

**Operator:**

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's third quarter 2019 earnings conference call.

At this point, I would like to turn the call to Ms. Jessie Fan, Vipshop's Director of Investor Relations. Please proceed.

**Jessie Fan:**

Thank you, operator. Hello everyone and thank you for joining Vipshop's third quarter 2019 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 2019 earnings conference call.

During the quarter, we delivered strong operational and financial results, which were made possible by our team's solid execution of the merchandising strategy. Our total active customers increased by 21% year over year, which further accelerated from the 11% year-over-year growth we delivered in the second quarter of this year. The healthy growth momentum of both our repeat and new customers is driving our topline growth, represented by a 10% year-over-year increase in the third quarter of 2019, despite weak seasonality.

By shifting back to the discount apparel business, where our core competency lies, we are seeing better user metrics across the board. As we continue to perfect our product offerings to meet more customers' needs, the positive word-of-mouth feedback we receive will enable us to penetrate into new customer segments and attract more new customers over time. This is extremely important as customer growth is the engine that will drive our topline growth and profitability improvement in the future.

Looking ahead, we will continue to focus on improving our product procurement and delivering more value to our customers. As the dominant player in China's discount retail segment, we are well positioned to further expand our market share and generate sustainable value for all our stakeholders.

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 finished the third quarter of 2019 with solid topline growth and substantial year-over-year improvement in our profitability. During the quarter, our non-GAAP net income attributable to Vipshop's shareholders increased by 140% year over year to 1.2 billion RMB from 501 million RMB in the prior year period. Our non-GAAP net margin attributable to Vipshop's shareholders reached 6.1%, which is a new historically high level. These successes were the result of our focus on the highly profitable apparel-related categories. GMV for apparel-related categories, including GMV from the newly acquired Shan Shan Outlets, increased by 29% year over year in the third quarter of 2019.

Our two deep discount channels, Fengqiang and Kuaiqiang, continued to drive our GMV growth during the quarter. Specifically, GMV contribution from these two channels reached 42% of our online GMV in the third quarter of 2019, which further increased from 29% in the previous quarter. These results further demonstrate that our customers are looking for value, and when we offer desirable products at a deep discount to them, they shop with us more.

We are keenly focused on the training of our merchandisers. As they continue to improve their procurement and negotiation capabilities, we believe we will see further improvement in our key operating metrics and financial results, allowing us to reinvest into unlocking the long-term potential of our company. Furthermore, we will continue to balance our topline growth with sustainable profitability improvement, aiming to deliver enhanced shareholder return over time.

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 2019 increased by 10.0% to 19.6 billion from 17.8 billion in the prior year period, primarily driven by the growth in the number of total active customers.

**Gross profit** for the third quarter of 2019 increased by 16.6% to 4.2 billion from 3.6 billion in the prior year period. **Gross margin** increased to 21.6% from 20.4% in the prior year period.

- **Fulfillment expenses** for the third quarter of 2019 decreased to 1.6 billion from 1.8 billion in the prior year period. As a percentage of total net revenue, fulfillment expenses decreased to 8.1% from 9.9% in the prior year period.
- **Marketing expenses** for the third quarter of 2019 were 721 million, as compared with 578 million in the prior year period. As a percentage of total net revenue, marketing expenses were 3.7%, as compared with 3.2% in the prior year period.
- **Technology and content expenses** for the third quarter of 2019 decreased to 401 million from 491 million in the prior year period. As a percentage of total net revenue, technology and content expenses decreased to 2.0% from 2.8% in the prior year period.

- **General and administrative expenses** for the third quarter of 2019 were 682 million, as compared with 625 million in the prior year period. As a percentage of total net revenue, general and administrative expenses remained stable at 3.5% year over year.

Our **income from operations** for the third quarter of 2019 increased by 229.7% to 1.2 billion from 355 million in the prior year period. **Operating margin** increased to 6.0% from 2.0% 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, increased by 151.5% to 1.4 billion from 547 million in the prior year period. Non-GAAP operating income margin increased to 7.0% from 3.1% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the third quarter of 2019 increased by 282.7% to 875 million from 229 million in the prior year period. **Net margin attributable to Vipshop's shareholders** increased to 4.5% from 1.3% in the prior year period. Net income attributable to Vipshop's shareholders per diluted ADS increased to 1.30 RMB from 0.34 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; amortization of intangible assets resulting from business acquisitions; tax effect of amortization of intangible assets resulting from business acquisitions; investment gain and revaluation of investments excluding dividends; tax effect of investment gain and revaluation of investments excluding dividends, and share of gain or loss in investment of limited partnership that is accounted for as an equity method investee, increased by 140.2% to 1.2 billion from 501 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** increased to 6.1% from 2.8% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS increased to 1.78 RMB from 0.75 RMB in the prior year period.

As of September 30, 2019, our company had cash and cash equivalents and restricted cash of 6.6 billion and short term investments of 58 million. For the third quarter of 2019, net cash from operating activities was 2.1 billion.

Looking at our business outlook for the fourth quarter of 2019, we expect our total net revenue to be between 26.1 billion RMB and 27.4 billion RMB, representing a year-over-year growth rate of approximately 0% to 5%. These forecasts reflect our current and preliminary view on the market and operational conditions, which is 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.