

Operator:

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

We delivered robust operational and financial results during the first quarter of 2019. The successful execution of our merchandising strategy is starting to bear fruit. During the quarter, our total active customers grew by 14% year over year, driven by the healthy growth in both the number of repeat customers and new customers. Our strategic partners also continued to bring us new customers. In the quarter, around 25% of our new customers came from the WeChat mini-program and the JD flagship store.

These successes are the result of our strategic focus on the discount apparel segment, where we are a dominant player in China. Our total GMV increased by 11% year over year during the quarter. More importantly, apparel-related categories, which are our bread-and-butter, grew even faster at 16% year over year.

In addition, we continued to make good progress on cost reduction. On the logistics side, we began to shift a portion of our orders to third party delivery companies. So far, we have not seen any notable difference in customer experience as a result of the change. In the coming quarters, we will continue to transfer more packages to our third party delivery partners in order to reduce fulfillment cost overtime.

We are making solid progress in the modification of our strategic direction and are pleased to see positive results at an early stage. Looking ahead, we will continue to focus on profitability

growth coupled with healthy topline growth. We are deeply committed to delivering long-term, sustainable shareholder return.

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 delighted to have achieved financial results that exceeded our expectations during the first quarter of 2019. Our topline increased by over 7% year over year while our net margin improved both sequentially and on a year-over-year basis. These solid operational and financial results give us confidence that we are on the right track with the recent strategic shift. The enhanced profitability is the result of our focus on the apparel category in the discount retail segment, of which the GMV grew faster than our total GMV during the quarter. We are glad that our more selective assortment is becoming more attractive to our valued customers, as demonstrated by improved year-over-year traffic and conversion rate. Further, our cost reduction efforts also came into play as we streamlined resources invested into certain loss making businesses.

During the quarter, approximately 5.5 million active customers used our consumer financing service, which accounted for around 22% of GMV. As of March 31, 2019, the total balance of credit outstanding to customers was approximately 4.9 billion RMB, and the total balance of credit outstanding to suppliers was approximately 719 million RMB. We continue to streamline our Internet finance business in order for it to better support our core e-Commerce business.

We are a leading player in China's discount retail channel, and we are uniquely positioned to capture the market opportunities and further expand our market share. We are dedicated to growing profit dollars while maintaining a healthy level of topline growth. Over time, we will generate sustainable value creation and deliver solid return to all 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 first quarter of 2019 increased by 7.3% to 21.3 billion from 19.9 billion in the prior year period, primarily driven by the growth in the number of total active customers.

Gross profit for the first quarter of 2019 increased by 8.7% to 4.4 billion from 4.0 billion in the prior year period. **Gross margin** increased to 20.4% from 20.2% in the prior year period.

- **Fulfillment expenses** for the first quarter of 2019 were 1.8 billion, as compared with 1.7 billion in the prior year period. As a percentage of total net revenue, fulfillment expenses decreased to 8.3% from 8.7% in the prior year period.
- **Marketing expenses** for the first quarter of 2019 were 781 million, as compared with 645 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 first quarter of 2019 decreased to 383 million from 466 million in the prior year period. As a percentage of total net revenue, technology and content expenses decreased to 1.8% from 2.3% in the prior year period.
- **General and administrative expenses** for the first quarter of 2019 were 669 million, as compared with 614 million in the prior year period. As a percentage of total net revenue, general and administrative expenses remained stable at 3.1% year over year.

Our **income from operations** for the first quarter of 2019 increased by 30.3% to 863 million from 663 million in the prior year period. **Operating margin** increased to 4.0% from 3.3% 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 18.0% to 1.0 billion from 878 million in the prior year period. Non-GAAP operating income margin increased to 4.9% from 4.4% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the first quarter of 2019 increased by 64.7% to 872 million from 530 million in the prior year period. **Net margin attributable to Vipshop's shareholders** increased to 4.1% from 2.7% in the prior year period. Net income attributable to Vipshop's shareholders per diluted ADS increased to 1.27 RMB from 0.77 RMB in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excludes share-based compensation expenses; amortization of intangible assets resulting from business acquisitions and equity method investments; tax effect of amortization of intangible assets resulting from business acquisitions; gain on disposal or revaluation of investments; tax effect of gain on disposal or revaluation of investments, and share of gain in investment of limited partnership that is accounted for as an equity method investee, increased by 12.2% to 816 million from 728 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** increased to 3.8% from 3.7% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS increased to 1.19 RMB from 1.05 RMB in the prior year period.

As of March 31, 2019, our company had cash and cash equivalents and restricted cash of 6.3 billion and short term investments of 40 million. For the first quarter of 2019, net cash from operating activities was 692 million.

Looking at our business outlook for the second quarter of 2019, we expect our total net revenue to be between 20.7 billion RMB and 21.7 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.