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Q4 2015 Baozun Inc Earnings Call

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**Binnie Wong** *BofA Merrill Lynch - Analyst*  
**Wendy Huang** *Macquarie - Analyst*  
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## PRESENTATION

### Operator

Thank you for standing by and welcome to the Baozun fourth-quarter 2015 conference call. (Operator Instructions). I must advise you that this conference is being recorded. I would now like to hand the conference over to your first speaker today, Caroline Dong. Please go ahead.

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### Caroline Dong *Baozun Inc. - IR*

Thank you, Operator. Hello, everyone, and thank you for joining us today. This earnings release was distributed earlier today and is available on our [website] at [ir.baozun.com](http://ir.baozun.com) as well as on global newswire services.

On the call today from Baozun are Mr. Vincent Qiu, Chairman and Chief Executive Officer; Mr. Junhua Wu, Chief Operating Officer; and Mr. Beck Chen, Chief Financial Officer.

Mr. Qiu will review business operations and Company highlights, followed by Mr. Chen, who will discuss financials and guidance. We will be available to answer your questions during the Q&A session that follows.

Before we begin, I'd like to remind you that the conference call will contain forward-looking statements within the meaning of Section 21-E of the Securities and Exchange Act of 1934, as amended, and as defined in the US Private Securities Litigation Reform Act of [1995]. These forward-looking statements can be identified by terminology such as will, expects, anticipates, future, intends, inclines, believes, estimates, targets, going forward, outlook, and similar statements. Such statements are based upon management's current expectations and current market and operating conditions, and it relates to events that involve known or unknown risks, uncertainties, and other factors, all of which are difficult to predict and are matters which are beyond the Company's control, which may cause the Company's actual results, performance or achievements to differ materially from those made in the forward-looking statements.

Further information regarding these and other risks, uncertainties or factors is included in the Company's filings with the US Securities and Exchange Commission. The Company does not undertake any obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under applicable law.

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

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### Vincent Qiu *Baozun Inc. - Chairman & CEO*

Thank you, Caroline, and thank you, everyone, for joining our earnings call today. We are very pleased to report a solid fourth-quarter and full-year 2015 financial and operational results. Our strong performance this quarter continues to be driven by our commitment to providing our brand partners with the best and the widest array of ecommerce solutions available.

On a year-over-year basis, total net revenues once again beat guidance by a 49% increase. Looking at the full year, total GMV in 2015 increased by 59%, while total net revenues increased by 64%.



Our growth momentum continues to pick up speed, with addition of new brand partners. The total number of brand partners increased to 113 during the fourth quarter. Dozens of brands continue to approach us as they seek new ways to reach out to China's growing consumer base, leveraging our omni-channel and ecommerce solutions. We have many brand partners in our pipeline, which include several popular brands in the apparel, cosmetics and electronics categories. By continuing to innovate and expand the array of ecommerce solutions we have on offer, we expect to see more brand partners approaching us.

This quarter also marked the seventh year in a row that we have participated in the Double 11 Shopping Festival. Total settled order value exceeded RMB1.1b, which I'm very pleased to say is more than double the amount on the same day last year.

Double 11 applies incredible strength to everyone's systems and infrastructure. But with years of experience, adequate planning and strategic foresight, we revamped our systems in order to guarantee peak processing capacity of over 600,000 orders per hour, more than double the amount from last year.

I believe this adequately demonstrates to our brand partners the strengths and the capabilities of our IT system in managing massive surge in orders, supply chain management systems, and the logistical infrastructure. This not only helps us ensure the smooth fulfilment of orders, but also helps us serve our brand partners manage their inventories in a cost-efficient way.

We expanded and strengthened our portfolio of omni-channel ecommerce solutions with the launch of a WeChat brand store platform in December. This platform will increase the appeal of our value-added services to our brand partners by providing them with an upgraded and improved solution to rapidly reach out to WeChat's massive user base, with limited extra cost. This will allow brands to not only sell their products directly to WeChat users, but also promote their brand, communicate with their customers more efficiently, and increase user stickiness and loyalty.

As the structural reform of our -- of the economy continues, China consumers are increasingly looking to purchase higher-quality products from trusted shopping platforms and the social networks. Our new WeChat platform demonstrates the level and talent we have within the Company as to innovate new products that will provide more flexibility and customization to our brand partners.

Our relationship with Beabloo continues to generate new and exciting opportunities. To further strengthen our auto solutions, we jointly made a fresh attempt with Beabloo to provide customized, creative auto services and solutions through the combination of digital marketing and big data for our brand partners.

