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PRESENTATION

Operator

Good morning, ladies and gentlemen, and thank you for standing by for Baozun's Third Quarter 2019 Earnings Conference Call. (Operator Instructions). As a reminder, today's conference call is being recorded. I would 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. Baozun's third quarter 2019 earnings release was distributed earlier today and is available on our IR website at ir.baozun.com, as well as on Global Newswire Services.

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 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 Section 21E of the Security Exchange Act of 1934, as a mandate and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as will, expect, anticipate, future, intends, plans, believes, estimates, target, going forward, outlook and 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 and other factors, all of which are difficult to predict, and many of which are beyond company's control, which may cause the company's actual results, performance or achievement 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 obligation 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 call are in RMB.

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

Thank you, Wendy, and thanks to everyone for joining our earnings call today. E-commerce in China continues to show tremendous resilience despite the challenging macroeconomic environment and is today more active and innovative than it's ever before -- ever been as Chinese consumers' purchasing power and average spending per person increases. According to National Bureau of Statistics, e-commerce remains a major driving force in China's retail economy with e-commerce sales accounting for over a fifth of the country's retail sales. We have been capitalizing on all aspects of this growth, and we continue to leverage our leading position as an enabler within the e-commerce space to empower brands to achieve healthy, high-quality and sustainable growth.

During the quarter, GMV growth 43% year-over-year, with net revenue of CNY 1.5 billion, an increase of 35%. We are seeing China e-commerce shifting more towards marketing campaigns or event-driven sales. Then for low season, like the third quarter that falls between June 18 and the Singles Day, consumers tend to wait for the next upcoming events for everything other than the necessary day-to-day goods. This creates a period of slow seasonality in between sales periods, which is especially true for the small home appliance categories, which form an integral part of our distribution model. Despite this impact, revenue from product sales still grew a solid 31% during the quarter.

We continue to make significant progress in brand acquisition and ramping up new brand operations. During the quarter, we added a net of 11 new brands with a continued focus on generating high-quality and sustainable growth -- GMV growth, which brings a total number of brand partners to 223 compared to 172 a year ago. The newly added brands are mainly in the high premium apparel and FMCG categories. In particular, we signed on board half a dozen brands in the pharmacology sector, several large international fast fashion brands and a leading international digital solution company during the quarter. The ramping up in scale of new brands is accelerating as reflected in our strong GMV growth. Our ability to bring more brands onboard and drive their incremental contribution to GMV has allowed us to fully offset the impact from seasonality and when electronics brand will stop serving during the quarter. This is even more evident with the Singles Day numbers we reported last week, where we broke through the RMB 10 billion mark in order value and an increase of 53.6% year-over-year. This strong performance strengthens our confidence in a solid growth fundamentals of e-commerce. If we exclude the Singles Day 2018 contribution of the electronics brand that we stopped serving this quarter, the growth rate this year would have been 76%, even stronger evidence of the Chinese consumers' growing purchasing power.

We remain committed to executing our strategy of generating high-quality and sustainable growth by combining our cutting-edge IT infrastructure, integrating the marketing capabilities, extensive analysis of big data, sophisticated warehousing and logistic networks and deep insight into consumers, all of which enable our brand partners to engage with consumers more effectively and drive sales sustainably.

