Operator:

Good day everyone and welcome to Vipshop Holdings Limited's second quarter 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 Second Quarter 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 second quarter 2015 earnings conference call. We are very pleased with this quarter's results, which were driven by our mobile expansion, improved operating leverage, and the continued growth of our core business.

Let me start with the fast growth and future potential of our mobile platform. We have always believed that our core flash sales offering is very well-suited for on-the-go shoppers over their mobile devices. For example, the conversion rate, ARPU and shopping frequency is all higher on mobile than PC. In the second quarter of 2015, the total active customers for mobile in our core flash sale business increased by 186 percent year over year. Mobile GMV increased to 76 percent of total GMV, from 46 percent one year ago.

As we leverage our customer base and retail expertise, we believe there is great potential for us to help global brands tap into the Chinese consumer market – especially in mother, baby, beauty, handbag and other fashion categories. This is why we began our cross-border ecommerce business in the fourth quarter last year and ramped it up quickly. In just two quarters, we were able to grow this business by over 17 times. We have also opened several bonded warehouses to enable a faster import process. The cross-border business provides us with good cross-selling opportunities, as our customers tend to significantly increase their spending once they begin to use this offering. We expect the cross-border business to speed up in the second half of 2015, in terms of total orders and sales contribution, and are adding more categories, and expanding our network of overseas merchandisers and brands to support this growth.

We also continue to invest in last-mile delivery and warehouse expansion – which Donghao will discuss in detail.

With China's large online shopping population and our low customer penetration rate, we believe that there is plenty of room for customer growth in the future.

At this point, let me hand over the call to our CFO, Donghao Yang, so that he may discuss our operations and financial results.

Donghao Yang:

Thanks Eric and hello everyone.

The strong results we delivered in the second quarter reflected the continued strength of our core discount retail business. As revenues, orders and customers on our core platform all continue to expand in tandem, we are observing powerful economies of scale, demonstrated by our strengthening margins. What was particularly impressive was the sharp increase in operating margin to 4.9% from 2.9% in the prior year period, primarily driven by the reduction in fulfillment and G&A expenses as a percentage of total revenue.

We made great progress continuing to enhance and expand our logistical capabilities. We now have approximately 1.4 million square meters of warehouse capacity and recently commenced on construction of a new warehouse in Sichuan Province, putting us well on track to beat our 1.5 million square meter year-end target. On top of our warehouse expansion, was warehouse enhancement through automation, which we achieved this quarter in our Tianjin warehouse. This process improvement allows us to improve efficiency and reduce labor cost as a percentage of total revenues. Most importantly, our success in Tianjin can be duplicated in our other warehouses to ensure greater optimization in all locations.

Just like with our warehouse initiatives, we continue to make headway with our investments in local logistics providers. Currently we are utilizing our network of in-house and invested couriers to deliver over 70% of our total orders across almost all provinces in mainland China. Our courier investments will greatly improve our ability to reduce delivery times, provide more coordinated and friendly delivery service and, in the mid- to long-term, reduce costs, as with greater scale it will be cheaper to deliver ourselves.

Furthermore, we are also developing financial services for suppliers in the form of accounts receivable factoring to better support their business growth. The factoring will help us bring more small- to mid-size suppliers into our ecosystem.

As we continue to improve the overall shopping experience and strengthen customer loyalty, we are confident that customers will continue to gravitate to our platform in increasing numbers. With growing scale, strong operational efficiency, promising new initiatives, and a focus on our core high-margin flash sales business, we are very well-positioned to solidify our leadership in China's discount retail sector and deliver increasing returns to our 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 second quarter of 2015 increased by 77.6% to 9.0 billion, primarily driven by continued robust growth in the number of total active customers and total orders in our **core discount retail business**, as well as the increasing revenue contribution from our mobile platform.

We began to substantially scale down our group-buy segment in the third quarter of 2014, due to its lower margins and customer retention rates. As a result, the active customers for the group-buy business as a percentage of Vipshop's total active customers decreased to 0.8% from 22.2% in the prior year period, and orders for the group-buy business as a percentage of Vipshop's total orders decreased to 0.7% from 13.2% in the prior year period. 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 84.4% and 86.1% 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 185.7% and 194.1% year over year, respectively.

Gross profit for the second quarter of 2015 increased by 78.6% to 2.3 billion, primarily driven by our increased bargaining power with suppliers due to the expanding scale of the Company and the growth of our marketplace platforms. **Gross margin** for this quarter increased to 25.0% from 24.8% in the prior year period.

- **Fulfillment expenses** for the second quarter of 2015 were 819.6 million, as compared with 513.4 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 10.1% in the prior year period, primarily reflecting the scale effect associated with our rapid growth in total net revenue and the increase in average ticket size.

- **Marketing expenses** for the second quarter of 2015 were 502.6 million, as compared with 274.2 million in the prior year period. As a percentage of total net revenue, marketing expenses were 5.6%, as compared with 5.4% 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 especially within product categories such as cosmetics, home goods, baby and child care products.

- **Technology and content expenses** for the second quarter of 2015 were 245.7 million as compared with 131.0 million in the prior year period. As a percentage of total net revenue, technology and content expenses were 2.7%, as compared with 2.6% 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** for the second quarter of 2015 were 286.7 million, as compared with 225.9 million in the prior year period. As a percentage of total net revenue, general and administrative expenses decreased to 3.2% from 4.4% in the prior year period, primarily reflecting the scale effect associated with our rapid growth in total net revenue.

Driven by the growing scale of our company's operations and decrease in fulfillment expenses and general and administrative expenses as a percentage of total net revenue, our **income from operations** increased by 192.5% to 437.8 million for the second quarter of 2015. **Operating income margin** increased to 4.9% from 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 a business acquisition, increased by 113.0% to 568.6 million from 267.0 million in the prior year period. Non-GAAP operating income margin increased to 6.3% from 5.3% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the second quarter of 2015 increased by 147.2% to 399.3 million from 161.5 million in the prior year period. Net income margin attributable to Vipshop's shareholders increased to 4.4% from 3.2% in the prior year period. Net income per diluted ADS increased to 66 cents from 27 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 a business acquisition and equity method investments, increased by 96.6% to 517.6 million from 263.2 million in the prior year period. Non-GAAP net income margin increased to 5.7% from 5.2% in the prior year period. Non-GAAP net income per diluted ADS increased to 86 cents from 44 cents in the prior year period.

As of June 30, 2015, our company had cash, cash equivalents and restricted cash of 4.4 billion and held-to-maturity securities of 2.9 billion.

For the second quarter of 2015, net cash used in operating activities was 467.4 million, as compared with net cash from operations of 183.7 million in the prior year period. This was primarily due to Vipshop substantially expediting our payments to suppliers, in order to support their growth and create an ecosystem that will strengthen our competitive advantages. As a result, accounts payable turnover days decreased to 71 days in the second quarter of 2015, from 80 days in the prior quarter. Meanwhile, we also significantly increased our supplier financing, and this was one of the largest cash outflow items in the second quarter.

Looking at our business outlook for the third quarter of 2015, we expect our total net revenue to be between 9.1 billion and 9.3 billion, representing a year-over-year growth rate of approximately 71% to 74%. 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: Donghao Yang:

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