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BZUN - Q1 2019 Baozun Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by for Baozun's First Quarter 2019 Earnings Conference Call. (Operator Instructions)
As a reminder, today's conference call is being recorded.

Before we begin, we would like to express our sincere apologies to Baozun and every participants on that call that due to a human mistake by the conferencing provider, the call wasn't able to take place as scheduled yesterday. And the company had to postpone the call. On behalf of the conferencing provider, we would like to extend our apologies to all of you for the inconvenience caused.

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.

Wendy Sun - Baozun Inc. - IR Director

Thank you, operator. Hello, everyone, and thank you for joining us today. Once again, we apologize for postponing the call yesterday and the delay in notification. As the operator just mentioned, we experienced some technical difficulties with our conference call service provider, which we're not able to fix in time to hold the call at our original scheduled time. Thank you for bearing with us as this issue was sorted.

Now on the call today from Baozun, we have Mr. Vincent Qiu, Chairman and Chief Executive Officer; Mr. Junhua Wu, Chief Growth Officer; and Mr. Robin Lu, Chief Financial Officer.

Mr. Qiu will review business operations and company highlights followed by Mr. Lu, who will discuss financial and guidance. They will be available to answer your questions during the Q&A section that follows.

Before we begin, I like to remind you that this conference call contains forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 as amended and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminologies such as will, expect, anticipate, future, intends, plans, believes, estimates, target, going forward,



outlook or similar statements. Such statements are based upon management's current expectations and current market and operating conditions and relate to events that involve known or unknown risks, uncertainties or 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, performance or achievements to differ materially from those in the forward-looking statements. Further information regarding these and other risks, uncertainties or factors are included in the company's filings with the U.S. Securities and Exchange Commission.

The company does not undertake any obligations to update any forward-looking statements as a result of new information, future events or otherwise, except as required under applicable law.

Finally, please note that unless otherwise stated, all figures mentioned during this conference call are in renminbi.

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

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

Okay. Thank you, Wendy, and thanks to everyone joining our earnings call today.

I'm very pleased to announce the strong start to the year with GMV increasing by more than 58% and our total revenue increasing by nearly 40% year-over-year driven by healthy growth from both product sales and the services. China's e-commerce sector, already the largest in the world, continues to generate strong and healthy growth momentum as online shopping increasingly integrates into the daily lives of the nation's consumers.

Sales in the apparel category, especially sporting goods and men's wear as well as electronics and the cosmetics categories, performed well during the quarter and continued to gain growth momentum into the second quarter of 2019. As China's leading brand e-commerce service provider, we continue to strategically invest in developing innovative technology that will allow us to lead the industry into the next phase of the e-commerce revolution.

Our cutting-edge omni-channel solutions, integrated retail operating supporting system, big data-driven analytics and highly targeted digital marketing services are all able to seamlessly empower our brand partners to make better business decisions, improve operating efficiency and benefit from enormous growth potential ahead.

In early 2019, we strategically restructured our growing organization into 3 key groups: mainly ECG, e-commerce group; LSG, logistics and supply chain group; and the TIC, technology innovation center. We are positioning our business for the future by creating a more effective and focused framework to serve our expanding portfolio of brand partners.

To be more specific, ECG will focus on generating high-quality GMV, mainly by concentrating on creating – add value for partner brands, accelerating customer acquisition and pooling resources into market developments. LSG will focus on boosting service quality to provide brands with more efficient and customized warehouse, logistics and supply-chain solutions as well as improving direct-to-consumer capabilities. TIC will be our growth engine, the catalyst that will enable growth and the technological improvements through our integrated system infrastructure alongside a chain of automated and AI innovations. I strongly believe this reorganization will enhance our creativity, improve efficiency and bring more value to our brand partners and shareholders.

