

**Operator:**

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Good day everyone and welcome to Vipshop Holdings' first quarter 2014 earnings conference call.

At this point, I would like to turn the call to Ms. Millicent Tu, Vipshop's Director of Investor Relations. Please proceed.

**Millicent Tu:**

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Thank you, operator. Hi everyone and thank you for joining Vipshop's 1Q14 earnings conference call. Before we begin, I will read the Safe Harbor statement.

During this conference call, we will make "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that are based on our current expectations, assumptions, estimates and projections about Vipshop Holdings Limited and its industry. All statements other than statements of historical fact we may make during this call are forward-looking statements. In some cases, these forward-looking statements can be identified by words or phrases such as "anticipate," "believe," "continue," "estimate," "expect," "intend," "is/are likely to," "may," "plan," "should," "will," "aim," "potential," or other similar expressions. These forward-looking statements speak only as of the date hereof and are subject to change at any time, and we have no obligation to update these forward-looking statements.

Joining us on today's call are Eric Shen, Chairman, the company's CEO and Co-Founder, and Donghao Yang, the company's Chief Financial Officer. At this time, I would now like to turn the conference call over to Eric Shen.

**Eric Shen:**

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Hello everyone. Welcome to our first quarter 2014 earnings conference call.

We are very excited to report robust first quarter 2014 financial results. Our continued strong growth momentum and increasing operational efficiencies were supported by our 126 percent year-over-year growth in net revenues to over 702 million dollars and gross margin expansion to 24.9 percent. Just as impressive was our operational performance. Our total active customers increased by 165 percent to 7.4 million and total orders increased by 129 percent to 20.2 million.

Moving on to our core platform, we continue to upgrade our brand mix and improve selection as well as do well on mobile. Mobile revenues grew by 71 percent quarter-over-quarter and now account for 36 percent of revenues, up from only 8 percent in the first quarter last year. Our strong mobile growth proves that our flash sales model is well-suited for the on-the-go shopper.

In 2014, we aim to continue to stay on top of technical and user-behavior trends. We will focus on further improving the customer experience for viewing and purchasing products across both the PC and mobile platforms.

Last, our integration with Lefeng has progressed smoothly and will be a strategic focus in 2014. The integration will allow us the benefits of:

- One, streamlining our cosmetics offerings.
- Two, reducing our combined fulfillment and marketing expenses, and
- Three, cross selling between Lefeng and Vipshop's user bases.

At this point, let me hand over the call to our CFO, Donghao Yang, so that he may discuss some new growth strategies as well as this quarter's financial achievements.

**Donghao Yang:**

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Thanks Eric and hello everyone.

We're proud of our first quarter financial performance. I would like to highlight that our number of sales events, including 7,900 events from our main channels and 6,300 events from our group buy channel, exceeded 14,000 in the last quarter, up 63.4% from a year ago. This compares to the 39,300 total events we held during the full year 2013, which included 20,100 events from our main channels and 19,200 group-buy events indicating the fast growing output per event.

Going forward in 2014, we continue to focus on strengthening our fulfillment abilities as well as other operational efficiencies. Warehousing expansion is key to lowering our fulfillment expenses and enhancing our ability to serve our customers. Our warehouse capacity reached approximately 350 thousand square meters at the end of the last quarter, and is on track to expand to over 700 thousand by 2016. Having already broken ground on two new warehouses this year, we are aggressively ramping up our warehousing capacity in order to keep up with customer demand and expand our product offering. We are committed to further growing our product portfolio both organically and through acquisitions when appropriate. Our strategic full-force expansion into cosmetics is a key element in this strategy; for us cosmetics is an important vertical to expand into, but we also seek to cautiously expand organically or through acquisitions into other verticals.

As we continue to invest in our growth both internally and externally, we require additional capital to support our expansion. In March, we conducted a follow-on and convertible senior offering which raised over 632 million dollars. The proceeds have been used to pay for the Lefeng acquisition and fund future growth initiatives.

Now moving on to our quarterly financial highlights, before I get started I would like to clarify that all the financial numbers presented today are in U.S. dollar amounts and all the percentage changes refer to year-over-year changes unless otherwise noted. Second, I would also like to note that with our acquisition of Lefeng last quarter, we incurred additional amortization expenses; these expenses will have a downward impact on both our GAAP operating income and GAAP net income over the next few years.

**Total net revenues** for the first quarter of 2014 increased by 125.9% to \$701.9 million, the growth of which was primarily driven by a 165.1% increase in the number of total active customers and a 129.3% increase in the number of total orders.

**Gross margin** for this quarter further expanded to 24.9% from 23.4% in the prior year period and gross profit increased by 140.3% to 174.9 million. This improvement was driven by the increased scale of our business, leading to greater bargaining power with our suppliers as well as the development of our market place business. Moreover, we continued to see improvement in operating margins, as a result of improved economies of scale and increased operational leverage. More specifically:

- **Fulfillment expenses** increased by 97.8% to \$74.6 million for the first quarter of 2014. As a percentage of total net revenues, fulfillment expenses decreased to 10.6% from 12.1% in the prior year period. The cost reduction was primarily due to our efforts to reduce warehousing and personnel costs and negotiate better courier rates.
- **Marketing expenses** increased by 129% to \$30.1 million. As a percentage of total net revenues, market expenses remained stable at 4.3% compared with 4.2% in the prior year period.
- **Technology and content expenses** increased by 134.8% to \$18.7 million. As a percentage of total net revenues, technology and content expenses remained stable at 2.7% compared with 2.6% in the prior year period.
- **General and administrative expenses** increased by 146.1% to \$24.1 million. As a percentage of total net revenues, general and administrative expenses were 3.4% compared with 3.2% in the prior year period.

Driven by the growing scale of our company's operations, improved gross margin and cost control, **income from operations** increased by 452.0% to \$30.2 million for the first quarter of 2014 from \$5.5 million in the prior year period. **Operating income margin** increased to 4.3% from 1.8% in the prior year period.

**Non-GAAP income from operations**, which excludes share-based compensation expenses and amortization of intangible assets resulting from business acquisitions, increased by 394.3% to \$42.8 million from \$8.7 million in the prior year period. Non-GAAP operating income margin increased to 6.1% from 2.8% in the prior year period.

**Our net income attributable to Vipshop's shareholders** for the first quarter of 2014 increased by 355.3% to \$26.6 million from \$5.8 million in the prior year period. Net income margin attributable to Vipshop's shareholders, increased to 3.8% from 1.9% in the prior year period. Net income per diluted ADS increased to \$0.46 from \$0.11 in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excludes share-based compensation expenses and amortization of intangible assets resulting from business acquisitions, increased by 318.2% to \$37.7 million from \$9.0 million in the prior year period. Non-GAAP net income margin increased to 5.4% from 2.9% in the prior year period. Non-GAAP net income per diluted ADS increased to \$0.63 in the first quarter of 2014 from the \$0.17 in the prior year period.

As of March 31, 2014, our company had cash and cash equivalents of \$871.8 million, restricted securities \$179.1 million and held-to-maturity securities of \$332.5 million. For the first quarter of 2014, net cash from operating activities were \$84.1 million.

Looking at our business outlook for the second quarter of 2014, we expect our total net revenues to be between \$780 million and \$790 million, representing a year-over-year growth rate of approximately 122% to 125%. These forecasts reflect our current and preliminary view on the market and operational conditions, which are subject to change.