We jointly developed and launched an interactive screen that has been set up in several offline retail stores in Beijing and Shanghai. This new screen not only provides brands with an effective channel to interact with offline customers, but also provide offline customers with a convenient and reliable channel to online shopping. This allows brands to measure and improve the customer experience within our fine retail stores, based on the big data analytics to increase the conversion rate of sales.

I'm confident that outside-the-box ideas like this will offer greater potential to our brand partners. We will continue to selectively invest in R&D and the complementary platforms to enhance our overall services.

We were granted gold or silver status in nine categories in the TaoBao Partner Assessment for the second half of 2015, much more than any of our competitors, which I believe demonstrates the quality of our services and our leadership position on Tmall and it's something that I'm very proud to have been recognized for.

I am also pleased to announce that Ms. Rose Wang has joined our team as a VP for beauty and luxury categories and the cross-border business. Rose has extensive experience in China ecommerce and brand sector, having cofounded one of the leading flash sales platforms in 2011 in China. She also has intensive experience in merchandizing and operations management at a number of luxury and fashion companies, including Gucci and Miss Sixty China. I am confident that she will make a valuable addition to our team here.

With that, I will pass the call over to Beck, who will review our financials.

**Beck Chen Baozun Inc. - CFO**

Thank you, Vincent. Before I go through the numbers, I would like to highlight that all percentage changes I'm going to give will be on year-over-year basis, which is one of the most useful ways to judge our performance.

So to start, as Vincent touched on earlier, total GMV during the quarter increased by 35% to RMB2,958m. If we look at the business of physical merchandise product, excluding auto and insurance categories, the total GMV during the quarter is RMB2,918m, increasing by 77% year over year basis. Maikefeng contributed RMB87m to total GMV, an increase of 388%.

We focused on growing the non-distribution GMV business model. Categories such as electronics have traditionally been conducted through our distribution model. We however managed to successfully switch part of the business of leading electronics brand partners from a distribution model to a non-distribution model during the quarter. With this transition we can further decrease inventory risk, improve our working capital position and increase our margin profile. I'll go over this in further details later.

Total net revenue beat our guidance by increasing 49% to RMB1,016m. Breaking down further, product sales revenue rose by 43% to RMB757m, mainly due to increased popularity of our brand partners' products, increasingly effective promotional and marketing activities and the competitive pricing offered to consumers. Maikefeng accounted for RMB9m in product sales revenue.

Services revenue rose by 70% to RMB259m, of which Maikefeng contributed RMB1m. The increase in services revenue was mainly due to growth in sales of apparel products sold by existing brand partners as we expand their online presence, and addition of new brand partners in the apparel and cosmetics categories.

Total operating expenses rose by 51% to RMB1,014m. In particular, cost of products rose by 37% to RMB671m, primarily due to the increase in the volume of product sales. Maikefeng accounted for RMB12m in cost of products, a decrease of 6%.

Fulfilment expenses rose to RMB138m. The increase was mainly because of increases in GMV contribution from consignment model business and increase in rental expenses for our warehouses. With a percentage of orders delivered through SF Express steadily increasing as a result of sales growth from our premium brand partners, we are seeing an improved consumer experience. Maikefeng accounted for RMB3m in fulfilment expenses, an increase of 7%.

Sales and marketing expenses rose to RMB162m. The increase was primarily due to an increase in promotional and marketing expenses associated with our online stores and promotional activities for Maikefeng. Maikefeng accounted for RMB16m in sales and marketing expenses, an increase of 141%.

Technology and content expenses rose to RMB19m. The increase was primarily due to increases in technology-focused staff and the variable technology expenses from branded stores. Maikefeng accounted for RMB2m in technology and content expenses, an increase of 65%.

G&A expenses rose to RMB25m. The increase was mainly due to an increase in rental expenses to support business growth and increases in promotional -- professional services fees as a listed company. Maikefeng accounted for RMB0.4m in G&A expenses compared to nil during the same quarter of last year.

Excluding Maikefeng's direct impact on revenues and expenses, non-GAAP income from operations rose by 48% to RMB33m during the quarter.

Gain on disposal of investment was RMB5m compared to nil during the same quarter of last year. The gain was primarily due to the Company's partial disposal of its investments in Automoney, an automobile performance solution provider.

In Q4, net income rose by 109% to RMB13m, while non-GAAP net income rose by 105% to RMB21m.

