

Operator:

Good day everyone and welcome to Vipshop Holdings' fourth quarter 2014 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 2014 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, chairman, our 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:

Hello everyone and a happy Chinese New Year to all of you! Welcome to our fourth quarter and full year 2014 earnings conference call. We are very pleased to have closed out 2014 with four quarters of robust financial performance and operational expansion.

Our impressive top- and bottom-line performance was driven by the significant expansion of our customer base. During 2014, we added nearly 17 million new active customers, closing out the year with almost 24 million total active customers – a 150 percent increase from last year. Additionally, 2014 also saw strong growth in the number of orders from repeat customers, as well as continued strong growth in total orders, which more-than-doubled to over 107 million.

A key theme in 2014, both in the market and for us, was mobile expansion. According to Enfodesk, the number of mobile shoppers in China reached over 300 million in 2014, a 35 percent year-over-year growth, outpacing the 25 percent growth of PC online shoppers. During



2014, almost 53 percent of our GMV came from mobile devices. And looking at the fourth quarter separately, the figure was nearly 66 percent.

As mobile is increasingly becoming the ideal solution for eCommerce users, we believe our flash sales model, which offers new events daily with a carefully styled selection of popular branded products in limited quantities during limited time periods, is well suited for mobile shopping. It allows shoppers to act fast on the events for their favorite brands anytime and anywhere. As we head into 2015 with such strong growth momentum, we will continue to invest in using big data to study customer behavior, enhance shopping experience for users and expanding market share. We are very confident that our mobile platform has the potential to offer a more personalized user experience.

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 fourth quarter and full year 2014 financial results, which exceeded our prior expectations across the board. For the full year, we grew our total net revenue by 122 percent to 3.77 billion dollars, and our net income attributable to shareholders by 162 percent to 137 million dollars, as compared to the full year 2013. Our quarterly results also continued to impress, with net revenue reaching 1.36 billion dollars, a 109 percent year-over-year increase, and net income attributable to shareholders reaching 57 million dollars, a 123 percent year-over-year increase.

In addition to the impressive growth in financial metrics, we also greatly improved our logistics systems, with our last-mile delivery services coming online in many new localities. As of the year end, our last-mile infrastructure could support approximately 50 percent of our total orders, and we expect that by the end of 2015, we can extend these capabilities to cover 70 percent of our order volume. We firmly believe that by developing our last-mile delivery capacities, we are able to significantly improve the end users' experience and ultimately reduce delivery costs as we continue to grow order volume.

In anticipation of escalating demand for both our core business as well as offering strategic co-location capabilities, we have been accelerating our warehouse expansion. As of the end of 2014, our total warehouse capacity had reached one million square meters, exceeding our original target.

Moreover, supported by our initiatives in other areas such as marketing as well as by the scale effect of our business, on a cumulative basis, we closed 2014 with over 7,000 suppliers, more than 13,000 brands of which more than 1,600 are exclusive. This powerful ecosystem that we have built allows us flexibility to explore new ways of cooperating with brands and optimizing

our product offering for customers, and we believe that by providing our customers with a broader product selection and improving supply chain efficiency for our brand partners, we can continue to strengthen the relationships in our ecosystem and deepen the competitive moats that surround us.

Looking ahead, we expect that user growth will continue to be the major driving force of the expansion of our business and the growth of sales revenue. As our business continues to scale, we are keen to evolve and grow our operational capabilities such as warehousing and logistics and strengthen our mechanizing prowess and relationships with brands to support this overall business growth.

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 U.S. dollar amounts and all the percentage changes refer to year-over-year changes unless otherwise noted.

Total net revenues for the fourth quarter of 2014 increased by 108.9 percent to 1.36 billion, primarily driven by a 114.2 percent increase in the number of total active customers and a 99.6 percent increase in the number of total orders.

Gross profit for the fourth quarter of 2014 increased by 112.2 percent to 338.2 million, primarily driven by our increased bargaining power with suppliers due to the expanding scale of the Company and the growth of our marketplace business. **Gross margin** for this quarter increased to 24.9 percent from 24.5 percent in the prior year period. More specifically:

- **Fulfillment expenses** increased by 73.9 percent to 127.3 million dollars for the fourth quarter of 2014, primarily reflecting the increase in sales volume and number of orders fulfilled. As a percentage of total net revenues, fulfillment expenses decreased to 9.4 percent from 11.2 percent in the prior year period, primarily reflecting the scale effect associated with our rapid top-line growth, as well as the increase in our average order size, as compared with the prior year period.
- **Marketing expenses** increased by 135.5 percent to 68.1 million dollars. As a percentage of total net revenues, marketing expenses increased to 5.0 percent from 4.4 percent in the prior year period, reflecting our strategy to drive long-term growth through increasing investments in strengthening our brand awareness, attracting more mobile users, and expanding our market share especially within product categories such as cosmetics, home goods, baby and child care products.
- **Technology and content expenses** increased by 168.9 percent to 38.1 million. As a percentage of total net revenues, technology and content expenses increased to 2.8 percent from 2.2 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** increased by 209.2 percent to 54.0 million. As a percentage of total net revenues, general and administrative expenses increased to 4.0 percent from 2.7 percent in the prior year period, primarily due to headcount expansion



associated with the growth in our overall business, the amortization of intangible assets resulting from the Lefeng acquisition, as well as the increase in online payment expenses.

Driven by the growing scale of our company's operations and decrease in fulfillment expenses as a percentage of total net revenues, our **income from operations** increased by 105.7 percent to 60.8 million for the fourth quarter of 2014. **Operating income margin** remained stable at 4.5 percent, as compared with 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 141.5 percent to 79.6 million. Non-GAAP operating income margin increased to 5.9 percent from 5.1 percent in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the fourth quarter of 2014 increased by 122.8 percent to 56.6 million. Net income margin attributable to Vipshop's shareholders increased to 4.2 percent from 3.9 percent in the prior year period. Net income per diluted ADS increased to 9 cents from 4 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 154.6 percent to 73.4 million. Non-GAAP net income margin increased to 5.4 percent from 4.4 percent in the prior year period. Non-GAAP net income per diluted ADS increased to 12 cents in the fourth quarter of 2014 from the 5 cents in the prior year period.

As of December 31, 2014, our company had cash, cash equivalents and restricted cash of 772.2 million and held-to-maturity securities of 607.3 million. For the fourth quarter of 2014, net cash from operating activities was 311.2 million.

Looking at our business outlook for the first quarter of 2015, we expect our total net revenues to be between 1.25 billion and 1.3 billion, representing a year-over-year growth rate of approximately 78% to 85%. 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 from Donghao Yang:

Thank you for taking the time to join us and we look forward to speaking with you next quarter!