This year, we have continued to drive acquisition of more brand partners, with a key focus on high quality GMV categories that strike a balance between competitive and the qualitative GMV goals. During the first quarter, we added a net of 15 new brands, which bring the total number of brand partners to 200 for the first time, an increase from 156 a year ago and a new milestone in our corporate history. Newly added brands during the quarter were primarily in the FMCG, apparel, food and health and cosmetics categories. Some of these new brand partners, to name a few, included a leading domestic FMCG brand, a German health food brand, a French swimwear brand, a Spanish fashion brand and a number of global cosmetics brands. We are seeing greater contribution in GMV growth from new brands as they mature at a more rapid pace compared to previous years, which demonstrates just how effective our omni-channel solutions are as it's rapidly allowing our brand partners to tap into China's massive e-commerce market.



Digital marketing continues to be one of our most powerful tools when it comes to customer acquisition and enhancing our value-added services for existing brand partners. Our digital marketing services are so effective as we fully leverage the accumulated expertise achieved from a decade of brand e-commerce and big data-driven analysis, which makes our digital marketing strategy highly ROI-driven. This in turn generates best-in-class offerings with highly customized content creation, cross-channel optimization and the behavioral profiling of targeted users. Our digital marketing services are becoming increasingly powerful as we focus on high-quality GMV brands, conversion possibilities of potential partners to become GMV partners, along with better ROI orientations.

We are very pleased with the increasing market acceptance and the industry recognition our services have been receiving. This quarter, we were certified by Alibaba Strategy Center as a qualified service partner and are delighted to be the only e-commerce service provider to receive such an honor. Our technology and innovation center is hard at work on a number of few new innovative modules and tools that will be developed -- deployed across 3 key systems: a cloud-based system that helps brands set up their official brand stores and official brand WeChat mini-programs; a retail operations support system, or ROSS, with digital tools to improve efficiency and automation; reduce operating cost and a continuous upgrade of our core e-commerce systems.

Priority this year will be on streamlining productization and the developing deployment strategies for these modules and tools. As part of this strategy, we ground opened our new R&D center in Chengdu in March this year. Our team in Chengdu will be the center of the latest technology trends and have a wide pool of lower-cost talent to groom.

During the first quarter, we also launched a cloud system, Baozun cloud, which was upgraded to a hybrid cloud model with a combination of series of cloud resources in both long-term and short-term application scenarios. This highly-customized Baozun cloud will greatly enhance our storing and computing capabilities for SaaS platforms and technologies to effectively address increasing demand from our brands and enhance elastic scalability of our system. Baozun cloud's asset-light structure will also enhance our integration of resources and improve overall efficiency.

Our investments are paying off as our services and products continue to gain wide recognition across the industry. We were once again recognized as Tmall 6-star e-commerce service provider based on our suite of performance measures, including operational capabilities, brand development capabilities and service ratings. This is the highest level of recognition by Tmall.

In this first quarter, we launched a partnership with a leading domestic FMCG brand, who is also a top-ranking brand in the world at their sector. For brands of such huge scale, over first 3 months of operation, our service already helped them to achieve a significant GMV growth target and the partner view this as a fantastic results.

Actually, we decided to move further and formed JV with them at the end of April. With a goal to enable them benefiting this new era of e-commerce and the enormous growth opportunities, we believe this JV offers a truly unique value proposition by combining Baozun's in-depth knowledge of e-commerce and integrated technology together with the brand's comprehensive off-line network and a leadership position in the FMCG sector.

On that good note, I'll pass the call over to Robin to go over our financials. Thank you.

Bin Lu - Baozun Inc. - CFO

Thank you, Vincent. We delivered another solid quarter of GMV increasing by 58% year-over-year. Nondistributed GMV, in particular, increased by nearly 62% year-over-year. Most importantly, we continued to grow our business at a sustainable and well-balanced manner, which we believe will better position us to drive growth over the long term and allow us to generate value for our brand partners.

This April, we also issued a 5-year convertible bond. With a put on the third year and the interest rate of 1.25%, net proceeds were around USD 270 million. With the substantial financial flexibility, we expect the use of the proceeds from this deal to help support our growth initiatives. In our working capital over the next 5 years and the potentially investment opportunities that may come up, this financing will further optimize our capital structure and lower our weighted average cost of capital.