Now let me quickly go through the progress we have made in enhancing our infrastructure during this third quarter. Technology continues to play a critical role, enabling e-commerce. Alibaba's Tmall Flagship Store 2.0 now deployed and continuous upgrades in progress. We bolstered our first mover advantage and rapidly upgraded nearly 100 of our brand partners' flagship stores before Singles Day. This large-scale deployment of our high customizable store took place across a variety of categories, including apparel, electronics, cosmetics, mom and baby and FMCG. We believe these initiatives will further enhance our ability help brand partners actively engage with customers, personalize content and manage the creative marketing strategies. In addition, we significantly strengthened our hybrid cloud infrastructure, Baozun Cloud and fully integrated our core e-commerce systems by enhancing them with adding flexibility, the ability to rapidly adjust service within minutes and improve efficiency and reliability. This allowed our platform to rapidly scale its data processing capability from 3 million to 4 million orders per hour in response to a sudden surge in orders, as tend to happen on Singles Day and the brand [QuicksRex] for example. In response to the needs of our brand partners and changing dynamics in the industry. We have developed a wider array of comprehensive digital marketing services. One important aspect is cooperation with multichannel networks, including live streaming, KOL position in Alibaba's ecosystems and other short video social networks, such as Douyin and Kuaishou. And the co-branded offline events to turn marketing power in to sales power. To prepare for this year's Singles Day, the industry kicked off preparations very early in September and digital marketing playing a key role in attracting customers early on. Digital marketing not only help brands to acquire customers but also create demands for impulsive purchases. We also expanded our cooperation with



a number of leading domestic brands during the quarter to include data analytics and O2O marketing services. We believe these initiatives serve as a good entry point and opportunity to reengage with domestic brands and demonstrate the value we can deliver to them.

We expanded our warehouse network to more than 500,000 square meters in capacity during the quarter and made significant system upgrades for our warehouse management systems, WMS, and the logistics management information system, LMIS, to further optimize resource allocation and our logistics network. In addition, we expanded our warehouse capacity to address the increase in demand from high premium sector and are continuously upgrading equipment with specific operation features such as temperature and humidity controls, 360-degree monitors and security enhancements. We believe the continued innovation and the enhancement of our infrastructure, played a critical role in this year's fabulous Singles Day performance, and our outlook for the rest of this year remains positive with challenging e-commerce sector showing continuous resilience.

I will now pass the call over to Robin to go over our financials for the quarter. Thank you.

Bin Lu - Baozun Inc. - CFO

Thanks, Vincent. We are glad to see incremental contribution to GMV from newly acquired brands as they ramp up. And more encouragingly, we are capitalizing a number of emerging opportunities, which leave us very optimistic about future growth prospects. We believe this solid result validate our strategic decision to optimize our brand portfolio towards higher-quality growth and reinvest our profit to capture select emerging opportunities. These new emerging opportunities not only include adding brand partners, but more strategically, new categories, new channels and a new approach to digital marketing.

In the third quarter, we expanded our warehouse capacities for high premium standards, set up marketing and sales forces dedicated to the category and integrated IT systems with Alibaba's Luxury Pavilion. These investments are quickly paying off as reflected in the addition of half a thousand brands in the premium and affordable luxury sector.

Furthermore, we are expanding the services we offer for WeChat mini program ecosystem. As we have discussed before, in the last few quarters, we have helped many brands develop mini apps as ideal for branding, marketing and facilitating deeper engagement with consumers. Mini programs are widely built as a brand extended official stores. We are working to enhance our ability to drive traffic acquisition, social networking, scenario based initiatives and the marketing, which extends to O2O or smart retail initiatives to support brands with omni-channel intelligent retail.

Thus far, in the fourth quarter, we will sell some key brands to develop more active mini app business, which we will share more in our next earnings call. We are excited about these emerging opportunities, which we believe require superior technological capabilities, more interactive marketing tools and innovative tuck-in acquisition of which Baozun is well positioned to provide, and which will become our growth drivers for the next few years.

As China e-commerce industry continues to evolve and become more interactive and engaging, we now expect GMV in the fourth quarter to grow by approximately 45% to 50% year-over-year. Based on our best estimate as of today, our outlook for 2019 revenue growth is largely unchanged, but it will take a few quarters for the incremental GMV growth to reflect in our revenue and the bottom line growth as our services take hold and scale up.

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

Total GMV during the quarter increased by 43% to CNY 9.08 billion. The non-distribution business once again outperformed with a GMV increase of 44% this quarter to CNY 8.34 billion.

