

**Operator:**

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's fourth quarter and full year 2016 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:**

Thank you, operator. Hello everyone and thank you for joining Vipshop's fourth quarter and full year 2016 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, our co-founder, chairman, and chief executive officer, and Donghao Yang, our chief financial officer. At this time, I would like to turn the call over to Mr. Eric Shen.

**Eric Shen:**

Good morning and good evening, everyone. Welcome and thank you for joining our fourth quarter and full year 2016 earnings conference call. We completed the year on a strong note, delivering robust operational results with solid customer growth and market share gains.

With over 50 million total unique active customers shopping on the Vipshop platform in 2016, Vipshop has always put the quality of our merchandise as a top priority. We provide each of our customers with high-quality products selected by our 1,000 plus buyers, including many exclusive merchandises at guaranteed low prices. This includes having more than 96% of our products checked by our staff for quality assurance before delivery.

Through the Vipshop platform, we enable more than 5,000 leading brands to liquidate products and generate large sales while gaining high-quality customers. We provide these brands with comprehensive sales solutions and offer them one-stop services for their full product life cycle. Vipshop has become one of the few most important channels for brands to reach Chinese consumers and generate significant sales.

Providing these high quality products along with a superior customer experience is the backbone of our on-going success. As such, we continued to expand SKUs, diversify merchandising, and improve our overall logistics capabilities. A big part of our recent efforts was the expansion of our overseas offices to 10 that are accountable for expanding our global merchandising capabilities for the cross-border business.

Domestically, our 2 million square meters of warehouses and more than 20,000 full time delivery staff can provide customers with a fast and superior experience across all of China. There are no blind spots in China for Vipshop's services. Our in-house last-mile delivery network currently covers 30 provinces, 345 cities, and 2872 counties across the country. Importantly, we are one of the very few leading ecommerce companies that can proudly say that we do not take a break from serving our customers even during the Chinese New Year holiday period.

Going into 2017, we remain focused on enhancing customer experience and strengthening our ecosystem to create more value for our customers, suppliers and shareholders.

At this point, let me hand over the call to our CFO, Donghao Yang, so that he may discuss our strategies in more detail and go over our operational and financial results.

**Donghao Yang:**

Thanks Eric and hello everyone.

We are pleased to highlight another robust quarter where we delivered solid topline growth with strong free cash flow, while maintaining steady margins in the fourth quarter of 2016. In the past quarter, we saw remarkable growth in our free cash flow, which increased by over 600% year over year. This is a further testament of the successful execution of our business strategy and our ability to generate sustainable, healthy cash flow.

In 2016, we made a number of important strides. To begin with, Fitch rated Vipshop as BBB+, Moody's rated the Company as Baa1, and Standard & Poor's rated the Company as BBB. These solid investment grade ratings from all the "Big Three" global rating agencies are endorsements of our business fundamentals, financial strengths, investment prospects, and future market potential.

Furthermore, in January 2017, our subsidiary operating the Internet finance business completed its first tranche of Renminbi-denominated asset-backed securities of 300 million RMB, which is listed on the Shanghai Stock Exchange in China. We are currently preparing for future follow-on ABS offerings in China. These transactions represent an important milestone in our plan to further grow this new business with external sources of funding.

Turning to our customer and supplier financing programs. As of December 31, 2016, the total balance of credit outstanding to customers was approximately 2.17 billion RMB and the total balance of credit outstanding to suppliers was 877.7 million RMB. For the full year of 2016, we had 3.3 million users taking advantage of our consumer financing program.

Looking forward, we will continue to invest in areas that are crucial to the customer experience across our platform while balancing revenue growth and margins. This includes investing in our logistics network and establishing even more provincial and local warehouses and enabling faster delivery for high frequency products. Further, we will continue to provide a variety of value-add delivery services to enhance our customers' experiences. We are confident that we are making the right investments to improve our platform, enhance our ecosystem, and deliver additional value to our shareholders.

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 Renminbi amounts and all the percentage changes refer to year-over-year changes unless otherwise noted.

**Total net revenue** for the fourth quarter of 2016 increased by 36.5% to 18.98 billion, primarily attributable to a 39% year-over-year increase in the number of active customers which grew to 27.5 million and a 26% year-over-year increase in total orders to 82.0 million.

**Gross profit** for the fourth quarter of 2016 increased by 33.4% to 4.47 billion, primarily driven by the expanding scale of the business. **Gross margin** for the fourth quarter was 23.5% as compared with 24.1% in the prior year period. We expect our gross margin to remain stable as we balance our promotional activities and sales with our marketing expenses.

- **Fulfillment expenses** for the fourth quarter of 2016 were 1.65 billion, as compared with 1.26 billion in the prior year period, primarily reflecting the increase in sales volume and number of orders fulfilled. As a percentage of total net revenue, fulfillment expenses decreased to 8.7% from 9.1% in the prior year period, primarily reflecting the scale effect associated with our growth in total net revenue and improved fulfillment efficiency.
- **Marketing expenses** for the fourth quarter of 2016 were 920 million, as compared with 715 million in the prior year period, reflecting our strategy to drive long-term growth through sustainable investments in strengthening our brand awareness, attracting new users and expanding our market share. As a percentage of total net revenue, marketing expenses decreased to 4.8% from 5.1% in the prior year period, primarily attributable to our strategic balance between promotional activities and sales with our broader marketing efforts.
- **Technology and content expenses** for the fourth quarter of 2016 were 471 million, as compared with 322 million in the prior year period, reflecting our continued efforts to invest in human capital, advanced technologies such as data analytics as well as new business opportunities including our Internet finance unit. As a percentage of total net revenue, technology and content expenses were 2.5% as compared with 2.3% in the prior year period.
- **General and administrative expenses** for the fourth quarter of 2016 were 624 million, as compared with 421 million in the prior year period, primarily due to the build-out of our Internet finance team. As a percentage of total net revenue, general and administrative expenses were 3.3% as compared with 3.0% in the prior year period.

Our **income from operations** increased by 17.1% to 939 million for the fourth quarter of 2016. **Operating margin** was 4.9% as compared with 5.8% in the prior year period.

**Non-GAAP income from operations**, which excludes share-based compensation expenses and amortization of intangible assets resulting from a business acquisition, increased by 20.0% to 1.16 billion from 966 million in the prior year period. Non-GAAP operating income margin was 6.1% as compared with 6.9% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the fourth quarter of 2016 increased by 51.7% to 768 million from 506 million in the prior year period. **Net margin attributable to Vipshop's shareholders** increased to 4.0% from 3.6% in the prior year period. Net income per diluted ADS increased to 1.26 RMB from 0.84 RMB in the prior year period.

**Non-GAAP net income attributable to Vipshop's shareholders**, which excludes share-based compensation expenses, impairment loss of investment, and amortization of intangible assets resulting from a business acquisition and equity method investments, increased by 30.9% to 970 million from 741 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** was 5.1% as compared with 5.3% in the prior year period. Non-GAAP net income per diluted ADS increased to 1.58 RMB from 1.22 RMB in the prior year period.

As of December 31, 2016, our company had cash and cash equivalents of 4.11 billion and held-to-maturity securities of 672 million. For the fourth quarter of 2016, net cash from operating activities was 0.80 billion.

Looking at our business outlook for the first quarter of 2017, we expect our total net revenue to be between 15.3 billion and 15.8 billion, representing a year-over-year growth rate of approximately 26% to 30%.

With that, I would now like to open the call to Q&A.

**Closing Remarks: Donghao Yang:**

Thank you for taking the time to join us and we look forward to speaking with you next quarter.