide #5, what was abundantly clear throughout 2020 was that our people are the greatest assets. This is key to our culture and based on our belief of delivering quality through developing people. I'm proud of the resilience, agility and the commitment demonstrated by the Baozun team and honored to have once again been awarded "Shanghai Best Employers Top 30."

Here, I'm excited to announce a major office move planned for the second half of 2021, to a brand-new headquarters with over 40,000 square meters. We believe the new Baozun campus will accommodate our growing talent team, support future business expansion and nurture the Baozun culture of leading-edge innovation.

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

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**Arthur Yu Baozun Inc. - CFO**

Okay. Thank you, Vincent. Hello, everyone. Thank you for joining our earnings call today. I will talk about our financial performance in Q4 and the full year 2020 and, and discuss our priorities in 2021.

Let me start with the fourth quarter 2020 financial results, which is on Slide #7 in our prepared presentation deck. We saw impressive growth in total GMV this quarter, which increased by 28.7% to CNY 22.9 billion. Breaking this down, our distribution GMV rose by 13.6% to CNY 1.6 billion, and our non-distribution GMV increased 30% to CNY 21.2 billion.

Overall, the 2020 Double 11 campaign involved the largest marketing activities since the emergence of COVID and the longest duration, with deeper discounts across categories and across multiple marketplaces. We have also observed a higher return rate this fourth quarter post Double 11 as a result of the expanded 11 days promotion period.

Although these higher return rates led to some discrepancies between the fourth quarter GMV and Double 11 order value, we believe that we have managed this well across the board. We also strategically limited discounts on certain brands in our distribution model to protect brand image and profitability at the expense of faster growth. We believe the longer-term benefit will outweigh the near-term impact as we strengthen relationships with brand partners and expanded our service scope.

Breaking it down by category, which you can see on the right side of the slide. During the quarter, we continued to see modest growth momentum in the sportswear, luxury and FMCG categories. The apparel category had an outstanding quarter. As you know, the apparel category, which includes sportswear, luxury and men's and women's clothing, contributes over 50% of our total GMV. During the quarter, we saw nearly 30% year-on-year growth.

Electronics, which represents about 25% of total GMV showed major growth as well, with a 20% increase year-over-year, despite the impact of optimization of the smartphone sector throughout the year. FMCG contributed over 10% of our total GMV and had a [high] (added by the company after the call) double-digit growth rate on a low base.

In addition, this quarter, because we proactively adjusted our promotional strategy for sustaining profit, one of the key categories of the distribution model, personal care appliances had a negative growth rate. But we have seen the discounts and sales trend improving in quarter 1, 2021.

Now moving on to Slide #8. Our [high] (added by the company after the call) GMV growth translated into substantial growth in revenue, particularly in service revenue. Total net revenue increased by 20.2% to CNY 3.35 billion, within which product sales revenue increased by 14% to CNY 1.5 billion and services revenue increased by 25.6% to CNY 1.9 billion.

With the increase in product sales revenue, cost of products increased to CNY 1.3 billion from CNY 1.1 billion last year. Product sales gross margin declined to 12.7%, mainly due to discounting initiatives during the Double 11 period and a change in the category mix. Our blended gross margin was 62%, broadly in line with last year.

Now move on to Slide #9. Along with the business growth, fulfillment expenses increased to CNY 851 million from CNY 665 million last year. Our fulfillment expense as a percentage of GMV improved to 3.7%, helped by our efficiency program and offset by an increase in the labor hourly rate related to the expanded Double 11 period this year.

Sales and marketing expenses increased to CNY 741 million from CNY 648 million last year. As a percentage of GMV, our sales and marketing expense ratio improved to 3.2% from 3.6% a year ago, mainly due to the effectiveness of our digital marketing services and efficiency gains from deploying the latest technology in daily operations.

Technology and content expenses were CNY 110 million. This was an improvement as a percentage of GMV from 0.6% to 0.5%. Most of this improvement was due to more effective cost control, productivity improvements and better prioritization of our development pipeline.

G&A expenses slightly increased to CNY 69 million from CNY 67 million last year. This was mainly due to our investments in talent acquisition and infrastructure, and was offset by effective cost control and procurement initiatives. As a percentage of GMV, the G&A expenses ratio improved from 0.4% to 0.3%, which reflected a continued trend of greater economies of scale while we grow our business.