Now let's go over the first quarter 2019 financial results in details. We believe year-over-year comparison is the best way to review our performance. All percentages I'm going to give will be on that basis. Once again, please note that all figures mentioned in this financial review section are in RMB.

Firstly, total GMV during the quarter increased by 58% to CNY 7.83 billion. Our focus remains on growing our nondistribution business, which saw GMV increase by 62% this quarter to CNY 1.12 (sic) [7.12] billion in which service fee model is leading the pace. Total net revenues increased by 40% to CNY 1.29 billion, product sales revenue increased by 34% to CNY 618 million. This record high growth rate in most recent 3 years of product sales was primarily attributed to more brands being introduced in the past 12 months and the solid performance of our existing brands due to the popularity of their product.

Services revenue increased by 45% to CNY 669 million during the quarter. The increase was primarily attributable to the rapid growth of the company's consignment model and the service fee model and, in particular, the strong growth in digital marketing services. Total cost and operating expenses were CNY 1.24 billion compared to CNY 893 million in the same quarter last year. In particular, cost of products increased to CNY 509 million from CNY 379 million last year primarily due to an increase in product sales revenue. Gross margin of product sales remains flat at 17.6%. Fulfillment expenses increased to CNY 288 million from CNY 211 million last year mainly due to an increase in GMV from our distribution and the consignment model business and partially offset by improvements in efficiency. As a percentage of GMV, our fulfillment expenses ratio improved to 3.7% from 4.3% a year ago mainly as a result of early-stage operating efficiency improvements from a couple of cost-saving initiatives.

Sales and the marketing expenses increased to CNY 311 million from CNY 221 million last year in line with GMV growth as well as high growth from digital marketing services. As a percentage of GMV, our sales and marketing expenses ratio improved to 4% from 4.5% a year ago mainly attributable to labor efficiency leverage and improved profitability profile for digital marketing services.

Technology and the content expenses increased to CNY 88 million from CNY 50 million a year ago and CNY 84 million last quarter. The increase was primarily due to our continued investment in technology. During the fourth quarter, our investment in technical innovation and the productization totaled CNY 23 million, up from CNY 13.5 million last year. General expenses increased to CNY 45 million from CNY 32 million last year, primarily due to an increase in administrative, corporate strategy and business planning staff.

Income from operations increased to CNY 46 million with an operating margin of 3.6% compared with 3.1% in the same quarter of last year. Just a footnote, net income from operations and the bottom line below have embedded accounting treatment on leasing expenses following adoption of ASC 842 effective on January 4, 2019.

All in all, non-GAAP income from operations was CNY 65 million, an increase of 42% from CNY 46 million last year. Non-GAAP operating margin remained flat at 5% on top of higher investment in technological innovation and the productization during the quarter. Offsetting interest income, net interest expenses totaled CNY 6 million compared with CNY 2 million last year and CNY 3.5 million last quarter primarily due to the increased short-term bank loan position.

While we completed the CB financing in April with a much lower interest rate of 1.25%, we have also retired some of existing short-term bank loans, which bear much higher interest rates. In fourth quarter, net income attributable to ordinary shareholders of Baozun increased 128% to CNY 34 million. Basic and diluted net income attributable to ordinary shareholders of Baozun per ADS were CNY 0.59 and CNY 0.57, respectively, compared to CNY 0.27 and CNY 0.25, respectively, during the same period of last year.

Non-GAAP net income attributable to ordinary shareholders of Baozun increased by 65% to CNY 53 million. Basic and diluted non-GAAP net income attributable to shareholders of Baozun per ADS were CNY 0.91 and CNY 0.89, respectively, compared with CNY 0.57 and CNY 0.54, respectively, for the same period of last year.

As of March 31, 2019, we had CNY 577 million in cash and cash equivalents and short-term investments compared with CNY 514 million as of December 31, 2018.

