

Operator:

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's third quarter 2018 earnings conference call.

At this point, I would like to turn the call to Ms. Jessie Fan, Vipshop's Senior Manager of Investor Relations. Please proceed.

Jessie Fan:

Thank you, operator. Hello everyone and thank you for joining Vipshop's third quarter 2018 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 CEO, and Donghao Yang, our CFO. 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 third quarter 2018 earnings conference call.

During the quarter, our total active customers grew by 11% year over year, showing continued improvement in our customer acquisition efficiency as well as synergies from the Tencent and JD partnerships. New customers from Tencent and JD accounted for around 22% of our total new customers in the third quarter.

Our ARPU also increased year over year, which was a result of our strong execution, especially in our CRM programs. As of the end of September, around 2.3 million customers joined our Super VIP Paid Membership Program, which was a 21% increase quarter over quarter. We continue to work with Tencent Video to unlock the value of the joint membership, delivering more benefits to our paid members.

Currently, we are making some adjustments in our product offerings, reducing our investment into lower margin, more standardized categories. Our core competency lies in our ability to serve our female customers in fashion-related categories. These adjustments will allow us to focus on what Vipshop does best, which ultimately will be beneficial for our long term growth and margin trend.

Looking ahead, we will continue to focus on our merchandising strategy, which will drive our future success. We aim to further deepen our expertise in discount retailing, which will generate sustainable value for our customers, suppliers, and shareholders over the long run.

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.

In the third quarter of 2018, our average revenue per customer increased by 5% year over year, driven by the strong improvement in the number of average orders per customer. Our core strength lies in our ability to procure desirable products and offer them to our customers at very favorable prices, particularly in the apparel category. Therefore, we will continue to execute on our merchandising strategy to further fortify our leading position in this unique space.

On the logistics front, we continue to expand our warehousing capacity, adding another 40,000 square meters of warehouses in the third quarter. As of September 30, 2018, we have approximately 2.9 million square meters of total warehousing space, of which around 1.8 million square meters is owned by the Company.

Turning to our Internet finance business. Approximately 5.4 million active customers used our consumer financing service during the quarter, which accounted for around 24% of GMV. As of September 30, 2018, the total balance of credit outstanding to customers was approximately 4.2 billion RMB, and the total balance of credit outstanding to suppliers was approximately 1.3 billion RMB.

We continue to look for external sources of funding to support the cash needs of our Internet finance business. In September, our Internet finance subsidiary completed its first offering of asset-backed notes in an aggregate principal amount of 520 million RMB.

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 2018 increased by 16.4% to 17.8 billion, primarily driven by the growth in the number of total active customers and the improvement in average revenue per customer.

Gross profit for the third quarter of 2018 increased by 3.8% to 3.6 billion from 3.5 billion in the prior year period. **Gross margin** was 20.4% as compared with 22.9% in the prior year period, primarily attributable to our investment into promotional activities.

- **Fulfillment expenses** for the third quarter of 2018 were 1.8 billion, as compared with 1.7 billion in the prior year period, primarily reflecting an increase in sales volume and number of orders fulfilled. As a percentage of total net revenue, fulfillment expenses decreased to 9.9% from 10.9% in the prior year period.
- **Marketing expenses** for the third quarter of 2018 were 578 million, as compared with 478 million in the prior year period. As a percentage of total net revenue, marketing expenses were 3.2% as compared with 3.1% in the prior year period.

- **Technology and content expenses** for the third quarter of 2018 were 491 million, as compared with 455 million in the prior year period. As a percentage of total net revenue, technology and content expenses decreased to 2.8% from 3.0% in the prior year period.
- **General and administrative expenses** for the third quarter of 2018 were 625 million, as compared with 547 million in the prior year period. As a percentage of total net revenue, general and administrative expenses decreased to 3.5% from 3.6% in the prior year period.

Our **income from operations** for the third quarter of 2018 was 355 million, as compared with 448 million in the prior year period. **Operating margin** was 2.0% as compared with 2.9% 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, was 547 million as compared with 703 million in the prior year period. Non-GAAP operating income margin was 3.1% as compared with 4.6% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the third quarter of 2018 was 229 million, as compared with 338 million in the prior year period. **Net margin attributable to Vipshop's shareholders** was 1.3% as compared with 2.2% in the prior year period. Net income attributable to Vipshop's shareholders per diluted ADS was 0.34 RMB, as compared with 0.56 RMB in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excludes share-based compensation expenses; impairment loss of investments; amortization of intangible assets resulting from business acquisitions and equity method investments; tax effect of amortization of intangible assets resulting from business acquisitions; gain on disposal, revaluation and value changes of investments; and share of result in investment of limited partnership that is accounted for as an equity method investee was 501 million, as compared with 560 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** was 2.8%, as compared with 3.7% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS was 0.75 RMB, as compared with 0.91 RMB in the prior year period.

As of September 30, 2018, our company had cash and cash equivalents and restricted cash of 6.5 billion and short term investments of 1.9 billion. For the third quarter of 2018, net cash from operating activities was 221 million.

Looking at our business outlook for the fourth quarter of 2018, we expect our total net revenue to be between 26.1 billion and 27.3 billion, representing a year-over-year growth rate of approximately 8% to 13%.

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.