Now move on to Slide #10. All in all, income from operations increased by 53.4% year-over-year to CNY 301 million. On a non-GAAP basis, income from operations was CNY 333 million, up 53.8% from last year. Operating margin hit 9%, while non-GAAP operating margin reached 10%.

To offset the interest income, net interest expense narrowed to CNY 0.4 million, down by 95%. This is mainly driven by paying off the majority of our short-term borrowings during the fourth quarter.

Now on to Slide #11. Non-GAAP net income attributable to ordinary shareholders of Baozun totaled CNY 272 million, an increase of 68.4%. Basic and diluted non-GAAP EPADS were RMB 3.71 and RMB 3.58, respectively, which grew by 33.9% and 32%, respectively.

I'll now move to Slide #12. Overall, 2020 was a remarkable year, and we are very pleased with our financial results. Not only were we able to deliver high-quality growth resulting in 22% growth in net revenue and a 45% increase in [non-GAAP] (added by the company after the call) operating profit, but we also achieved a second consecutive year of positive operating and free cash flow.

As of December 31, 2020, we had CNY 5 billion in cash, cash equivalents and short-term investments in our bank account after our successful secondary Hong Kong listing. This gives us a solid foundation to pursue a sustainable and profitable future growth.

Looking ahead into 2021. As Vincent just outlined in our new strategic plan earlier, we will continue to enhance our value proposition by focusing on "customer first" to drive growth. We will do this both organically and alternately through M&A opportunities.

I believe many of you have seen our recent announcements this year. One of these was to further expand our capabilities on mini-programs to strengthen value proposition in Tencent ecosystem. Another one is to capture emerging opportunity in the luxury sector. I'm glad to say the integration of both deals is well on track, and we expect to see tangible financial results starting in the second quarter of 2021.

We are also making progress in strengthening our omni-channel capabilities such as Douyin and [JD] (corrected by the company after the call) and continuing to explore opportunities in new business model innovation through GBO initiatives. It's worth mentioning that for the first time, on an annualized basis, our 2020 non-Tmall channels accomplished for over 25% of total GMV, in which non-official.com GMV also surpassed 10% for the first time.

While there might be some initial investments, we believe these results are encouraging. And we are confident we will strike a healthy balance by generating sustainable and profitable top line growth.

In addition, we will continue to optimize our cost base through technology led efficiency and business process reengineering initiatives. We believe this will transform how we serve our brand partners by improving our service quality and reducing costs at the same time.

And last but not least, in order to enhance sustainability in terms of our long-term growth, we are initiating a comprehensive ESG program to improve environmental, social and governance aspects of the company to create long-term value for our shareholders.

And this concludes our prepared remarks. Thank you very much. Now, operator, you are now ready to begin the Q&A session.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We have the first question from the line of Binnie Wong from HSBC.

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

So congratulation on a strong set of results and wrapping up 2020 with a good and solid set of quarter. Especially on the margin side, right? So we see a meaningful improvement on the margin. And then this is something that's also almost close to our historical high, right?

And then do you think that like any structural drivers you think that, I guess, post COVID, that we can think about that will [bring] (corrected by the company after the call) forward to 2021? And should we expect that (technical difficulty) we talked about earlier, we should expect actually a better -- a higher raising -- I guess, raising the long-term margin target from here?

And then the second question is also very encouraging to see that you talk about this non-Tmall channel contribution is also rising. That contribution rise here was 25% of total. And can you help us to just understand in terms of that 25%, how are they allocated? Is it from mini-program or maybe some into brands' flagship stores? How is that 25% allocated? Just to get what percentage for our understanding.

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### **Arthur Yu Baozun Inc. - CFO**

Thank you, Binnie, and I will take the first one about the margin in 2021, make some comments, and then I will pass on to Vincent for the second question. Yes.

So in terms of the margin in 2021, we made our investment into technology and our optimization of our different brands. We have seen a strong outlook into the 2021 on our marketing. So there are several factors. One is in some of the categories like the luxury, which we enjoyed a very good margin compared with the other sectors, and we are now seeing a great growth in that area. And secondly, our efficiency drive, like, by the technology and innovation has now seen the benefit coming through, and we have seen some really strong drivers to enhance our profitability and our overall margin in 2021.

At the same time, I just want to add another comment. 2021 is a year of investment. As just we mentioned, we're actually making investments into new channels, into new business models, which we will expect to see some early investments, but we believe this investment will lead us to higher top line growth in 2021 and also in the next 3 to 5 years. So that's my outlook for the margins.