Turning to guidance. Based on current macroeconomic and operating conditions, for the second quarter of 2019, we expect total net revenues to be between CNY 1.55 billion and CNY 1.6 billion, which represent a year-on-year growth rate of approximately 34% to 38%, in which services revenues to increase by over 40% on a year-over-year basis.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question is from Alicia Yap from Citigroup.

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

I have one question. Could you elaborate a bit more and help us to maybe reconcile the differences between how the company's effort in getting a higher-quality GMV, which should imply higher take rate, right, while the implied take rate for the service revenue this quarter actually showed some declining trend? And similarly, based on your 2Q GMV and revenue guidance, it also seems to suggest that blended take rate will be similar to have some pressure on the service revenue. So can you help us understand the reasons? And should we expect that to see the higher-quality GMV eventually should translate to a higher take rate and revenue growth over time?

Bin Lu - *Baozun Inc. - CFO*

Sure, Alicia, it's Robin. And thanks for your question. Quality GMV is the strategy, I mean, the company is pursuing and I'll give you some color about Q1. As we remember back in -- from the beginning of the Q1, I mean, some lower take rates, cap rates like electronics brands, which rebounded -- I mean the GMV growth rebounding very quickly in Q1, which you know really lowered down our blended take rate in Q1. As we specified before, when you look at the blended take rate, the major or the primary factor is the mix of the categories, which means if you have a more GMV coming from the lower take rate categories, I mean your blended take rate will be negatively affected. I think that's a major factor in Q1, and there is another minor factor I would express. Yes, we are -- while we develop our -- or acquire our new brands, most of the brands are in very high take rate categories, but they still need some ramp-up to reach the ideal take rate level which means, for example, if you do the business way properly, in the upfront way we do the store operations and then gradually, we will take over what the traditional marketing and other services like the consignment maybe, and then the take rate will be ramped up to some certain level as we agreed for the both parties. So it takes some time. I mean, in general, the larger the brand is, the longer the time is. So you still need some time to say the results for our take rate improvement. However, I would reiterate that quality of GMV is our target and our strategy. We are working very hard on that and the new brands we acquired, they have a certain stretch above the take rates. So we hope in the mid-term, we would see the results.

Operator

Your next question is from Eileen Deng from Citibank.

Eileen Deng - *Deutsche Bank AG, Research Division - Research Associate*

This is Eileen from Deutsche Bank. Congrats on the strong quarter. Could management share with us some of your view about how do we help our brand partners to best fit into Alibaba's strategy of, number one, going into the lower tier cities and also, number two, the Taobao (foreign language)



recommendation, and do you feel any of our brand partners, the resources and traffic on Taobao is being reallocated to the nonbrands in any of the case?

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

Okay. This is Vincent. Let me answer this first and maybe Junhua can also add some comments later. Yes, right now we are taking this omni-channel strategy and taking a brand position, so helping brands to do business across all the different channels, and we noticed that there is some change happening on Tmall and also Taobao. Number one, for this (foreign language) initiative, we are closely following this up with Tmall and also our brands to enable them to offer personalized experiences for different group of consumers through mobile Taobao, Tmall and also from the desktops. So in this kind of industry, we are working with the Tmall guys and branded guys closely not only from operational perspective but also from the technology side. So I think we are quite confident with this kind of initiative.

Secondly, about traffic thing, we know that there are more and more marketing and promotion tools invented on the platforms like Taobao and also we have this initiative to penetrate the lower tier cities of consumers. Right now, I think for us, we don't feel a strong dilution of traffic because we are working with the top brands, but even though we still need to put more attention, efforts for the customers about their own traffic operation initiatives like CRM system and also better conversion rate this kind of initiative. So that is basically our view for this trend. Do you have anything to comment?