Basic and diluted net income attributable to ordinary shareholders per ADS were RMB0.27 and RMB0.25 compared with basic and diluted net loss attributable to ordinary shareholders per ADS of RMB1.94 and RMB1.94 for the same period of 2014.

Basic and diluted non-GAAP net income attributable to ordinary shares per ADS were RMB0.41 and RMB0.39 respectively compared with basic and diluted non-GAAP net loss attributable to ordinary shareholders per ADS of RMB1.53 and RMB1.53 respectively for the same period of 2014.

As of December 31, 2015, the Company had RMB837m in cash, cash equivalents and short-term investments, an increase from RMB206m as of December 31, 2014.

During the fourth quarter, net cash provided by operating activities was RMB17.2m, mainly driven by improvements in working capital management efficiencies.

Net cash provided by operating activities during the full year 2015 was RMB2.3m compared with net cash used in operating activities of RMB66.5m in 2014.

With the close of Q4, we now have achieved two straight years of non-GAAP net income and achieved a positive GAAP net income in fiscal year 2015. This was the result of top-line growth, margin improvements and increasing economies of scale. For the full-year 2015, excluding Maikefeng's direct impact on revenues and expenses, non-GAAP income from operations rose by 97% to RMB88m. We will closely monitor Maikefeng's impact on our P&L as it develops.

On the share repurchase program announced on November 23, 2015, which authorizes the Company to repurchase up to \$10m worth of outstanding ADS, Baozun repurchased approximately \$2m in aggregate of its own ADSs during the fourth quarter of 2015.

Turning to guidance, we expect total GMV for fiscal year 2016 to increase by over 50% year over year. Growth is expected to be driven mainly by same-store sales growth for our current brand partners. We also expect to see a lot of new well-known brands come on board as they seek support from an attractive partner to grasp the opportunities in China ecommerce.

Meanwhile, in Q4, we managed to successfully switch part of the business of leading electronics brand partners from distribution model to a non-distribution model. And in year 2016 we will continue to optimize our business model mix, focused on growing our non-distribution model business, improve working capital efficiency and further increase our profitability.

We expect GMV growth faster than our top line since revenue is recognized on a net basis for non-distribution model. Thus for the first quarter of 2016 we expect total net revenue to be between RMB600m and RMB610m, representing a year-over-year growth rate of approximately 26% to 28%.

This concludes our prepared remarks. Operator, now we would like to open the floor to the question-and-answer session. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Evan Zhou, Credit Suisse.

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### Evan Zhou *Credit Suisse* - Analyst

Hi. Good morning, Vincent and Beck. Thanks for taking my questions. The first question is regarding your remarks on the recent move of some major 3C brands to non-distribution. I was wondering maybe elaborate on the strategic source on that. And I think we planned to do that down the road for the coming quarter, so what kind of ongoing impact that will have in -- especially on our gross profit margin line.

And a follow-up on that topic is just want to have some assurance from you guys that I think we've been hearing the -- some brand



feedback that, starting from this year, there are increasing number of brands actually demanding the platform, such as Tmall and JD to lower the take rate on average, or demanding for better turn in cash flows.

So I was wondering if you have similar source or feedback from your brand partner clients, or what's the general industry outlook that you have regarding the overall take-rate economics for the industry and for ourselves as well? Thank you.

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**Beck Chen Baozun Inc. - CFO**

Okay. So thank you for the question, Evan. So for your first question -- I will take the first question. So generally, as you know, for 3C brands, we usually -- we are doing the business by distribution model, which means we will purchase the product directly from the brands and resell to the consumers. This is the traditional -- our business model for 3C brands.

But since Q4, for part of the business of our -- one of our leading electronic brands, we have successfully able to transfer -- managed to transfer the part of the business to non-distribution model, consignment model, which is consignment model, so which means that for the financials, the revenue will be treated as -- on net basis because we don't take the inventory risk.

But on the other hand, it didn't impact our, for example, the gross profit or our operating profit for this business. And going forward, we are still open to talk with leading 3C brands, international or domestic. But our priority is to do the business for a non-distribution model, which means that it will help us to drive our business volume and also we don't need to take inventory risk.

And for the margin-wise and gross margin and also operating margin, it will help the Company to improve as well. So this is what we can expect in the next following and coming quarters.

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

Well here -- I'm Vincent, here for your second question. Yes, I think there are two major factors when in the platform, considering the take rate for the merchants. The first one is their demand for their better financial performance. The other one is a competition between the platforms.