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

Okay, Binnie, I'm here for your second question. I think last year is a quite different year because we see this very clear trend of multiple channel or omni-channel trend is realizing quite quickly. So it's the first time, as we said, it's first time that the non-Tmall channel contributes more than 25% of the total GMV.

Inside of this 25%, we are seeing that several channels like the official web store, like mini-program and JD, all growing quite apparently.

So I think the detailed distribution of this, yes, we can exchange more views on that later on. But the interesting thing is that I think a lot of brands now take several of the new channels as their private domain -- so-called private domain or dot-com initiative, like the mini-program and even Douyin for a lot of brands will take this as a private domain.

So I think there will be more resources and treat the channels differently from the major transaction-based channels. So I think for this year, looking forward, I think there will be a lot of dynamics going to happen in the private domain or nontraditional channels.

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

And by the way, Vincent, thank you for clarifying. I just have a quick follow-up on your comment. So should we think structurally because there's more and more channels, say, you'd also mentioned some of the short video platforms. Does that mean that brands actually rely more to use a third-party service solutions like Baozun, even more of a higher demand, right? Because now they have multiple channels and they don't know how to allocate, but they will leverage your expertise even more, right, because you have the expertise across all of the channels. So the more diversified an e-commerce channel is actually working towards the benefit for Baozun longer-term growth. Is that a fair comment?

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

Thank you for your follow-up question. Yes, sure. Thank you for the follow-up questions. I think traditionally, for the transactional part of the e-commerce, Baozun has established a very strong solid foundation to enable the brand partners to do business online. So I think for the new channels, basically, for the mid end and the back end, I think it's mostly the same. For example, technology, order processing, payment collection, order fulfillment, customer experience, customer service, all this kind of thing is basically the same. So actually, we can just use the infrastructure built up in the past and keep serving all the new business and -- to leverage the cost down as well. So that's the #1.

Number 2 is that for the -- for a new channel, yes, I think for a new channel for front end, I think the marketing, the way they spend in marketing dollars will be very different. So that's why we think the marketing capability is so important for the emerging new channels. We -- you remember, we did this in more than 3 years ago. And now I think our digital marketing capabilities are very strong than before. So in this case, we can deliver an end-to-end solution for the brands on new channels and new platforms.

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**Arthur Yu Baozun Inc. - CFO**

Yes. I'll just add a point on Vincent's comments about the multiple channels. We're actually not only using the organic growth. We are using the inorganic way to enhance our capabilities as well. For example, you may remember in our iClick deal, we are utilizing the SaaS capability of iClick to deploy our front end -- the front end mini-program solution, which helped us to deliver the growth to our brand partner in a very effective and also a good service way. So this is why we are pulling all those capabilities together.

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**Operator**

We have our next question from the line of Alicia Yap from Citigroup.

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

Congratulations on the solid quarter. I have 2 questions. The first one is related to your recent partnership with iClick. Could management help us to frame the financial opportunity in terms of the incremental upside from the revenues or even the additions of the new brands onto the future monetization improvement with the existing brands with the launch or even the readiness of this private traffic domain platform?

Second question is we heard from another e-commerce peer recently that this year, Chinese New Year, because of these travel restrictions and all that. So they are actually seeing a stronger than usual Chinese New Year seasonality. So not sure if Baozun is also seeing the similar trend that this New Year is a little bit stronger than usual. If so, could you elaborate on the demand? Is that strong demand on fashion or electronics or even FMCG?

**Arthur Yu Baozun Inc. - CFO**

Okay. Thank you. I will take the first question on iClick. And then Vincent may comment on the Chinese New Year trend. Okay.

On iClick, since acquisition, we have started to conduct several workshops. So the workshop is looking into the IT and data of both companies. What we are looking for is to have an integrated IT solution, which combines the very strong SaaS front end and very strong OMS and operation capability of Baozun to create a solution. And that solution will be an attractive proposition to our brand partner in the Tencent ecosystem so this is the first thing we are currently doing.

And secondly, we have seen -- there has already -- the cross-selling opportunity, which we have already seen, which is there is a travel kind of brand, we have introduced to iClick and another kind of the petrol brand, which iClick did introduction to us. So we are confident that it will lead to some tangible financial results very soon.

Thirdly, we are now looking into the digital advertising operation because iClick, historically, are very strong in the digital advertising area. And we are looking at how to combine our -- kind of our digital marketing and to create more synergy and to create a better outcome for our brand partners.

