

Operator:

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's third quarter 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 Third Quarter 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. I would now 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 third quarter 2016 earnings conference call. We are pleased to have delivered solid financial results and healthy customer growth despite a seasonally soft quarter for retail. Our third quarter results continue to show the power of our platform to attract and expand our customer base while retaining our loyal customers.

The superior user experience across our platform led to improved user stickiness, as proven by the strong 49% year-over-year increase in repeat customers to 16.7 million. Despite macro weakness, our robust customer growth and retention is a testament to the resilience of our business model. Our active customers for the past 12 months, ending in September 2016, exceeded 46 million, up 57% year-over-year. As compared to our peers, this means that we still have a lot of room for growth in terms of customer base expansion. We are confident that our strong foundation will continue to drive our overall secular business growth and enable us to maintain our market leadership regardless of macro environment changes.

As a leading online discount retailer for brands in China, we are committed to advancing the end-to-end shopping experience with diverse products and more personalized merchandising. One of our key focus areas is to deploy big data to better understand our users, which enables us to customize our merchandise and product offerings for different age groups and genders. We continue to expand the number of brands on our platform while optimizing the overall brand portfolio.

Moving on to our successful Singles' Day this year. Sales surpassed 100 million RMB in the first 15 minutes and total GMV increased by 75% from last year's event. This robust performance shows the strength and potential of our platform.

Lastly, as you know, we recently announced our acquisition of Beifu, a third-party payment license holder. This strategic investment allows us to lower cost in payment processing, improve information security across our platform, and retain payment information for big data analysis. It represents an important milestone in our journey to advance our platform and complete our ecosystem.

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 announce solid operational and financial results for the third quarter of 2016. Consistent with our core strategy, we were able to achieve strong top-line growth and market share gain while maintaining stable margins.

In addition, we are making solid progress with the cross-border business which contributed 5% to our GMV in the quarter and represented more than 50% year-over-year growth. We expect this business to grow much more as we introduce more foreign brands to our platform.

As we experience an ongoing evolution in shopping habits around China, we strive to evolve with our customers' habits in order to constantly stay in front of them and provide them with increasingly personalized merchandise. As an example of this, during the past quarter, we launched a series of content marketing programs that enhance our customers' shopping experience. These programs include live broadcasting channels, shopping guides with featured graphics, brand events, and proprietary video shopping guides. Going forward, we will continue to explore and embrace new retail formats and technologies that help us further engage our customers and understand their preferred shopping habits.

Turning to logistics, we continue to focus on building a strong infrastructure of warehouses and logistics networks which enhance our order fulfillment capabilities. We have made initial progress in introducing customized automation in our warehouses. As of September 30, 2016, we have approximately 1.7 million square meters of warehouse capacity and are on track to reach approximately 2 million by the end of this year.

Moving on to our customer and supplier financing programs, we remain focused on investing in these efforts and continue to build on our initial successes here. As of September 30, 2016, the total balance of credit outstanding to customers was approximately 1.5 billion RMB and the total balance of credit outstanding to suppliers was 525 million RMB.

Looking forward, we will stay focused on market share gain while balancing our margins. We are big believers in building long term sustainable relationships with our suppliers. This means that we will provide our suppliers with high value-added services, including data and knowledge sharing on customer profiles and shopping behaviors, third party logistics, and proprietary system for inventory management to maximize sales opportunities. We are confident that we

are investing in the crucial areas to enhance our ecosystem and generate sustainable value for all our stakeholders.

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 third quarter of 2016 increased by 38.4% to 12.00 billion, primarily attributable to a 43% year-over-year increase in the number of active customers which grew to 20.8 million and a 34% year-over-year increase in total orders to 60.1 million.

Gross profit for the third quarter of 2016 increased by 36.0% to 2.93 billion, primarily driven by the expanding scale of the business. **Gross margin** for the third quarter was 24.4% as compared with 24.9% in the prior year period.

- **Fulfillment expenses** for the third quarter of 2016 were 1.03 billion, as compared with 778 million 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 8.5% from 9.0% 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 third quarter of 2016 were 642 million, as compared with 470 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 5.3% from 5.4% in the prior year period.
- **Technology and content expenses** for the third quarter of 2016 were 374 million, as compared with 253 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 3.1% as compared with 2.9% in the prior year period.
- **General and administrative expenses** for the third quarter of 2016 were 501 million, as compared with 297 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 4.2% as compared with 3.4% in the prior year period.

Our **income from operations** increased by 21.3% to 529 million for the third quarter of 2016. **Operating margin** was 4.4% as compared with 5.0% 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 24.8% to 732 million from 587 million in the prior year period. Non-GAAP operating income margin was 6.1% as compared with 6.8% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the third quarter of 2016 increased by 8.3% to 343 million from 317 million in the prior year period. **Net margin attributable to Vipshop's shareholders** was 2.9% as compared with 3.7% in the prior year

period. The decline is primarily attributable to a 65.9 million impairment loss of investments. Net income per diluted ADS increased to 0.58 RMB from 0.53 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 31.5% to 595 million from 453 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** was 5.0% as compared with 5.2% in the prior year period. Non-GAAP net income per diluted ADS increased to 1.00 RMB from 0.76 RMB in the prior year period.

As of September 30, 2016, our company had cash and cash equivalents, and restricted cash of 4.94 billion and held-to-maturity securities of 71.3 million. For the third quarter of 2016, net cash from operating activities was 0.65 billion.

Looking at our business outlook for the fourth quarter of 2016, we expect our total net revenue to be between 18.0 billion and 18.5 billion, representing a year-over-year growth rate of approximately 30% to 33%.

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.