So this year, in general, we are seeing that different platforms still have a very stable pricing strategy for different merchants. So generally it's quite similar to last year. Some of the structural adjustments, but some of the categories a little bit more, some of the categories a little bit lower. Some major of those categories are maintained the same level of last year. So generally we think it's still stable.

So looking to the future, I think the take rate of the platform depends -- still depends on the competition and also their demand for their financial performance. But for us, we are here, trying to bring the brands with the diversified and omni-channel solutions. So we will balance our distribution of the business on different platforms and trying to get a better result for the brands and ourselves. Thank you.

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**Evan Zhou Credit Suisse - Analyst**

Thank you, Vincent and Beck. Thanks for the color. Very helpful.

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**Operator**

Robert Lin, Morgan Stanley.

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**Robert Lin Morgan Stanley - Analyst**

Hi, Vincent. Hi, Beck. So I have just have a question from -- I'll ask the financial ones first. Can you let us know what will be same-store sales growth in terms of GMV and how many brands are included in that calculation for this quarter and perhaps for the full year as well?

I guess the second question is our business model is very similar to opening stores essentially. And as we scale a lot more of these brands, obviously some will be very profitable. Some will be an earnings drag. But we're incubating. But because of the scale effect, we should see a continued operating leverage. So can you explain to us how many brands are profitable, very profitable? How many brands are we still incubating? And give us some more color on the path to profitability. The time, is it shortening or it's still very similar?



I guess the third question for Vincent is more -- obviously we're changing our business structure from more consignment-based, more apparel. Maybe two, three years out, how should we think about Baozun? What are the key categories where you're doing a percentage of sales or any color that you can provide on our business mix?

And lastly, MKF. Obviously it's still a drag. Any potential partners that we're seeking for MKF? Thank you.

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**Beck Chen Baozun Inc. - CFO**

Okay. So, Robert, for your first question about the same-store sales, for the physical merchandise products, for year to date of year 2015, the same -- the cumulative year-over-year base for the whole year is around 75% year-over-year growth for the same store. And around 70 brands was calculated in. 70 brands was calculated into this calculation on an apple-to-apple basis.

And about the second question on the operating leverage, profitability of the stores generally, I think right now, for most of the stores with at least a three-month operating history, they show the operating profit on the store level.

And since we are turning the -- we are focused on growing the non-distribution model business, so generally based on the commercial terms for those stores and the non-distribution model, we should be getting profit for maybe probably within three months or just by opening of the store, so in this way. But if, for example, if a new store is operated under a distribution model, it may take time to grow the GMV to reach the profitability.

But because right now we are focused on growing non-distribution model, so for the new stores generally, I think they all get profit in the first month or maybe probably within three months. I think it's okay.

So for the third question, about the strategy?

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

Yes. Well, again, for your third question about the structure of the business mix, actually Baozun is currently running different categories. Actually we have a lot of categories to run. And also different categories has its own personality compared to the others. So, for example, some of the appliance and electronics category, distribution will be the majority in the market environment. But for the apparel, it is -- consignment will be the majority. So that's the situation we are facing.

But talking about the general direction, all the business terms and also we are going to a better one than before. For example, even for this distribution model, we are trying to convert some of the appliance and the 3C brands to a consignment model. And we are getting more and more favorable terms from the brand partners as well.

So we can see that in the future we will have more consignment business and services revenues. That is the general direction. But every category right now, and we will keep working on to better the business terms in between.

So -- and this year, for MKF you just mentioned, one direction is that we are developing the GMVs and the number of users and the activeness of the users. And in the same time we are developing more synergies between our targeted brands, existing brands and MKF consumers. That is part of the strategy we told the market before. Yes, that's for the third one.

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**Robert Lin Morgan Stanley - Analyst**

Can I follow up on the same-store sales and the business model? Is it possible to let us know what the fourth-quarter SSSG and the brands included there as well? As well as in your guidance for the first quarter revenue, what type of same-store sales are we thinking about in that regard?

And then just to follow up on the business model is I guess my main question was are there any particular verticals that we're looking to get out, or are we going to continue to pursue a more broad-based category of different diverse mix?

**Beck Chen Baozun Inc. - CFO**

Okay. So for the first question about the first quarter, so first we think the same-store sales growth should be much more than the revenue guidance. So while the revenue is growing at, for example, 28% as forecasted, because, first, we are focused -- we are still focused on growing the non-distribution model. Second, in Q4 we transferred part of the business from distribution model to a non-distribution model. But before Q4 last year, since Q1 and Q3 of 2015, it is operated under distribution model.