Junhua Wu - Baozun Inc. - Chief Growth Officer & Director

Okay. And I want to add something related to the personalization (foreign language) stuff so that kind of mechanism is based on the data bank from Alibaba back-end system. So the data bank really emphasizes more on the AIPL, stands for aware, interested, purchase and loyal. So in terms of the traffic reallocation, that mechanism doesn't really just shift from traffic from one side to another, but helping us, the operations business partner like us, to be more accurate to target the right consumers to our brand, to drive higher conversion rate for our brand partners in terms of product selling and making transaction and to keep the loyalty program to be in long term, to make more repeat purchase rate. So as Vincent said, we haven't witnessed any kind of the traffic reallocation from Taobao to Tmall, but in the future years and in future operational months we can also keep tracking on the change of the Alibaba strategic movement and let you know in the future. Thank you.

Operator

The next question is from Joyce Ju from Bank of America Merrill Lynch.

Joyce Ju - BofA Merrill Lynch, Research Division - VP & Research Analyst

My question is regarding our technology side because we've actually been to our annual conference in Shanghai in May and also we saw like your own new, to-be technology product launched and also we heard like we are also opening a new technology studio or like a center -- technology center in Chengdu. Just want to understand like in terms of our overall technology team's head count expansion plan or like investment on this side with our plan and also for those technology product what's our expectation on them? And how it will help add value to our overall service to the brand? And secondly is a housekeeping question for our same-store sales growth for existing brands for this quarter.

Bin Lu - Baozun Inc. - CFO

Sure. I think I can answer a part of question if you -- and maybe Vincent and Junhua will add up something. Regarding R&D head count plans, I would say we are working very aggressively to keep the balance between the head count and the investment and our productization and our innovation because just now you mentioned about our seminar in Shanghai and let me approach to the clients. We do think technology is playing more and more important role and our products and our service is really in a very good position to work with the partners. So I think we still need to invest in the technology and meanwhile, we keep the balance between the head count and the investment. For example, this quarter, we opened

R&D center in Chengdu temporarily to increase the technology investment, but as you know, Chengdu is in the -- a little bit of low-cost head count resources and also have more like technological talent resources that we can acquire over there. So it's kind of like a long-term preparation for us to -- for our technology investment. Yes.

Joyce Ju - BofA Merrill Lynch, Research Division - VP & Research Analyst

Got it. And then the sales -- same-store sales growth for the existing brands this quarter?

Bin Lu - Baozun Inc. - CFO

It's not clear. Sorry.

Joyce Ju - BofA Merrill Lynch, Research Division - VP & Research Analyst

The growth for -- because we have like existing brands drove the growth and also the incremental from new brands, right, just my -- and we...

Bin Lu - Baozun Inc. - CFO

Okay. Yes. I think you are asking the same-store sales growth, which is 46% versus the growth of 48%. When you compare this last few quarters, you can see the trend. We have more share or more contribution of GMV coming from the new brands.

Operator

Your next question is from Monica Chen from Crédit Suisse.

Monica Chen - Crédit Suisse AG, Research Division - Research Analyst

So firstly, congratulations that we have established a close relationship and set up a JV with this leading domestic brand, which is quite a milestone for us. So what is our following strategy to acquire more domestic customers? And in what kind of category are we interested in? And also in addition, should we expect the margin profile or the take rate for these domestic brands being similar or better than the global brands that we have been working with in the past?

Bin Lu - Baozun Inc. - CFO

Okay. I think I can take this question. This is Robin, Monica. For the second question, I mean, it really depends on what category we work with, and it's not related to the brand, either it's international or domestic brand. That's the answer for the second question. For the first question, I think there is a trend with the more and more emerging local brands or the larger brands coming up and we do think there is potential market we can do with accumulating experiences and our strong technology support and the services. In the meantime, we do think with the milestone of the JV with one of the leading FMCG local brands we set up last month, we can just have -- progressively, we will make the progress in the domestic brands.



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

Yes. Just one more comment from me, Monica. This is Vincent. As you talked about the margin trend of domestic customer -- of domestic brands, we think this direction for us to get a better quality of GMV as well because for the major domestic brands, we are targeting to provide more services like IT technology related, digital marketing related, these kind of services. So we are expecting a better quality of GMV from this kind of brand.