So combining all those 3 things together, we think we will start to see the financial results from the second quarter of this year. But now purely just we can category to say this is purely done through the iClick deal and not done through the iClick deal because the reason we do this kind of MOU is to build our capability to allow Baozun's original mini-program team or mini-program business to grow bigger. So this will contribute to the top line growth of Baozun for 2021. But it's difficult to split to say which specifically has contributed to iClick and which is not to the iClick. But we are confident about the program.

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

Okay. Yes. Second one is about the CNY sales. Ms. Li?

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**Tracy Li**

We think, actually, in terms of CNY sales results, we do see a good sign regarding the consumer perception regarding the trends. And also, we think the private domain, the trend is going to be continuing for the whole year.

And also, you can see, actually, we have done serious astonishing revision on the major platform since the beginning of this year. And among them, you can see to improve the consumer experience and enhance membership and the sales management are the major topics.

So to our observation, from the Q1, we already see the platform spending efforts in many angles to improve the consumer journeys, for example, to reduce the complexity of searching mechanism and to decrease the promotion channel to synchronize the traffic and also to create a more friendly environment to brands and also service partners to do business on the e-commerce platform.

So all of these efforts and the methods have been, I think, lead the environment to be more healthy and also promising for the growth. And to brands, I think it will also affect their budget plan on media and promotion and also their investment on consumer and data assets in longer time.

And from Baozun's point of view, we -- actually, we still believe the trends on the consumer perception regarding the entertainer oriented and also live stream oriented is going to be the trending topic for the whole year. That's why we have been getting much more attention on opportunities of live streaming, especially on the self-owned live streaming and also short video production, performance advertising and also interacting marketing technologies to expand our capabilities on the new marketing tools.

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**Operator**

We have our next question from the line of Joyce Ju from Bank of America.

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

Congrats for the solid fourth quarter. My first question was related to this year's full year outlook. As we know, Baozun has already discussed with the brand for this year, it's like growth plan, just want to get an idea for this year, when you discuss the -- like outlook with brands, like is there any like outlook which you see different from like last year? Or generally speaking, you see the growth plan, how it compared to last year? And is there any, like, new areas we should actually focus?

And the second question was related to the addressable market because we -- of our new channels and new categories. We know like Baozun actually will look to expand its presence in, like you mentioned, like Douyin, WeChat and also JD. Just want to get a quantitative idea how big will be the potential market? How much GMV contribution we should actually expect from these new channels in the following years?

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**Arthur Yu Baozun Inc. - CFO**

Okay. So I probably will -- yes. I will get Vincent to talk about the first question, and then I will cover the second one.

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

Okay. Thank you for the question. Yes. For 2021 outlook, a lot of surprises, how to say, surprises to expect. I think, firstly, from the brand point of view, you can see a lot of the initiatives happening on their private domain, including the official TC, official web source, mini-program app, this kind of things and also some new channel expansion plans.

So I think 2021 maybe the first year for the brand to try to allocate a lot of resources on multiple platforms seriously. So I think in this case, there will be a lot of new initiatives like data-related application and CRM is kind of omnichannel driven solutions is quite important.

And also talking about the size of the business in 2021, I think we can refer to an aggregated GMV for each of the platform. So generally, I think that is the addressable market or the brand's expectation for the channels, especially those who -- which is previously not a brand e-commerce marketplace. But right now, it's getting more and more brand e-commerce oriented. So I think the potential is huge.

So for the second one, it's about the addressable market.

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**Arthur Yu Baozun Inc. - CFO**

Yes. Yes. So in terms of the addressable market, on one hand, it will depend on the market trend, i.e., where the brand partners will select, how they sell their products. And Baozun we are here because we have the omni-channel capability. It doesn't matter how I change from Tmall or non-Tmall, we are there to support our customers.

And in terms of the category, we actually see still a very strong in terms of the luxury and apparel kind of category. This is which we are making the investment into to further grow our market share. And also, we have seen some new opportunities in the health care, which is, after the COVID-19, people now making further attention to their own personal health. So we think that there will be some new opportunities in that as well.

And finally, on the new business model, we are seeing some new ways of cooperating with the client partner under the GBO initiative. And that will help us to further strengthen our relationship with the brand partner, which is giving us more room to further grow the business in the existing business. So that's our view on the channels and on opportunities for next year.

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**Operator**

Next question comes from the line of Thomas Chong.

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

Congratulations on a solid set of results. I think this is the first time that we talk about the 3- to 5-year strategic plan. May I ask about how we should think about it translating into financial outlook?