So on revenue-wise, this will be accounted as gross revenue in the product sales revenue. But probably since this year, under US GAAP it will be treated on net basis because we do it as a consignment model. So it will drag down the product sales revenue growth. But for the same-store sales level or for the GMV-wise, it will be much more than the revenue growth. And also we believe the profitability will be improved a lot on the margin-wise.

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

Okay. For the second part of your follow-up questions, we are running the multi-product category for several reasons. One is the consumer. They are demanding different brands and categories products. The other one is that we have very strong multi-category operational capabilities.

And talking about our view on different categories, right now we are thinking that we have already covered most of the products and categories in -- compared to Tmall's coverage. And we are quite satisfied with that. And we are seeing that a lot of categories and sub-categories still offer lot of potential for us to grow the business. So actually we are not planning to exit from any of the categories. And we will -- what we have in the plan, we have in hand is that we are expanding several of the categories and sub-categories with the team.

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**Robert Lin Morgan Stanley - Analyst**

Okay. Great. Thank you.

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**Operator**

Binnie Wong, Bank of America.

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**Binnie Wong BofA Merrill Lynch - Analyst**

Hi. Good morning, Vincent and Beck. Thank you for taking my questions. My first question is on the 1Q guidance. It seems to imply a wider 40% sequential decline, 40% decline last year versus about 30% a year ago. So we also observed the similar pattern to other ecommerce companies that already gave their outlook on first quarter. So I understand 1Q is a seasonally weaker quarter, but does the guidance actually implies seasonality would be getting stronger? And also how should we expect on the revenue growth for the full year too? How should we see that, because it seems to be slowing down?

And then second on the Maifeng. When I read through the details on the press release, it seems like even on a gross profit basis level, we are actually losing money on Maifeng, just on the gross -- GP level. So how should we think about it? Is it because we're giving out more discounts or we rebate to, I guess, to gain share, market share, on this channel?

And I will have a follow-up later. Thank you.

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**Beck Chen Baozun Inc. - CFO**

Okay. Thanks for the question, Binnie. So for the first question, yes, for -- generally for most of those retailers and e-tailers, we have some seasonality between Q1 versus last Q4. But I think this is true. But for the patterns, I think we should be better than these other ecommerce peers, because GMV-wise our total business volume is growing faster than those peers and also because we focus on growing some non-distribution models looking forward.

So maybe it doesn't contribute more to the revenue side, but for the gross profit line and operating line, they will contribute much more to the business. So I think we are in a better position to -- even for the Q1 businesses.



And about the MKF gross margin, yes, Q1 MKF gross margin is negative. It's because since May last year we have opened the platform to the third-party merchants to transfer the business from 1P direct model to marketplace-focused model last year. So right now most of the Maifeng's business is what's contributed by third-party merchants, not by Baozun's 1P business models. And also we have made some inventory provisions for the 1P business model inventories in Q1. And that's why, if you look at the gross margin of the MKF side, seems it's not so positive.

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**Binnie Wong BofA Merrill Lynch - Analyst**

Okay. Thank you. And my final follow-up question is basically on the brands. In terms of the number of brands that we are bringing in, and then the demand, obviously we see the strong growth in Tmall too. And then how -- when brands are approaching Baozun, right, do you see this year, in terms of the product category, the type of the brands, say is it in apparel or what type of brands that you see a stronger growth, or maybe maternity, to see a stronger growth in terms of going into Tmall?

And then I guess also on the broader industry, in terms of the brand preferences, in terms of their allocation of their marketing budget and also in terms of their sales target, their goal, the GMV target into Tmall versus into JD, how should they -- how are they planning on these? Thank you. Just want to see on the competition front on the industry -- broader industry. Thank you.

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

Okay. Yes. We are seeing stronger and stronger demand from the brand partners, want to do more business in the ecommerce. So talking about the targets and the marketing investments, I think we are more aggressive than before. So that is about the -- that's this part.

And for the categories of brands, right now we are seeing very strong demand from the apparel and the cosmetics category, and also we can see that there's also very strong demand from the cross-border business, means that those of the brands in other countries, although they don't have a business presence yet in China, but they want to sell into Chinese consumer base through this cross-border initiative.

So we hope that in the future this cross-border business, several of these infrastructural things can be improved so this business can be growing very fast as well. Because we are taking this cross-border business as a category, so that's why I'm saying this. So I can say that apparel and the cosmetics, apparel for those brands in China and cosmetics and the other, like foods, cross-border, will be very promising.