Operator

(Operator Instructions) Your next question is from Billy Leung from Haitong International.

Ka Wai Leung - Haitong International Research Limited - VP & Sector Coordinator

Congrats on the solid results and also very strong outlook as well. I've just got 2 questions. I think the first question is related to our domestic clients. Can management share how much those domestic clients are actually accounting from GMV right now? And do we have a preferred level or target level of the split between global and domestic client GMV? That's the first question. My second question is can management share if we have any new products or services in the pipeline, so for example, maybe even talk about how Shopdog is doing and being adopted by clients?

Bin Lu - Baozun Inc. - CFO

Billy, it's Robin. I can take the first question. As of today, we are -- most of our brand is coming from the international brands, but what I can -- I will tell you is even though they are international brands, they have been localized in China for many years and their supply chain is in China or all around Asia. So it's not very different from the local brands even though there is some like a different model, a different approach. And regarding the local brands, it's very early start for us. I mean the last month is kind of like first step, we move down to the -- we move up to the local brands, and we are -- that's our addressable -- expanded our addressable market in our sector. So we are still working on that. Thank you.

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

Okay. Let me take the second one. Technology always is a very important element in our strategy. And just now, we -- in the prepared remarks, we just mentioned about 3 family of technology products. First one is about the core e-commerce systems, second one is the retail operations support system, we call it ROSS. And then there is brand official store system. Three families of different vision. For the first one, I mean, the e-commerce core system, we are gradually building a better version of that and then gradually move some clients onto that platform and that platform is getting much better than the previous versions so more stable, more scalable so that is first one. This one is very important for us because we need it to like accommodate all the transactions happening in the company.

And the second one, ROSS is quite a big and growing family. A lot of different names before, maybe you heard some of the -- heard of that. Most of them are incorporated right now into this ROSS family and also some newer projects and modules are also adding to this family. So I think this will be a very important year for ROSS. So we are expecting a lot of more -- better efficiencies, better automations added -- elements added into the family. And about the third one, I mentioned it's about the brand official store system. This one, we developed this last year and this year is quite a harvest year. We have more and more brands sitting on this new platform, SaaS-based, so much better manageability and good support for the future business potential. So that is about the update of that. Shopdog is quite a O2O -- part of the O2O initiatives. I think the situation of Shopdog is quite healthy. We're helping different brands adopting to that -- to us as well.

Operator

Your next question is from Sally Chan from CLSA.



Sally Chan - CLSA Limited, Research Division - Research Analyst

My question is on the accounts receivable days, which lengthened to over 100 days in this quarter. And still, a large part of that is actually driven by business mix shift towards the services model. Just wondering, are we doing any initiatives to stabilize the rate of increase going forward? If so how is the progress so far? Do we have some metrics or targets to share on that front?

Bin Lu - Baozun Inc. - CFO

Sure. I think that's my question. First of all, in Q1, when you look at the accounts receivables, there was kind of like more than CNY 200 million coming from one of our larger accounts. Because of the system updates, it consequently returned back to our accounts right after April 4. So you see a relatively larger number in the accounts receivable. And in Q2 up to today, pretty normal. We have a very strict plan for every month's collectibles and also, we are improving the automated billing reconciliation system for each brand partners and we do think that is well controlled, and we can see the progress in Q2.

Operator

Sally, any more follow-up questions?

Sally Chan - CLSA Limited, Research Division - Research Analyst

Yes. I actually have one more and that's sort of on the trade war impact. How should we think about trade war's impact on our business? And have we observed some deceleration in overall consumption sentiment, especially in terms of sentiment towards U.S. or foreign brands. How should we think about that?

Bin Lu - Baozun Inc. - CFO

Sally, it's Robin again. Let me take this question. I don't think there is any impact up to today about what is the macro condition you talk about. And as I mentioned just now, I mean almost all the brands we serve they are -- they have been localized in China for many years, not only the brand image but also the supply chain all around China or Asia. So from business itself, we don't see any impact now, but we are cautiously watching all the macro conditions, which we cannot control, but we can watch and take some reaction if it's necessary. But now everything is okay. In the meantime, as I mentioned, in this macroeconomic conditions, we do see some opportunities in the local brands, which we are working on that now. So we think there's no actual impact in our business till now.