**Arthur Yu Baozun Inc. - CFO**

Okay. Thank you for the question. I think we have some time to look into our strategy going forward. Our goal is to deliver a sustainable and profitable growth. Our long-term view is, depending on the market growth overall rate, we are looking at to become a business with CNY 150 billion GMV in 3 to 5 years' time, and we would like to make an operating profit of CNY 2 billion by the end of this 3- to 5-year period. So this is our goal and our financial outlook.

**Operator**

The next question comes from the line of Tian Hou from T.H. Capital.

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

So I saw the GMV -- the distribution GMV as a percentage of total continued to decline. So can management share with us some of your thoughts and outlook in that front? In terms of the 2 business models, distribution and services, how do you think those composition will be in the future?

**Arthur Yu Baozun Inc. - CFO**

Okay. Thank you for the question. In terms of the distribution model, as you can see, in Q4, it's actually not performing strongly. So this is due to one of our personal appliance brand, which is a big brand, which has an overall softness in their overall performance in the Q4 2020. And actually, Baozun, our online channel is performing better than that brand's off-line channel and also the Tmall channel is performing better than other channel online. So basically, we are confident in terms of -- so this is only an one-time kind of performance drop.

So in Q1 this year, we have already seen a trend of recovery and we are seeing an improvement, hopefully, so this brand will be able to recover. And Baozun, we have shared our insights into the brand to help them to recover quickly through the Tmall channel online.

And secondly, the reason why it has the impact is also due to the high discounts and higher return rate. In terms of the high discount, because it's a distribution model for Baozun, so we actually, in order to protect the brand image, we didn't go further on the discounts in order to achieve the volume. We actually go for the profit and also the longer-term brand image because as a responsible brand partner we think that's something we should be doing.

And in terms of the higher return rate, it's actually industry down for the Q4 due to the extended period of Double 11. So overall, we hope this is a trend for the Q4 only. And hopefully, in Q1 this year, we will see a recovery.

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

I have a follow-on question. Okay, keep going.

**Arthur Yu Baozun Inc. - CFO**

Please, please.

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

Okay. So the follow-up question is regarding your omnichannel. So I realize a lot of brands are seeking out much more fresher and newer channels, go beyond Tmall. And so in other channels, in terms of operator like you guys, are there any existing operators? And how do you, position yourself in other channels like Xiaohongshu, Douyin and JD? And what is your competitive advantage over existing operators, if there are any? So that's the second question.

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

Okay. Thank you for the second question. This is Vincent. Actually, for the emerging channels like Douyin, you just mentioned Xiaohongshu, - traditionally there were not a lot of existing operating service partners just because previously this kind of channel or platform is not a TMA platform. But right now, they are changing. They are more and more turning to e-commerce business. And the -- because they need the brand's media expenditures and also transaction business on that. So it's a new one. So it's emerging, how we call it, emerging new channels.

So for Baozun, we are as new as the others, but for the front-end operations but we did have more than 10 years of e-commerce operating experiences. And also, we have been investing in digital marketing for multiple channels for more than 3 years. So given this tool, I mean fulfillment capability technology plus digital marketing of more than 3 years of investments, I think we are very solid and very strong in facilitating the brand in e-commerce business on any of the new emerging channels.

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**Operator**

We have our next question from the line of Charlie Chen from China Renaissance.

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

I have 2 questions. First of all is about the brand partner pipeline. How does that look like, especially, we understand that the company has been exploring the opportunities in categories like premium brands, luxury brands as well as health food. So how is the progress there? And in particular, any initial signal that the Full Jet is helping the company to get breakthrough into the premium brand segment? I will take the first one first.

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

Okay. I will answer your first question. I can say that the company is more capable in bringing more new brand partners, including different categories. Right now, I think the pipeline is very strong. We see not only the demand for the traditional channels like Tmall is growing in our pipeline, but also the private domain opportunities is also a lot.

So I think for different platforms, you're getting more and more, how to say, more and more rich pipeline items. And for the categories, we think that different categories like fashion, like cosmetics, like premium or luxury are very promising. So we are happy to see that.

For Full Jet, I think they are very experienced in talking to global brands and premium brands. So we are working with them closely, not only to work with the local team of the premium brands but also the global team. So in this case, I think we can form up a better positioning and integrated strategies to work with a potential brand. Please go ahead with the second one.

