

Operator:

Good day everyone and welcome to Vipshop Holdings Limited's first quarter 2015 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 First Quarter 2015 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 chairman, chief executive officer and co-founder, and Donghao Yang, our chief financial officer. At this time, I would now like to turn the conference call over to Eric Shen.

Eric Shen:

Good morning and good evening everyone! Welcome to our first quarter 2015 earnings conference call. We are very pleased with our first quarter 2015 financial and operational performance, which once again shows the strong appeal of our flash sales e-commerce business model and the success of our organic expansion and operating capabilities.

Our impressive top- and bottom-line performance was largely driven by the strong growth in total active customers, repeat customers and total orders. The growth of our customer base shows the success of our strategy to improve the shopping experience and expand our product selection. We believe that by improving our mobile platform and expanding logistical capabilities, we will continue to offer our customers great shopping experiences that keep them coming back and spreading the word.

Additionally, mobile continues to be a strong growth driver, as we made great efforts in enhancing the shopping experience on mobile devices. Our investments aimed to use big data to offer an easy-to-use and personal experience for customers over mobile devices. We saw increased returns from our investments in mobile which accounted for 72% of our GMV, as compared to the average of 33 percent in the Chinese online shopping market, according to iResearch.

Moreover, we have also made good and fast progress with our cross-border ecommerce business, which we started in the fourth quarter last year. In just one quarter, we were able to grow this business by over 360 percent quarter over quarter.

At this point, let me hand over the call to our CFO, Donghao Yang, so that he may discuss our plans, to further improve our operations, and customer experience, as well as the financial results.

Donghao Yang:

Thanks Eric and hello everyone.

We are very pleased with the first quarter 2015 financial results, which demonstrate how well our team continues to execute and deliver. With our expanding platform and improving operating capabilities, we are well-positioned in China as we look towards the future. There are several key metrics that we believe reflect the growth and health of our business. They are:

- One, our platform expansion, demonstrated by the growth in our revenues as well as total active customers and repeat customers, and
- Two, our operational expansion, demonstrated by our enhanced last-mile capabilities and warehousing capacity

Further improving these metrics are our top priorities as they measure the progress of our strategic initiatives, which are to scale our platform, increase engagement of customers and deliver a strong return for our investors. Looking at the first quarter results, we are very pleased that we achieved clear and tangible progress in both of these areas.

First, our expanding scale. The 100 percent revenue growth we delivered in the first quarter is a strong foundation to build upon as we move forward in 2015. Furthermore, total active customers continued on its path of steady growth in the first quarter, increasing by 75 percent year over year to 12.9 million, and we expect strong growth to continue in 2015 as we further expand our product offering and provide superior shopping experience to drive further customer growth. Our total repeat customers also grew significantly at 89% year over year to almost 10 million, and the number of orders from repeat customers accounted for nearly 92 percent of our total order volume in the first quarter. We believe our success in this metric is intertwined with our initiatives to enhance the shopping experience for customers, especially on mobile devices.

Second is our enhanced in-house last-mile delivery capabilities. Currently, approximately 70% of our orders are delivered either through our in-house delivery team or through delivery companies in which we hold equity stakes. By the close of 2015, we expect to this figure to climb to 80%. Furthermore, our last-mile infrastructure, both in-house and invested, is now able to cover 29 out of China's 31 provinces. In addition to building out our last mile capabilities, we also accelerated our warehouse expansion, in anticipation of escalating demand for both our core business as well as strategic co-location services. Our total warehouse capacity, both leased and built, reached approximately 1.1 million square meters as of March 31, 2015. These operational initiatives to enhance delivery services and expand warehousing capacity will allow us to further diversify product selection and reduce delivery times, as we continue to improve the overall shopping experience and strengthen customer loyalty over our expanding platform.

Looking ahead, we expect that customer growth and customer engagement will continue to be the major driving force of the growth and expansion of our business. We will continue to

enhance our technology platform and strengthen our operational capabilities, enabling greater scale and closer collaboration between our teams so that we can continuously deliver the best shopping experience to our customers.