Total net revenues increased by 35% to CNY 1.5 billion, which was partially impacted by the low season effect, as Vincent addressed earlier. To break it down, product sales revenue increased by 31% to CNY 662 million. Small home appliances sector is one category that has been more impacted by the seasonality. Services revenue increased by 39% to CNY 841 million during the quarter. The increase was primarily attributable to



the rapid growth of our service model, incremental contribution from new brands and, in particular, brands more engaging in digital marketing services.

Total costs and operating expenses were CNY 1.45 billion compared with CNY 1.07 billion in the same quarter last year. In particular, cost of products increased to CNY 529 million from CNY 401 million last year, primarily due to higher costs associated with an increase in product sales revenue.

Gross margin for product sales remained roughly unchanged at 20%. Blended gross margin expanded to 64.8%, an increase of 90 bps, which is mainly attributable to an increase in the proportion of services revenue contribution.

Fulfillment expenses increased to CNY 333 million from CNY 262 million last year, mainly due to an increase in GMV from our distribution and consignment model and warehouse rental expenses, which were partially offset by improvements in efficiency. While we increase our investments in our high premium warehouse, we maintained disciplined cost control initiatives and enhanced the average through efficiency improvement and the optimization of delivery resources. As a percentage of GMV, our fulfillment expenses ratio improved to 3.7% from 4.1% a year ago, which marked the third consecutive quarters that we achieved leverage improvements in fulfillment cost.

Sales and marketing expenses increased to CNY 443 million from CNY 301 million last year and as a percentage of GMV, our sales and marketing expense ratio grew to 4.9% from 4.7% a year ago. The increase of sales and marketing expenses as a percentage of GMV was mainly due to more marketing activities and the early launch of marketing campaigns for Singles Day, expanding staffing for new brands and is also for high premium brands as well as growing digital marketing business.

Technology and content expenses increased to CNY 94 million from CNY 70 million a year ago and a decrease of CNY 8 million sequentially from CNY 102 million last quarter. The sequential decrease in technology and content expenses was mainly attributable to increased savings in setting up IT infrastructure for new brands as efficiency and optimization improved and our initialization of labor optimization between our Chengdu and Shanghai R&D centers. We continue to invest in innovation and productization, in a very disciplined, focused and streamlined manner. During the third quarter of 2019, our investment in innovation and productization totaled CNY 21 million, largely unchanged from CNY 20 million last year.

G&A expenses increased to CNY 52 million from CNY 41 million last year, primarily due to an increase in administrative, corporate strategy and a business planning staff for the business skills.

All in all, income from operations increased to CNY 56 million with operating margin of 3.7%, an expansion of 20 bps from 3.5% in the same quarter of last year. For the first 9 months of 2019, operating margin expanded 30 bps to 4.2% from 3.9% of last year. Offsetting interest income, net interest expense totaled CNY 2.4 million compared with net interest income of CNY 470,000 last year and a net interest expense of CNY 3.4 million last quarter.

Income tax expenses totaled CNY 14 million on effective tax rate of 18.9% compared with 13.6% of last year on a non-GAAP basis. The increase in income tax was mainly due to higher net income base for this quarter and the lower effective rate as some tax incentive policies applied to the same period of last year.

In the third quarter, net income attributable to ordinary shareholders of Baozun increased by 32% to CNY 39 million. Basic and diluted net income attributable to ordinary shareholders of Baozun per ADS were CNY 0.68 and CNY 0.66, respectively, compared with CNY 0.52 and CNY 0.50, respectively, during the same period of last year.

On a non-GAAP basis, income from operations was CNY 76 million, an increase of 24% from CNY 61 million last year. Non-GAAP operating margin was 5.1% compared with 5.5% in the same quarter of last year.

Non-GAAP net income attributable to ordinary shareholders of Baozun increased by 15% to CNY 59 million. Basic and diluted non-GAAP net income attributable to ordinary shareholders of Baozun per ADS were CNY 1.01 and CNY 0.99, respectively, compared with CNY 0.90 and CNY 0.86, respectively, for the same period of last year.



As of September 30, 2019, we had CNY 2.15 billion in cash and cash equivalents and short-term investments compared with CNY 514 million as of December 31, 2018. The significant improvement in cash position was mainly attributable to strong operating cash inflow in the first 9 months of 2019, which more than tripled from the same period of last year from working capital optimization as well as our Series B financing back in April.