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**Binnie Wong BofA Merrill Lynch - Analyst**

Thank you. And just a follow-up in terms of their GMV goal and also on their marketing budget spending on Tmall versus into JD marketplaces, how are they seeing the growth there? And also their budgets, their spending budget there, can you share some color on the trend? That will be very helpful. Thank you.

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

Just a general feeling; there's no statistics. We are seeing that -- I'm talking about their expectations for different platforms, I think it's quite similar to last year, I mean 2015. They are putting more efforts on their official website and also their presence on mobile site. So that is the trend. I think it is not only for the GMV purpose, but also for closer relationship with their target consumers.

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**Binnie Wong BofA Merrill Lynch - Analyst**

Okay. So basically they are also -- I guess last year you said they would also prefer to have their own -- like allocate more spending, and then finally to have, like say for Nike, right, in terms of their own official website, they would have been continued to focus more on the spending to grow their -- its own website sales and also spend more in terms of marketing there.

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

Yes, we believe so.

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**Binnie Wong BofA Merrill Lynch - Analyst**

Okay. Okay. Thank you.

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

Yes, we believe so. And also I -- not only the -- we already have the -- everybody has their own website, official website, I mean. But the thing is that whether we need to add this shopping key functionality to the website. More and more brands are asking us to do so. And because we can also help them to set up some very cost-effective, in a sense, official web stores, so we can lower down the barrier for them to enter into this official website.

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**Binnie Wong BofA Merrill Lynch - Analyst**

Okay. Thank you. And lastly on the cross-border ecommerce business, we have been hearing on the regulation change basically to probably lower like the threshold of the -- the limit that you don't have to pay the postal taxes. I guess, in essence, right, the regulators will try to close the gap between the goods from the traditional channel versus from the cross-border ecommerce channel.

How would you see -- because I think you mentioned earlier in your opening remarks that you -- Baozun will be also expanding into these businesses. Given also there's various players there already in -- growing, wanting to expand into cross-border ecommerce, how do you see the regulation change will ultimately impact the growth? Thank you.

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

We can see that there is very strong demand from both sides, from the consumers and from the brands and merchants for this cross-border business. Some of the problems or difficulties in this business can -- we are quite optimistic for that this could be better in the future. And consumers are buying cross-border products just because of several reasons. One reason is that they are demanding higher qualities. The other one is that they are requiring for lower prices. So I think the first one can be more important than the second one.

So right now, even there is still some [ecommerce] business in this business, but we can still see the business growing so fast. And we believe in the future the infrastructures and also the regulations will all benefit these target consumers and can make the business have more space to grow.

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**Binnie Wong BofA Merrill Lynch - Analyst**

Okay. Thank you.

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**Operator**

Wendy Huang, Macquarie.

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**Wendy Huang Macquarie - Analyst**

Just a look at the numbers that you reported, it actually suggested GMV growth decelerated from 69% to 36%. But revenue growth actually is still holding up okay at 49%. So I just wondered whether this is across the industry trend that GMV growth decelerated much faster than the revenue growth, because that seems to be the trend that we observed from the Alibaba recent results as well.

And also your Q1 guidance implied about 26% to 28% year-over-year growth. Obviously we know that there's seasonality impact. I just wonder what kind of the trend that you're observing for your business or across the industry set makes you believe that the revenue growth will further decelerate. And also if you can provide some outlook for your 2016 revenue growth, that will be helpful.

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**Beck Chen Baozun Inc. - CFO**

Thank you for the question, Wendy. So this is Beck. I'll take the question. In terms of the Q4 year-over-year GMV growth, yes, it's increased by 35%. But like I said in the -- before, the -- for example, if we look at the business of physical merchandise products, excluding auto, especially auto categories, GMV increased by 77% year over year. So it should be increasing faster than the revenue growth. This is because the auto category witnessed a down-trend in the industry last year.

And -- but for us, because the generally for auto parts, it contributed a very limited revenues to Baozun's revenues in the services revenue line. So we don't think it will cause a lot of negative impact to our financials. So this is the first question.

And in terms of your second question about the revenue growth in 2016, first thing is we have said that we are expecting the total GMV amount is growing faster than the revenue growth in 2016. And our business models, coming from non-distribution model, we will account more of the total GMV compared to 2015, which means we can further increase our working capital efficiency and the profitability. But those non-distribution model will contribute much less than distribution model in the revenue lines. So for the total net revenues growth of 2016, the GMV -- the revenue growth is slower than -- should be slower than the GMV growth. So this is what we can give for this year, looking forward.