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

Sure, sure. My second question is more of a high level, I mean changes in the brand partners strategy in Internet. As we understand, last year was pretty difficult year on the full year impact of COVID. So after the full year, how does your company recognize the difference between the marketing activities now versus pre-COVID? I understand you talked about the private domain, et cetera. Can you give us more details on how they spend their dollars differently? Are they using the private domain to get new traffic or maintain their users? Or any other details that you can share more with us, that would be great.

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

Okay. Yes. I think the last year, the COVID year, is very special, and it changes. It has a profound influence to the brand e-commerce or digital marketing strategies. I think right now, e-commerce or digitalization has been the center of the strategy of most of the consumer brands. So they are pulling in more and more resources to enhance their position on their DTC initiatives and also e-commerce digital marketing initiatives.

So I think the key for this one is that at the center of the strategy, that means that the brand will invest for long term, not only short term. So for short term, its channel sales is discounting promotion. For long term, it's more about system. It's more about capability and talent. So in this case, we are quite comfortable working with the plan for longer term of the partnership.

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**Arthur Yu Baozun Inc. - CFO**

Yes. And just to add a comment on this, we have seen the brand partners start to explore different channels. So for example, in Q4 and Q1 this year, we held one of the major -- one of our major sports brand partner to do some Douyin live video show, which achieved some really good results. And that we have seen more brand partners talking to us about different channels.

**Operator**

We have the next question from the line of Ashley Xu from Crédit Suisse.

**Ashley Xu *Crédit Suisse AG, Research Division - Research Analyst***

So on the mini-program, because in the past we have seen that effective take rate is actually lower than the service fee model on Tmall. Just want to understand whether this is attributed to structural difference in these 2 platforms? Or it's just due to different development stage? And if we look at the long term, do we see similar monetization opportunity on mini-program compared to Tmall?

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

Okay. Thanks for the question. There's a lot of discussions happening for mini-program, e-commerce. I think from 3 years ago, we have formed a very solid team to serve the brands to open stores on mini-program. But right now, we have already tens of existing mini programming working for different brands. So we think there's a lot of potential on that.

Talking about the structure of different platforms, especially for mini-program. I think they are quite different from the traditional ones like Tmall platform. It is more marketing-driven and more data-driven transactions. So for example, it's not a commission for the platform or even if there's not a platform. It's actually separated by private domains on the ecosystem. So in this case, it is quite important.

And because there is a social commerce space, so for doing the e-commerce transactions, it's easier than the traditional platforms. So I think in this case, yes, the front end maybe there is not a lot of things to be done as a traditional platform. But for Baozun, I think the middle end, like the order fulfillment -- the order processing and the back end order fulfillment, it's the same. So in this case, in this value chain part, I think the cost structure and the profit model will be the same.

For the front end, transaction is easier than before, but marketing is more comprehensive. So in this case, I think we can form up a long-term, a very healthy charge model for the brand partners.

**Operator**

The next question comes from the line of Feitong Zhang from CICC.

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

We saw the net addition of brand partners in the fourth quarter was 5 to 6. We know we are adjusting our brand portfolio in the fourth quarter. So just wondering how many brand partners are terminated the collaboration with us and how many new brand partners we acquired in the fourth quarter? What is our brand acquisition strategy moving into 2021? Can we share some color on our current brand pipelines? Any color would be very helpful.

**Arthur Yu *Baozun Inc. - CFO***

Okay. So in terms of the brand partner, we only had 6 new addition for quarter 4. And quarter 4, historically speaking, is not a quarter where a lot of brand partners will open the Tmall app, so that's because it's after the Double 11. And for the six, it's actually not a bad number from our perspective. From a full year perspective, we actually added 35 new brand partners which is a good contribution to our portfolio.

And secondly, I just want to maybe talk about the principle in terms of adding the brand partner. We're only looking for those brand partners, which will contribute to our sustainable and profitable growth, i.e., our proposition is how can Baozun add value to the brand partner and how we can create -- how we can help the partner to grow their business. We are not a company where focus on extremely low cost in order to win the business. So in this case, we will optimize our portfolio if the brand partner's kind of -- the overall strategy on selecting the strategic partner is not meeting our value proposition. But we will do it with our effort. We will try to keep our overall growth and try to serve as many as brand partner as possible.

**Operator**

As there are no further questions, I would like to hand the call back to Wendy. Over to you.

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

Thank you, operator. In closing, on behalf of the Baozun management team, we would like to thank you for all 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**

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

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