Turning to guidance. Based on current macroeconomic and operating conditions for the fourth quarter of 2019, we expect total net revenues to be between CNY 2.70 billion and CNY 2.75 billion, which represents a year-over-year growth rate of approximately 23% to 25%, in which service revenue to increase in line with the growth rate of total net revenue 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) Our first question comes from the line of Tian Hou of T.H. Capital.

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

The question is related to the micro. So I look at the guidance and a little bit weaker than the consensus expectation. So you guys in the front line of business operation. Do you see any weakness of economy's impact on China's luxury brands consumption? So that is the first question. The second one is, going forward, what is your brand pipelines? How many do we expect to add in Q4 and next year? That's my two question.

Bin Lu - Baozun Inc. - CFO

Sure. Tian, it's Robin. Let me answer your question. In the public data, you may say, yes, there is some weakness in China economy, especially in the second half of this year. But we do think the e-commerce is kind of very resilient, as Vincent addressed in his prepared remarks. However, I think in some certain category in e-commerce, for example, in the bath fashion, we do see the sale of the bikinis in Q4 even though overall we're thinking across the category, we are pretty balanced, well balanced of the growth, some of -- certain categories like fast fashion, you will see some weakness is what we can see right now. But regarding the revenue in Q4, I think the first one, I think it's kind of what we expected in back in the early of this year when we issued the guidance, you remember, is CNY 7.2 billion in the -- is very in line with this -- our very early guidance because we have a larger pie of the GMV coming from the new brands. And based on our nature of the business, we -- when we grab one brand, we -- normally, we will only provide operations in the very beginning, and then we will add up some other services like digital marketing, like logistics, like data analysis services, like customer service -- services to them. So we can penetrate more of the services in the longer term. So this one really have some impact in the short-term about our revenue generation in Q4. So I think that's my answer for your first question.

Regarding the second question, I think, as you remember, we are expecting we have 40 new net brands adding up in this year. And right now, until September 30, we already had up 38, and we are expecting more than 45 in this year. And for 2020, we don't have a number yet, but based on our very strong pipeline, we think we can -- are very optimistic about the next year's new brands acquisition. Thank you.

Operator

Our next question is from the line of Alicia Yap of Citigroup.



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

Hello, can you hear me? To follow-up a little bit on the previous questions, so I understand a bit on the GMV growth versus the revenue, the difference. And then should that actually continue into the next quarter, meaning like faster GMV versus the revenue growth, will that continue into the next few quarters? And then for -- another quick question is on the sales and marketing. I understand I think management gave a few kind of quick reasons, but if you can elaborate a little bit more detail the reasons behind higher than expected sales and marketing spend this quarter? And then how should we think about the sales and marketing for the fourth quarter and into the 2020?

Bin Lu - Baozun Inc. - CFO

Sure. It's -- Thank you. It's Robin again. Yes, I think -- let me take the second question first. About the sales and the marketing. I think when you break -- when we break down to why -- to the increase of sales and marketing. I think there are 3 reasons. The first one is basically, we have a slow season in third quarter, especially in the second part of the third quarter and the summer brands just start early warm up for the big -- the large sales, which is Singles Day, and they invest more in the marketing spending. So that's one reason. The second reason is, we have lots of new brands, especially we set up the dedicated team for the high premium brands, which add up some related costs in the sales and marketing. The third reason is pretty normal, as we talked before, we have a very significant growth in the digital marketing services, which has a lower margin. For example, we start to do the service for some very famous internet brand in the Douyin and Kuaishou, which you really drive up the revenue, but still have some negative impact our marketing spending.

So your -- so what's your first question, please?

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

Yes, the first question is the delta between the GMV growth rate this quarter versus the revenue growth rate. You did mention a little bit on the reasons why GMV growth is faster. So I'm just wondering, into the next few quarters, will this constant delta continue?