Operator

(Operator Instructions) Your next question is from Tian Hou from T.H. Capital.

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

Congratulations on a good quarter. Can you guys give us some updates on your brand development targets in 2019? So if it's possible, can we have a breakdown between international brands and domestic brands? So that's on the brands. The second question is really what is the take rate outlook for the rest of the year?

Bin Lu - Baozun Inc. - CFO

Sure. It's Robin again. I think that's my question. We are targeting over 40 new brands we will acquire this year and most of the brands are international brands. And then we do have some of the local brands. And about the whole market size where, as we talk about, as I remember, last year, we are

targeting top 1,000 brands internationally and top 200 brands domestically. We regard that as our fourth stage of addressable market. And about the take rate, I explained the primary factor is the mix of the categories. Based on the current performance of Q2, we are expecting we have a slightly better take rate than Q1. And for the next earnings call, we would update for the second half of the take rate, but we do hope we can get a better take rate for the next half.

Operator

Your next question is from Chris Zhou from Blue Lotus.

Zhangfeng Zhou - *Blue Lotus Research Institute - Senior Research Associate*

I just had one question. We see the distribution GMV grew by 32% year-over-year overseas [acceleration] in the Q4. I just want to ask would you acquire more brands in product sales model and how should we think about the product sales gross margin impact by new brands.

Bin Lu - *Baozun Inc. - CFO*

Sure. Let me take this question. It's Robin. For the distribution, yes, we acquired 2 big brands back in Q4, which utilize -- utilizing the distribution model. I want to specify we are focused on service model, which the way you see the revenue pie service model is sharing a larger pie from the total revenue and also the growth rate is outpaced -- is outpacing distribution model. However, as well as we can control the inventory risk, we are not going to eliminate distribution model, which means we would carefully flag the product appropriate for our distribution model. That's why we chose 2 large brands in Q4 to use distribution model. That's the reason why we see the higher growth rates than before more than 30% year-over-year growth. And for the margin, just similar to the service model, in the very beginning, yes, we are. We sacrifice a little bit in the gross margin for the new brands. But regarding the Q1 gross margin, which is applied with a year ago, I think the main reason is the seasonality reason because of the Chinese New Year and some other factors.

Operator

(Operator Instructions) Your next question is a follow-up question from Alicia from Citigroup.

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

Just very quickly on overall margins trend because in Q1 we did see some leverage on the fulfillment and also the sales and marketing. So how should we think about overall trend for the second quarter and even into the second half? Will the second half be better than the first half in terms of the year-over-year comparison?

Bin Lu - *Baozun Inc. - CFO*

Sure. My question, again, Alicia. Thank you for your -- for this question. Yes, we do see some leverage in the fulfillment and marketing in Q1 and I don't think we can comment on the following quarter specifically, but in the trend, we do think we have more space for our cost-saving initiatives and the technology support so that we can improve our efficiency and then finally reduce our cost. Yes, in a way, we are very confident on our margin improvement. And regarding the net margin, I think we have another factor, which is we are -- we have a CB financing, and we can better balance our net interest expense, which includes both interest income and expenses, and we can decrease our net interest expense with the benefit from the interest difference between the financing cost we get and the current bank and saving interest. So for the net margins, we do think we have a chance to improve, too.

Operator

As there are no more questions in queue, I'd like to hand the call over back to Wendy for her closing remarks. Wendy, please continue.

Wendy Sun - Baozun Inc. - IR Director

Thank you, operator. In closing, on behalf of the Baozun management team, I would like to thank you participating in today's call. If you require any further information or keen to visit us in China, please let us know. Thank you for joining us today. This concludes the call.

Operator

Thank you, Wendy. Ladies and gentlemen, this concludes our conference call for today. Thank you all for your participation. You may all now disconnect.

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