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 first quarter of 2015 increased by 100 percent to 8.6 billion, primarily driven by a 75 percent increase in the number of total active customers, a 88.7 percent increase in the number of total repeat customers, a 90 percent increase in the number of total orders, as well as the increasing revenue contribution from our mobile platform.

Please note that starting in this quarter, we have broadened the way we define active customers, total orders and repeat customers to include the buying activity over our marketplace platforms. Details regarding the adjustments to these definitions are included in the footnotes of our earnings press release. Our decision to change the definitions is intended to include our broadening marketplace platform and further improve our comparability with industry peers on both a quarterly and annual basis.

Gross profit for the first quarter of 2015 increased by 99.6 percent to 2.1 billion, primarily driven by our increased bargaining power with suppliers due to the expanding scale of the Company and the growth of our marketplace platforms. **Gross margin** for this quarter remained stable at 24.9 percent, as compared with the prior year period.

- **Fulfillment expenses** for the first quarter of 2015 were 806 million, as compared with 457.6 million in the prior year period, primarily reflecting the increase in sales volume, average ticket size and number of orders fulfilled. As a percentage of total net revenue, fulfillment expenses decreased to 9.4 percent from 10.6 percent in the prior year period, primarily reflecting the scale effect associated with our rapid growth in total net revenue.
- **Marketing expenses** for the first quarter of 2015 were 402.6 million, as compared with 184.4 million in the prior year period. As a percentage of total net revenue, marketing expenses were 4.7 percent, as compared with 4.3 percent in the prior year period, reflecting our strategy to drive long-term growth through increasing investments in strengthening our brand awareness, attracting new users and expanding our market share especially within product categories such as cosmetics, home goods, baby and child care products.
- **Technology and content expenses** for the first quarter of 2015 were 256.1 million as compared with 114.5 million in the prior year period. As a percentage of total net revenue, technology and content expenses were 3.0 percent, as compared with 2.7 percent in the prior year period, primarily reflecting our continued effort to expand headcount to better support future growth, as well as our investments in data analytics, which can help improve the ability to predict consumer behavior and further enhance user experience.
- **General and administrative expenses** for the first quarter of 2015 were 296.7 million, as compared with 148.1 million in the prior year period. As a percentage of total net revenue, general and administrative expenses remained stable at 3.4 percent in the prior year period.

Driven by the growing scale of our company's operations and decrease in fulfillment expenses and general administrative expenses as a percentage of total net revenue, our **income from operations** increased by 112.9 percent to 395 million for the first quarter of 2015. **Operating income margin** increased to 4.6 percent from 4.3 percent 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 96.9 percent to 517.3 million from 262.7 million in the prior year period. Non-GAAP operating income margin was 6 percent, as compared with 6.1 percent in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the first quarter of 2015 increased by 125.3 percent to 367.5 million from 163.2 million in the prior year period. Net income margin attributable to Vipshop's shareholders increased to 4.3 percent from 3.8 percent in the prior year period. Net income per diluted ADS increased to 61 cents from 27 cents 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 106 percent to 477.1 million from 231.5 million in the prior year period. Non-GAAP net income margin increased to 5.5 percent from 5.4 percent in the prior year period. Non-GAAP net income per diluted ADS increased to 80 cents in the first quarter of 2015 from 39 cents in the prior year period.

As of March 31, 2015, our company had cash, cash equivalents and restricted cash of 6.6 billion and held-to-maturity securities of 1.8 billion. For the first quarter of 2015, net cash from operating activities was 493.3 million.

Looking at our business outlook for the second quarter of 2015, we expect our total net revenue to be between 8.7 billion and 8.9 billion, representing a year-over-year growth rate of approximately 71% to 75%. These forecasts reflect our current and preliminary view on the market and operational conditions, which are subject to change.

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!