Bin Lu - Baozun Inc. - CFO

Yes, I think we -- it will getting better. As you remembered, we start to adjust our GMV to pursue the high-growth profile, and I think we are in the right approach to do that. We are expecting we can get this better and better in the later few quarters, especially for the next year.

Operator

And next question is from the line of Natalie Wu of CICC.

Yue Wu - China International Capital Corporation Limited, Research Division - Analyst

I actually have 2 questions. First one is for the mini app initiative. I noticed that you started the -- some kind of a trial regarding the mini app within the WeChat ecosystem for your existing app brand or new partners. Just wondering for the mini app related initiatives, compared with some peers specializing in this business for many years, what kind of the competitive advantage Baozun has that can differentiate yourself from them? And that's my first question. Second one is that given the termination of the contract with popular domestic cellphone brand, so I'm just wondering, can we have some colors on the GMV, top line and the margin outlook moving into next year? And should we expect a high base effect into the early 2020 and then followed by an acceleration in the second half?



Bin Lu - *Baозun Inc. - CFO*

Sure. Yes, let me take the second question first. Yes, when we -- actually, now we are just constructing our forecast on our marketing for the next year. And we are very, very optimistic about our GMV growth, even though take the electrics brand, we stopped service into the consideration. Maybe that's a right pattern in a number, our growth rate will be negatively affected a little bit in the first half of the year, and we'll get it normal for the second half year of next year. But just now, I said, based on our new brands we acquired this year, and based on our strong pipeline, we think we are very optimistic about our GMV growth for the next year. We will give you more color for the next earnings call.

And about the mini program, the first question, I would like to spend a couple of minutes to give you more color about that. We -- strategically, we think mini program is one of our future growth driver. The reason for that is 2 reasons. The first one, we think mini program is kind of like a very revolutionary e-commerce ecosystem, compared with so-called traditional e-commerce system in the existing platforms.

For example, we can do more -- larger scope of particular services in this ecosystem. We can do the membership management, very easy to convert to the O2O business. And also, we can do the IT solutions, the end-to-end service based on the SaaS system we developed in the past 2 years, and also, we can do the CRM system and the traffic acquisition and marketing spending, something like that. So we do spend some energy in the resources in these new initiatives. And the second one is we have a very competitive advantage compared with the existing peer because we are kind of like a brand service professionals, and we have a very good combination between the technology and the operations capabilities, and for example, most recently, we acquired leading retailer, the international retailer, we compete with the existing strong competitor who already stayed in ecosystem for long years, but we win. So we think we are very confident for this future.

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

Natalie, let me just add some more color on this one. So the first question about the mini apps. I think Baозun, we are quite strong traditionally in the brand official stores. So no matter the data system and also backhand logistics are very strong. So mini apps is just the front end -- the new front-end of the official web store, actually. So we can very much leverage on the strength of our branded store capability and then to compete with the others. So we are quite confident on that. And we are closely monitor the new functionalities from the Tencent side. We work very closely with them. For example, the O2O initiative we are about to release. Our team is very actively working with them. So in this case, for the big brands and also Empress users, we are much stronger than the other players in the market. Thank you.

Operator

Our next question is from the line of John Choi of Daiwa.

Hyungwook Choi - *Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap*

I have 2 questions here. Now if you look into the fourth quarter guidance and I think you guys already touched base on the discrepancy between GMV and the revenue growth here. But if I could a little -- go a little bit deep further here, do we -- should we be expecting for the existing brands to see a similar take rate? And, as Robin, you mentioned the new brands, it will take some time and over the course of quarters, the take rate should eventually recover on a sequential amount? I just want to double confirm that. That's my first question. Second question is, could management share some -- the road map for your cloud offering particularly, I know that you guys have been investing quite a lot on the cloud infrastructure and also on the software side. So what is the adoption rate and what's the brand's response so far? And how do you think you will further develop it from here?

Bin Lu - *Baозun Inc. - CFO*

Sure. Yes, I confirm, yes. I mean, when you look back our history, when we acquire brands, the larger the brand is, the slower the ramp-up of the revenue. That's correct.

