

Operator:

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's second quarter 2016 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 2016 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 chief executive officer, and Donghao Yang, our chief financial officer. I would now like to turn the call over to Mr. Eric Shen.

Eric Shen:

Good morning and good evening, everyone. Welcome to our second quarter 2016 earnings conference call. Our results once again show the strength of our platform and the discount retail sector as both active customers and total orders grew by more than 50% year over year. Despite the challenging macro environment, we were able to successfully reaccelerate our revenue growth.

In the past quarter, we added more than 8.2 million new customers, which is a 50% increase compared to the same period last year. This is exciting as customer growth, by expanding our customer age range, is one of the key factors of our continued success. In doing so, we have enhanced the personalization of our product offerings and user experience on our apps and website. This effort has shown good signs. Younger shoppers have smaller order sizes, but they are more Internet- and mobile-savvy and are the future of ecommerce. We expect their order sizes to increase as their spending power grows overtime.

Looking ahead, we will continue to diversify our product offerings and deliver more personalized products and services to our valued customers. We are confident that we have the right plans and team to continue growing our business and generating value for our shareholders.

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.

We are pleased with our second quarter 2016 operational and financial results. As Eric mentioned, during the second quarter, we reaccelerated our top-line growth and significantly strengthened our operating cash flow.

On the customer side, we were able to grow our number of active customers to 23 million, a 62% increase compared to the same period a year ago, and total orders to 69 million, a 54% increase compared to the same period a year ago. Customer satisfaction is the foundation of our success and we are constantly looking for new ways to improve the user experience on our platform. That is why we continue to invest in the personalization of our merchandise offerings. By providing our users with product choices that are most relevant to them, we were able to increase both conversion rate and ARPU on our app.

As you know, we have recently launched a customer financing program in addition to our supplier financing program. As of June 30, 2016, the total balance of credit outstanding to customers was approximately 1.2 billion RMB and the total balance of credit outstanding to suppliers was 390 million RMB.

At the end of the day, these programs are there to support the growth of our core business. Our plan is to judiciously expand the scale of these programs overtime through balancing core growth opportunities with risk control. This is demonstrated by our recent move to hire a chief risk officer for our internet finance unit who has over 20 years of international and domestic financial risk experience.

Turning to logistics, we remain focused on enhancing and expanding our logistics capabilities. Over the past several quarters, we have continued to build out a strong infrastructure of warehouses and networks of both invested companies and proprietary logistics to enhance our order fulfillment capabilities. We are now able to deliver more than 90% of our orders through our last mile network. Also, we are on track to add approximately 500,000 square meters of warehousing capacity by the end of this year.

Looking ahead, we aim to continue delivering solid top-line growth while maintaining our margins. We are confident that by continuing to leverage our proven model, improve our operations and deliver the best shopping experience possible to our loyal customers, we will continue to drive sustainable growth and generate additional value for all our stakeholders.

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 2016 increased by 49.0% to 13.44 billion, primarily attributable to a 62% year-over-year increase in the number of active customers which grew to 23.0 million and a 54% year-over-year increase in total orders to 68.9 million.

Gross profit for the second quarter of 2016 increased by 44.0% to 3.24 billion, primarily driven by the expanding scale of the business. **Gross margin** for this quarter was 24.1%, as compared

with 25.0% in the prior year period. The decrease in gross margin was primarily due to our promotional activities which made pricing more attractive to customers.

- **Fulfillment expenses** for the second quarter of 2016 were 1.15 billion, as compared with 820 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 8.6% from 9.1% in the prior year period, primarily reflecting the scale effect associated with our growth in total net revenue and improved fulfillment efficiency.
- **Marketing expenses** for the second quarter of 2016 were 672 million, as compared with 503 million in the prior year period, reflecting our strategy to drive long-term growth through sustainable investments in strengthening our brand awareness, attracting new users and expanding our market share. As a percentage of total net revenue, marketing expenses decreased to 5.0% from 5.6% in the prior year period, primarily reflecting our cost control efforts.
- **Technology and content expenses** for the second quarter of 2016 were 392 million as compared with 246 million in the prior year period, reflecting our continued efforts to invest in human capital, advanced technologies such as data analytics as well as new business opportunities including our Internet finance unit. As a percentage of total net revenue, technology and content expenses were 2.9% as compared with 2.7% in the prior year period.
- **General and administrative expenses** for the second quarter of 2016 were 434 million, as compared with 287 million in the prior year period. As a percentage of total net revenue, general and administrative expenses were 3.2% as compared with 3.2% in the prior year period.

Our **income from operations** increased by 47.1% to 644 million for the second quarter of 2016. **Operating margin** was 4.8% as compared with 4.9% 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 47.2% to 837 million from 569 million in the prior year period. Non-GAAP operating income margin was 6.2% as compared with 6.3% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the second quarter of 2016 increased by 13.1% to 452 million from 399 million in the prior year period. **Net margin attributable to Vipshop's shareholders** was 3.4%, as compared with 4.4% in the prior year period. The decline is partly attributable to lower interest income as well as a 48.6 million impairment loss of investments. Net income per diluted ADS increased to 0.76 RMB from 0.66 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, and amortization of intangible assets resulting from a business acquisition and equity method investments, increased by 30.9% to 678 million from 518 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** was 5.0%, as compared with 5.7% in the prior year period. This decline is primarily due to lower interest income. Non-GAAP net income per diluted ADS increased to 1.12 RMB from 0.86 RMB in the prior year period.

As of June 30, 2016, our company had cash and cash equivalents, and restricted cash of 3.27 billion and held-to-maturity securities of 1.75 billion. For the second quarter of 2016, net cash from operating activities was 1.23 billion.

Looking at our business outlook for the third quarter of 2016, we expect our total net revenue to be between 11.9 billion and 12.4 billion, representing a year-over-year growth rate of approximately 37% to 43%.

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!