

Operator:

Good day everyone and welcome to Vipshop Holdings Limited's fourth quarter and full year 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 Fourth Quarter and full year 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 fourth quarter and full year 2015 earnings conference call. 2015 was an exciting year for us, marked by many achievements:

- First of all, we topped 40 billion RMB in annual sales, representing 74 percent growth,
- Second, we reached nearly 37 million active customers by the end of the year, representing 51 percent growth, and
- Third, customers grew their average spend on our platform by 15% to nearly 1,100 RMB per customer.

Turning to our quarterly progress, we re-accelerated our growth in revenue, active users and total orders by optimizing marketing dollars more efficiently and further investing in promotional events.

Our goals going forward are to continue to expand market share and acquire new users. To achieve this expansion we have adapted a strategy aimed at both:

- Enhancing the user experience to improve the mobile offering, product selection, consumer financing, logistics and so on, and
- Optimizing marketing spend and promotions on our platform.

With the strong success of our platform so far, supported by our robust growth strategies, we remain confident in the future prospects of our company. 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 the financial results.

Donghao Yang:

Thanks Eric and hello everyone.

We are very pleased with our performance in the fourth quarter and full year 2015. As Eric mentioned, during the fourth quarter, we were able to simultaneously reaccelerate growth in revenue, active users and total orders, while maintaining stable customer acquisition costs and marketing expenses as a percentage of total revenue. Furthermore, even as our gross margins slightly contracted due to increased promotional activities, our operating margins strengthened to 5.8% from 4.5% in the prior year period. The resilience of our operating margins to increases in absolute expenditures on promotional and marketing activities, demonstrates the powerful operating leverage we have created with scale. As we further optimize our investments in marketing and promotional activities to drive top-line growth, we expect this virtuous cycle to strengthen and lead to further economies of scale that bolster operating efficiency.

As discussed, platform expansion is a key goal of ours going forward, which we aim to achieve both through optimizing marketing spend, and continuing to enhance the user experience through various initiatives.

One such initiative is mobile product enhancement. In the fourth quarter, we continued to optimize the mobile shopping experience on our platform, which now accounts for 82% of our GMV, up from 66% a year ago. The rapid ascension of mobile's share of our GMV further validates the appeal of our discount retail offering over mobile screens.

Another part of our strategy to enhance the customer experience is to expand and diversify product selection. Our emerging cross-border offering fits right into that strategy, by providing an ecosystem for foreign brands to offer their unique products to Chinese consumers. Our cross-border business continues to gain momentum and has reached roughly 5% of GMV. We believe that this figure will continue to steadily increase in 2016 and that this segment has solid potential to be a strong growth driver in the future.

In an effort to boost customer spending, we have launched financing programs for suppliers and customers alike. Our supplier financing has grown rapidly since its inception. As of December 31, 2015 our total balance of credit outstanding to suppliers was 600 million RMB.

Our consumer financing program was just recently launched last December and though it is still nascent, it is growing rapidly. As of December 31, 2015, the total balance of credit outstanding to customers was approximately 200 million RMB, a figure we expect to rapidly increase as more consumers establish credit with us to further expand their purchasing activities. In order to control default risk, we have established a thorough credit check system to support us in expanding the buying activities of credit-worthy customers on our platform.

On the logistics side, we have continued to build out a strong infrastructure of warehouses and network of invested-delivery companies to support and enhance our order fulfillment capabilities. At the end of 2015, our total warehouse capacity reached 1.6 million square meters and our in-

house and invested last mile capabilities supported over 83% of the orders on our platform. In 2016, we intend to add roughly 500,000 square meters of warehousing capacity.

Looking ahead, we will continue to build upon our unique and proven offering, as well as enhance the overall customer experience, in order to further expand our platform, and deliver enduring value to our loyal 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 2015 increased by 65% to 13.90 billion, primarily driven by continued robust growth in the number of total active customers and total orders, as well as the increasing revenue contribution from our mobile platform.

Excluding the impact of the group-buy business and Lefeng, the number of total active customers and total orders for Vipshop's core flash sales business increased by 76% and 80% year over year, respectively.

On the mobile platform, the number of total active customers and total orders for Vipshop's core flash sales business increased by 124% and 126% year over year, respectively.

Gross profit for the fourth quarter of 2015 increased by 60% to 3.35 billion, primarily driven by the expanding scale of the business. **Gross margin** for this quarter was 24.1%, as compared with 24.9% in the prior year period. The decline in gross margin is primarily attributable to increased promotional activities and sales to drive user and order growth on the platform.