And the second question, can you just specify again about your second question, please?

Hyungwook Choi - *Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap*

I was -- I'm asking on the cloud development. So what are the progresses here? And can you share me what like among your brands, what's the adoption rate, and what's the further development plan?

Bin Lu - *Baozun Inc. - CFO*

Yes, you were talking about it also. Okay, Vincent, go ahead please.

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

Okay, so for this question, yes, we are actually 2 tracks. First track is that we are developing a bunch of software and tools for future use. And in the meanwhile, some of the matured tools already adopted in the daily operation of other stores. I can say that I think early next year, most of the stores, around 300 stores will all adopt the recent developer, let's say, ROSS tools, which is store operational automation tools, which can help greatly uplift the efficiency of the stores. This is just an example. The others -- and in the meanwhile, the tools and software itself, we would be continuously upgraded from time to time. So that is the other track. So we continue to invest in the softwares, infrastructures and tools. And in the meanwhile, we are quite positive about the rollout and deployment of all these tools. And most importantly, the measurement of the -- of the value return from this kind of investment is already set up in the technology department. And we are seeing more and more positive feedbacks from the front end.

Bin Lu - *Baozun Inc. - CFO*

Yes. Just now we talked about the mini program for the brand, where either for the existing brands and newly acquired brands. We utilize our SaaS base system we developed in the -- in 2018 and deploy that -- the end-to-end e-commerce service solutions for these brands in the mini programs. So it's pretty successful now.

Operator

Our next question is from the line of Joyce Ju of Bank of America.

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

I actually have a question related to the Luxury Pavilion and also the category expansion in terms of luxury or premium brands. I just want to get an update with the progress of like may.com and NET-A-PORTER. And also, like for the specific categories, you early mentioned in the press release -- sorry, in your opening remarks that like you actually signed half a dozen of like premium brands. Could you actually elaborate a bit more like what business model we are adopting? And what's the potential like GMV revenue potential? And also, what's the take rate business model and the profit outlook for this brand?

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

Okay, Joyce. This is Junhua. Okay. So let me address your questions. So before I getting deeper, so let me explain to you about the three-piece model of our Luxury Pavilion. So the first model is a single brand flagship store, just like we're helping a lot of independent brand open their flagship store on Luxury Pavilion as a category.



The second business model is a multi-brand collection store, just like you just mentioned about the next -- the YOOX NET-A-PORTER. The third business model is a -- like a team or self-operated platform, just like you mentioned, may.com could be one example. So in this quarter, we've been developing a strong pipeline, and we fulfilled a lot of new clients. Among our 11 new brands, over 50% of the -- our pipeline came from luxury premium brands. And they contributed a significant GMV in Q3.

So in that part, we can see a very upcoming and very promising trend in this category. And of course, in this Luxury Pavilion operation, there are a lot of benefits for helping our single-brand flagship stores to be more harmonized with Luxury Pavilion resources. And it's also very important for us to really help Tmall to run their self-operated platform like may.com, something like that. So this is a very unique business model, and we can take a lot of advantages if we can imagine to expand to more categories helping running their business on Tmall. And for a multi-brand collection store, it also provides a way to connect with our existing single brand flagship store to help to just make sure we can put all a product life cycle status, for example, like a new arrival, in light, off-season and clearance across different platforms. Not even -- not only just provide sales in a single brand flagship store but also can collect the traffic and engage different kind of tiers consumers in their multi-brand collection store. So we have foreseen in the next quarter -- in the next year, this pipeline in this category will be continue very strong. And overall take rate in this category is naturally higher than the other category like fast fashion or women's or men's, something like that.

Bin Lu - *Baozun Inc. - CFO*

Yes. And also, we believe that in the coming 2, 3 years, the luxury industry -- luxury category will be the hottest category on the Tmall platform. So we are -- we put a lot of resources on this category. And also, today, we are in a clear leading position in this category. So I think we'll benefit a lot from the development of this industry in the coming years.

