Operator:

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's third quarter 2017 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 2017 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 2017 earnings conference call. We are pleased that our strategic shift to focus on our old customers and attract high-quality new customers is delivering consistent results. Our ARPU increased by 11% year over year to 643 RMB in the third quarter, driven by the robust increase in average ticket size and shopping frequency. In addition, our total active customers for the trailing twelve months ended September 30, 2017 reached 60.5 million, increasing by 22% from the same period last year.

We are pleased with the robust growth we have seen in our core categories. Further, we continue to enhance the selection of our product offering to meet our customers' needs. In the past quarter, we made more progress in terms of category expansion, including the offering of pharmaceutical-related products. Meanwhile, we have seen strong growth in our sports, cosmetics, and Vipshop life channel. We are in the process of continuing to open up our marketplace, which will lead to increased ARPU, better customer service, and ultimately incremental margin contribution. Recently, we added more than 100 popular domestic and international fashion brands, such as Diesel, Marc Jacobs, and Shanghai Tang. For this year's Singles' Day, we delivered solid results that exceeded our expectations. Over 4,000 brands participated in the event and total orders exceeded 10 million.

On the CRM side, we made further progress with the new Super VIP program. With this new offering, we have seen that our loyal customers shop with us more regularly. We began to roll out the program to all customers at the end of the third quarter, and believe the positive trends will continue. Our consumer financing service has seen increased popularity, which is helping with the ARPU uplift. Further, we are strategically leveraging our 10 overseas offices and 6 overseas warehouses to bring highly desirable products to consumers in China, which helps to improve the spending of our post-90s customers.

Leveraging our 2.4 million square meters of specialized warehousing space, 27,000 delivery staff, and 3,700 delivery stations, we aim to continue to improve our end-to-end user experience.

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, we further advanced our warehousing expansion, adding three more local warehouses, which brings our total number of local warehouses to fourteen as of the end of September. Further, as we continue to expand our cross-border business, we added more warehousing space in Hong Kong, France, Australia, and the United States. Currently, we have approximately 2.4 million square meters of total warehousing space.

We are delighted to see that our delivery efficiency improved consistently. In the third quarter, we delivered over 98% of our orders through our proprietary last mile network, up from 90% in the prior year period. Our logistics capability is an important component of our core competency and a big reason of why customers prefer to shop with us. Looking forward, we remain committed on improving our efficiency and lowering our cost.

On the Internet finance side, we continue to make progress with the proposed spin-off, which will improve our cash flow and earnings. We are pleased that the Internet finance subsidiary completed its second offering of asset-backed securities totaling 500 million RMB. Our consumer financing service has seen increased popularity, which is helping with the ARPU uplift. In the third quarter of 2017, the number of customers who used our consumer financing service increased by 146% year over year to 3.8 million from 1.5 million in the same period last year. We also increased the proportion of interest bearing loans in the third quarter. As of September 30, 2017, the total balance of credit outstanding to customers was around 3.4 billion RMB, and the total balance of credit outstanding to suppliers was 1.2 billion 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 2017 increased by 27.6% to 15.3 billion, primarily driven by the growth in the number of active customers and average revenue per customer.

Gross profit for the third quarter of 2017 increased by 19.4% to 3.5 billion from 2.9 billion in the prior year period. **Gross margin** was 22.9% as compared with 24.4% in the prior year period, primarily attributable to our investment in promotional activities for market share gain, which is balanced by reduced spending in our broader marketing efforts.

- **Fulfillment expenses** for the third quarter of 2017 were 1.7 billion, as compared with 1.0 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 were 10.9% as compared with 8.5% in the prior year period, primarily attributable to our expansion to support an increase in our last mile business outside of the Vipshop platform. As of September 30, 2017, we have approximately 3,700 delivery stations, up from 2,200 in the prior year period. In addition, we have approximately 27,000 last mile delivery staff, up from 17,000 in the prior year period.

- **Marketing expenses** for the third quarter of 2017 were 478 million, as compared with 642 million in the prior year period. As a percentage of total net revenue, marketing expenses decreased to 3.1% from 5.3% in the prior year period.

- **Technology and content expenses** for the third quarter of 2017 were 455 million, as compared with 374 million in the prior year period, reflecting our continuing efforts to invest in human capital, advanced technologies, and our Internet finance business. As a percentage of total net revenue, technology and content expenses decreased to 3.0% from 3.1% in the prior year period.

- **General and administrative expenses** for the third quarter of 2017 were 547 million, as compared with 501 million in the prior year period. As a percentage of total net revenue, general and administrative expenses decreased to 3.6% from 4.2% in the prior year period, primarily attributable to our improved efficiency due to our greater scale.

Our **income from operations** was 448 million for the third quarter of 2017. **Operating margin** was 2.9% as compared with 4.4% 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 703 million as compared with 732 million in the prior year period. Non-GAAP operating income margin was 4.6% as compared with 6.1% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the third quarter of 2017 was 338 million as compared with 343 million in the prior year period. **Net margin attributable to Vipshop's shareholders** was 2.2% as compared with 2.9% in the prior year period, primarily attributable to decreased gross margin and increased fulfillment costs due to our investment into the logistics business outside of the Vipshop platform. Net income attributable to Vipshop's shareholders per diluted ADS was 0.56 RMB as compared with 0.58 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, and amortization of intangible assets resulting from business acquisitions and equity method investments, was 560 million as compared with 595 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** was 3.7% as compared with 5.0% in the prior year period, which reflects our strategic short term investments for future growth and improved customer experience and loyalty. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS was 0.91 RMB as compared with 1.00 RMB in the prior year period.

As of September 30, 2017, our company had cash and cash equivalents and restricted cash of 3.7 billion and held-to-maturity securities of 230 million. For the third quarter of 2017, net cash used in operating activities was 0.4 billion.

Looking at our business outlook for the fourth quarter of 2017, we expect our total net revenue to be between 22.8 billion and 23.8 billion, representing a year-over-year growth rate of approximately 20% to 25%.

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.