- **Fulfillment expenses** for the fourth quarter of 2015 were 1.26 billion, as compared with 789 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 9.1% from 9.4% in the prior year period, primarily reflecting the scale effect associated with our growth in total net revenue.
- **Marketing expenses** for the fourth quarter of 2015 were 715 million, as compared with 421 million in the prior year period, reflecting our strategy to drive long-term growth through increasing investments in strengthening our brand awareness particularly for our mobile application, attracting new users and expanding our market share. As a percentage of total net revenue, marketing expenses were 5.1%, as compared to 5.0% in the prior year period.
- **Technology and content expenses** for the fourth quarter of 2015 were 322 million as compared with 236 million in the prior year period, reflecting our continued efforts to invest in human capital and advanced technologies such as data analytics, which can help improve the ability to predict consumer behavior and further enhance user experience. As a percentage of total net revenue, technology and content expenses decreased to 2.3% from 2.8% in the prior year period, primarily reflecting the scale effect associated with the growth in total net revenue.
- **General and administrative expenses** for the fourth quarter of 2015 were 421 million, as compared with 334 million in the prior year period. As a percentage of total net revenue, general and administrative expenses decreased to 3.0% from 4.0% in the prior year period, primarily reflecting the scale effect associated with our growth in total net revenue.

Driven by the growing scale of our company's operations and decrease in fulfillment, technology and content, and general and administrative expenses as a percentage of total net revenue, our **income from operations** increased by 114% to 802 million for the fourth quarter of 2015. **Operating margin** increased to 5.8% from 4.5% in the prior year period.

Non-GAAP income from operations, which excludes share-based compensation expenses, impairment loss of investments, and amortization of intangible assets resulting from a business acquisition and equity method investments, increased by 96% to 966 million from 493 million in the prior year period. Non-GAAP operating margin increased to 6.9% from 5.9% in the prior year period.

Exchange loss was 73 million, as compared to 20 million in the prior year period, primarily driven by the weakening value of the Renminbi relative to the U.S. dollar. Income tax expense was 163 million, as compared to 61 million in the prior year period, primarily due to the increase in net income before taxes as well as an increase in the effective tax rate over the prior year period. The lower effective tax rate in the prior year period was primarily due to the utilization of a tax loss carryforward, and the recognition of catch-up tax savings for a subsidiary, which was approved for preferential tax treatment in 2015.

Our **net income attributable to Vipshop's shareholders** for the fourth quarter of 2015 increased by 45% to 506 million from 349 million in the prior year period. **Net margin attributable to Vipshop's shareholders** was 3.6%, as compared to 4.2% in the prior year period. Net income per diluted ADS increased to 0.84 RMB from 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 investment in an equity affiliate and other investments, and amortization of intangible assets resulting from a business acquisition and equity method investments, increased by 61% to 741 million from 460 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** was 5.3%, as compared to 5.5% in the prior year period. The contractions in both net margin and non-GAAP net margin attributable to Vipshop's shareholders were primarily attributable to the relatively large exchange loss in the period as well as the large increase in income tax expense. Non-GAAP net income per diluted ADS increased to 1.22 RMB from 0.77 RMB in the prior year period.

As of December 31, 2015, our company had cash, cash equivalents and restricted cash of 3.32 billion and held-to-maturity securities of 1.81 billion. For the fourth quarter of 2015, net cash from operating activities was 1.61 billion.

Looking at our business outlook for the first quarter of 2016, we expect our total net revenue to be between 11.8 billion and 12.3 billion, representing a year-over-year growth rate of approximately 37% to 43%.

Last, in the previous earnings we announced that the board of directors approved a share repurchase program whereby we may purchase up to 300 million dollars of our ADSs over the next 24-month period. As of December 31, 2015, the Company had repurchased approximately 130 million dollars in aggregate of its own ADSs.

It is worth noting that there were slight upward adjustments of our diluted earnings per share numbers and change of the weighted average number of shares used in calculating diluted earnings per share in our earlier press release. The revised version of our earnings reflecting the accurate number will be included in our current report under Form 6-K to be furnished to the SEC.

Based on our calculation, for the fourth quarter of 2015, net income attributable to Vipshop's shareholders per diluted ADS increased to RMB0.84 (US\$0.13) from RMB0.58 in the prior year period, non-GAAP net income attributable to Vipshop's shareholders per diluted ADS increased to RMB1.22 (US\$0.19) from RMB0.77 in the prior year period. For the full year of 2015, net income attributable to Vipshop's shareholders per diluted ADS increased to RMB2.65 (US\$0.41) from RMB1.40 in the prior year, non-GAAP net income attributable to Vipshop's shareholders per diluted ADS increased to RMB3.66 (US\$0.56) from RMB2.05 in the prior year.