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

Exactly.

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

May I have a quick follow-up in terms of like, Vincent, you mentioned, actually, you invest a lot resources in these categories. Could you actually elaborate a bit what percentage of like expenses, or like what kind of preparations you have made and invest for this category, and when you should -- when we should expect we starting to see positive returns of those investments?

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

Sure. All investment in this category -- okay. Go ahead. Robin, you first.

Bin Lu - *Baozun Inc. - CFO*

This is Robin. Let me answer it. I think that's a financial question anyway. I think the first one -- yes, I mean, yes, when we talk about luxury, I think for us, I think that's not a very accurate concept. I think we are talking about high premium. For example, we have some light luxury brands also included in this category internally. The second one about the investment. There's different areas. The first one, initially, we upgrade our warehouse equipment, as we mentioned in our remarks, and also, we have a plan to have some CapEx spending time by time so that we can strengthen our competition in these certain categories, which make some certain amount of money to do. Of course, probably in the fulfillment, you'll see much traction in Q3. The reason for that is, we started to do some investment, some of the investment has been capitalized and some of it has been expensed in the fulfillment. And on the other way, we have a very disciplined cost control program in our fulfillment. So in the end in the numbers, you'll see the average for that. Maybe in the Q4, you can see some investment for our fulfillment. That's the first part. The second part is sales and margin. We have some -- a couple of million dollars, sorry, million RMB yuan for the dedicated team to set up, especially for these categories. And

in the technology, for each program and for the connection with Alibaba's system, we invest some extra money so that we can have a good capacity for us to ramp up these categories.

Operator

(Operator Instructions). Our next question is from the line of Thomas Chong of Jefferies.

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

Given the fact that we have newly set up our Chengdu R&D Center, and we have optimized our technology expenses and we are also seeing our investment in fulfillments, in marketing, et cetera, so I just want to get a sense about our trend in terms of the head count, as well as our other expenses line going into 2020. Some qualitative or direction would be great.

Bin Lu - *Baozun Inc. - CFO*

Okay. It's Robin. Thank you. When we look at our Q3 numbers, we see some labor reduction or engineer resources reduction in both logistics side and the technology side. And we have some add up, as I specified, about the new brands and the dedicated team for the high premium category in the marketing side. So that's kind of like a hybrid in between. And we see moderate head count increase for 2020 as we expected.

Operator

(Operator Instructions). Next question is from the line of Sally Chan of CLSA.

Sally Chan - *CLSA Limited, Research Division - Research Analyst*

I have 2 questions on our Singles Day performance. We reported a very strong 54% GMV growth for this year's Singles Day. Could you mind sharing more color on how our key categories have performed, for example, our electronics, sportswear and apparel brands, et cetera? And how should we expect a solid GMV growth to translate into our revenue growth for the quarter, taking into consideration that these categories have quite different take rates? And my second question is on the many new initiatives at Tmall this year during the Singles Day. For example like live streaming, like Tmall 2.0, et cetera. Could you share with us how have our brand partners adopted these new initiatives, and how have these initiatives driven their sales during the event?

Bin Lu - *Baozun Inc. - CFO*

Yes, let me -- it's Robin. Let me take the first question. Even though that we want to give you more color about Double 11 in the next earnings call, I can give you some highlights for that.

Number one, I think our category is well balanced in the Double 11 sales. For example, in the sportswear, electronics and some other high premium brands, it's pretty good. For example, in -- just now we talked about high premium brands, our same-store sales growth is over 100%. That's it. And also, I have to make sure in some certain specific category like fast fashion, I mentioned just now, we do see some slowdown in Double 11 sales.

And about the revenue conversion, I think I answered question about the new brands acquisition takes some time to convert to the revenue. For example, our -- the share of the new brands -- the contribution of the new brands to GMV has been tripled versus last year, and it is a big pie. And we need some time to get more revenue from the new brands. So that's kind of reason why you see there is a kind of like different growth rate for the revenue in Q4.