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**Wendy Huang Macquarie - Analyst**

So just to follow up on that, what's your GMV contribution from the auto industry in Q4 then?

And also, based on your comments earlier, so you believe that the GMV growth being slower than revenue growth was just a one-quarter phenomenon and from the Q1 onwards, everything should actually start to normalize again, with the revenue growth higher than GMV growth again?

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**Beck Chen Baozun Inc. - CFO**

Yes. So, for example, this year, for this Q4 the auto category accounts for low single digit of our total GMV amount compared to, for example, 20% of last year. So if we look at the GMV contribution, this was a lot of more and more GMV was coming from the physical merchant products, like apparel, appliance, electronics, cosmetics and the home and furnishing materials. So this is our major war field.

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**Wendy Huang Macquarie - Analyst**

And also I have one small question about Double 11 sales. So you put out a press release saying that the number of orders actually doubled during the Double 11 sales period time. However, the GMV growth, you just reported actually for fourth quarter actually was only like 36%. I just wonder whether that was because of the order size on the Double 11 sales day was much smaller than the usual days or is there any other reason contributed to this gap?

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**Beck Chen Baozun Inc. - CFO**

Just like I said before, one minute before, if we exclude auto parts, which obviously have a higher price per basket, the total GMV for Q4 increased by 77% year over year. So this gap is not so big compared to Double 11 base. And also Double 11 base is only one-day result. But we -- if we look at whole entire quarter, it just increased by 77% year over year base, excluding auto part.

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**Wendy Huang Macquarie - Analyst**

Okay. Thanks then.

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**Operator**

George Meng, Goldman Sachs.

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**George Meng Goldman Sachs - Analyst**

Thanks Vincent, Beck and Caroline for taking my questions. I have two questions. The first one is a quick one, so regarding your first-quarter guidance. Can I ask what the implied GMV growth in the first quarter, by your revenue guidance of 26% to 28% year on year, because you mentioned your full-year GMV target of over 50% and you also said that revenue is going to be slower than GMV? So just wondering what's going to be the seasonality in the first quarter in terms of GMV. And I have a follow-up. Thanks.

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**Beck Chen Baozun Inc. - CFO**

Thanks for the question, George. So for, yes, for the full year we gave the guidance like 50% at the year-over-year basis. And if we look at the quarter-on-quarter basis, I think it generally will be the same, same around in each quarter.

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**George Meng Goldman Sachs - Analyst**

So the first quarter is -- the year-on-year GMV growth will also be around 50%? That's what you mean right?

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**Beck Chen Baozun Inc. - CFO**

This is correct.

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**George Meng *Goldman Sachs - Analyst***

Okay. Cool. And my second question is more a broader question, so because we're already in 2016 and post Chinese New Year. If you look at the structural trends, on the one hand you have probably some headwind from the soft macro, that's for everybody in the ecommerce industry, all consumption. But also I think you have some tailwind from consumption upgrade, especially for brand partners. So based on your communication with your brands, existing also prospective brand partners, do you see any change in their strategy into 2016? How do they -- how are they going to maybe structure their marketing or their strategy overall in 2016. And also for you, do you have any plans to help them during this change? Thanks.

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**Vincent Qiu *Baozun Inc. - Chairman & CEO***

Okay. Actually we know that the macro slowing down is impacting the offline sales. But for the online sales, we are seeing just tailwinds. So because the -- all the brands, they are more focusing on the ecommerce business. They think that is most important for their growth. So all their strategy, marketing dollars and their people are now, more and more, focused on this direction. So this is -- give us a lot of energy to grow their business.

And talking about their strategy, I think it's more focused on omni-channel and O2O initiatives, just because they just want to push the ecommerce business faster. And then they can use this to leverage their offline business. So that's their way out for their business.

So we're not seeing any of the negative impact for business. We are seeing all positive impact from the brands' initiatives and also the demand from the consumers.

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**George Meng *Goldman Sachs - Analyst***

Okay. Great. Can I follow up quickly on this? So basically you're saying, especially for your brand partners, their business is doing well online and that's why -- and also they are benefiting from the consumption upgrade, because people, i.e. general consumers will look more for brands than before. But in the same time, for your business, will you see that because your brand partners are going to gain more bargaining power, is that going to weaken your bargaining position when you deal with them, or you see this as just a win-win situation and you're not going to see any, I think, increased bargaining power from their side?

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**Vincent Qiu *Baozun Inc. - Chairman & CEO***

From the very -- several years ago, from the very beginning, actually we are providing a fundamental service so as to enable the brands to conduct the ecommerce business. But right now we're providing more and more value-added services and we are being a more and more material power in the whole value chain. So right now we are gaining more negotiation power when we talk to the brands.

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**George Meng *Goldman Sachs - Analyst***

Okay. Great. And my final question is regarding your cash flow. So I think you made two or three years of non-GAAP operating profit, but I think 2015 is the first year that you achieved operating cash -- positive cash flow. And then heading into 2016, I imagine you will do more non-distribution models, GMV models. So does that mean your working capital structure will improve further? Or basically should we expect a better operating cash flow than your bottom line going forward? Thanks.

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**Beck Chen *Baozun Inc. - CFO***

George, the whole Company corporate working capital operation will be improved further year over year if we exclude any seasonalities among different quarters.

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**George Meng *Goldman Sachs - Analyst***

Okay. Great. Thank you very much.

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**Operator**

(Operator Instructions). Robert Lin, Morgan Stanley.

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**Robert Lin *Morgan Stanley - Analyst***

Hi. Hello?

**Vincent Qiu Baozun Inc. - Chairman & CEO**

Hello, Robert.

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**Robert Lin Morgan Stanley - Analyst**

Hi, Vincent. Okay. So just to better understand -- so help everyone to better understand the model, to me the Company's main focus should be gross profit growth is the number one, GMV growth, and then net sales, because the way you're changing your business model doesn't -- it tells me that net sales is meaningless and that gross profit dollar and GMV is probably a better measurement of your business. I just want to make sure that am I thinking about that correctly?

Second, we talked about WeChat value-added service. Can you provide a little bit more color on what are you doing in WeChat? And how are you helping the brands and what incremental revenue you're getting from that service.

And third, this is a broader question. To your merchants and to yourself as a distributor of brands, what do you value more? Is it the GMV or is it the engagement for those brands? What do you think is the most important metric for the branded partners that you work with?

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**Beck Chen Baozun Inc. - CFO**

Hi, Robert. So for the first question, gross profit should be a more objective measurement to measure the performance among different models, like for -- including distribution or non-distribution models. Gross profit is a better parameter.

And also for the WeChat side, we have launched a WeChat official website for several big -- several premium brands since December. And we have helped them to launch a lot of new products, new series of products on WeChat. And the results are very well, are very well. So we will keep to monitor and to recommend to our other brand partners in the following quarters.

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

Yes, Rob, the WeChat solution is very recent result of -- from our IT department. And several of the brands are already now adopting these solutions. It is a very good way for the brands to set up their official presence in this most important social network software and target into these WeChat users. So for them, that means low cost and very efficient to set up, so very important for them.

And for the -- you just asked for the GMV and engagement, which one is the important. I can say that both are important, because GMV is more about the business operations. You can run a business well, then you can get the GMV. But engagement is a long-term thing. So WeChat right now, it's more for this engagement. And we are still monitoring this and improving all the functions -- functionalities in this WeChat solution. And we hope this can play a bigger role in the long term for us to grow our GMV.

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**Robert Lin Morgan Stanley - Analyst**

I guess that question was more directed to ad budget. So when these brands work with you on advertising, whether from the performance base or [citizen] base, what do they value more? Are they really looking for GMV or are they looking for engagement with their customers? Like what's the trend right now, because you obviously -- if GMV slowed down a lot, are they going cut back marketing? That's essentially my three questions.

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**Vincent Qiu Baozun Inc. - Chairman & CEO**

Sorry, I misunderstood your question. Yes, for the brands, I think both -- it's also correct, both sides are important. Right now for these majority of the platforms, like Tmall and Tmall Global, I think they are here -- they are there for GMV growth. But for those official websites and WeChat source, I think it's more about engagement for their consumers. So Baozun is here to help them to achieve two; one is the GMV and the other is engagement in their consumers.

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**Robert Lin Morgan Stanley - Analyst**

Okay. Thank you.

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**Operator**

There are no further questions in the queue at this time. I would now like to hand the call back to Caroline Dong for any closing or additional remarks.

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**Caroline Dong Baozun Inc. - IR**

Thank you, operator. In closing, on behalf of the entire Baozun management team, we would like to thank you for your interest and participation in today's call. If you require any further information or have any interest in visiting us in China, please let us know.

Thank you for joining us today. This concludes the call.

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**Operator**

Thank you, ladies and gentlemen. Thank you for your participation. You may now disconnect.

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