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

All right. This is Junhua. Let me address your second question. So we made a significant growth in the Double 11 just past -- in several weeks. And we exceeded about over RMB 10 billion in one single day. That's definitely a historical moment and milestone. And nobody has ever done that. So I'd like to let you know that, we achieved that all because we -- just like Vincent mentioned earlier, we prepared all those Double 11 campaign way earlier ago. Actually, that was in July and beginning of the August. So all our operation team, merchandising team and assortment planning team and our marketing team has been spending a lot of resources and time, mediation with all our brand partners to prepare all those assortment planning and traffic acquisition plan and how do we just segmenting all those consumer profile and how do we drive a significantly higher conversion rate than ever before.

And then during the 3 stages, a preorder, and a work up and a big day, during that 3 stages, we've been definitely engage a lot of new initiatives, just like you mentioned, the live streaming and Tmall 2.0. So for live streaming, we engage a lot of brands helping to -- with a lot of KOL to helping the brands to launch their new arrivals and also to just give a very significant growth on their new event, especially for a seasonal product and for a high-quality and high discount price during that moment.

So live streaming becomes a very significant way to drive the sales and membership in a sensitive store. And about Tmall 2.0, it's basically like a fundamental support. They provide a lot of tools regarding the consumer management, membership management, CRM and inventory across different channels of management. So we provide a lot of implementation based on those foundations. And Tmall, they selected over 100 top brands to pilot run all those Tmall 2.0 in a cascade model. So the fortunate part is all our brand portfolio is on the top of the pyramid. So most of our brands were selected to be part of Tmall 2.0 pilot run. That's why we took a lot of advantages in that kind of implementation, which also drive more traffic and higher conversion rate during that day. Okay.

Operator

Our next question is from the line of Tina Long of Crédit Suisse.

Yuanyuan Long - Crédit Suisse AG, Research Division - Co-Head of China Internet

I have 2 questions. The first one is on the mini program, because as you mentioned, that you are start to do some trial on setting up mini program site. So I want to know the first stage and also probably future pipeline. Will it be within our existing brand portfolio or you actually acquire new brands to do mini programs? And in the meantime, I'm curious to know the take rate level for mini program compared to the Tmall sites? And my second question is on the warehouse related to the high premium fashion brands. So I understand previously, there is a chance that we may consider building up one of our own warehouse. So I want to know if that decision has been made? And if so, like how long will be the construction cycle and how much we earmarked the CapEx?

Bin Lu - Baozun Inc. - CFO

Sure. It's Robin, Tina. About the mini program, we both provide with -- we provide service to both our existing brands and we independently acquire the brands only for the mini program. I mean the mini program is emerging ecosystem. I think almost all the brands would like to explore these opportunities. And is -- for them, I think the whole ecosystem is still not mature, is emerging. So about the chat model, about the service we provide, it's still in the test trial right now. And it's not mature yet. But I think there's a very bright future for the mini program ecosystem. And also, at this moment, we see some leading retailers and some leading comprehensive brand has a very big GMV generation already in the mini program, and they are ramping up to the chat model like Tmall but it still takes some time. But if we look at the types of service we can provide, I think, it's more extensive than what we can do in the other platforms. So it's -- that's why we see the take rate. Even though now the take rate is not high enough for the -- to compete with the other platform, you still have a very good opportunity for us to ramp up.



Regarding the second question, the warehouse, what we -- the management can do is we'll do the very smart investments. And there is not a very definite time for us to do that. We do have a plan about it. But we will see when is the proper time for us to do this -- start to do this construction for the specific category we can use. Thank you.

Operator

We don't have any more questions. And I'd now like to hand the conference back to Ms. Wendy. Please go ahead.

Wendy Sun - Baozun Inc. - IR Director

Thank you, operator. In closing, on behalf of Baozun management team, we would like to thank you for your participation 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. Mr. Vincent and the missed conference lines, please don't disconnect, I'll place you back to the speakers' hub. Thank you, ladies and gentlemen, that does conclude the conference for today, and thank you for participating. You may now all disconnect.

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