

Operator:

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's third quarter 2020 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 2020 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 2020 earnings conference call.

Before I go into business updates, I would like to welcome our new CFO David Cui, who is with us here at today's call. David joined us last month and will officially succeed Donghao as our CFO today. After today's call, Donghao will transition into his new role as our non-executive director and continue to contribute to our future growth in a different capacity.

Now I will turn to our results for the third quarter of 2020. During the quarter, we delivered strong financial and operational results, driven by the robust 36% year-over-year growth in the number of active customers, further accelerating from the growth rate in the second quarter. This was made possible because we consistently offered great products at a deep discount to our valued customers.

We are especially glad to see that both new and repeat customers demonstrated robust growth momentum, which was the result of our focus on merchandising and some reinvestment into branding so that our specialty in discount retail can be known to a broader customer base. As a result, we recently added a lot of new customers and old customers that have not shopped with us for a long time. These customers typically spend a lot less than our existing loyal customers, which dragged down our ARPU in the short term. We are always monitoring the shopping behavior of different cohorts of customers. We are glad to see the ARPU for our core customers continued to increase, while new customers and re-activated old customers have shown better repeat purchase and ARPU trends as compared to the same groups of customers in the prior

year period. This means our merchandising strategy is working well, and our customers recognize the value of our differentiated offerings, especially in our core categories.

Going forward, we will continue to focus on procuring high quality and differentiated products at a deep discount and deepen our expertise in made-for-Vipshop products. Leveraging our strong merchandising capability and solid supply chain network, we remain focused on providing our customers with products of deep value on a daily basis, while improving our operations to provide more personalized experiences to meet different customers' needs. We recently hired a new Co-CTO, Pengjun Lu, who has over a decade of solid experience in big data and personalization in China's internet space. He will focus on improving the customer experience through optimizing the match between our already-procured products to different customers' personalized tastes. This will ultimately help our suppliers monetize their inventory more efficiently and grow their sales more quickly. We are confident we can continue to expand our customer base and the positive trends in customer acquisition and retention will also continue, further driving our growth and profitability and enabling us to deliver solid shareholder return over time.

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. First of all, I'd like to express my deep gratitude to Eric and all of my colleagues for their help and support during my nine-year tenure as the CFO of Vipshop. I will continue to serve the Company as a director and wish Vipshop and David, the new CFO, all the best luck in the future.

In the third quarter of 2020, we delivered strong revenue and profit growth. Our total net revenue increased by 18% year over year to 23.2 billion from 19.6 billion in the same period last year. As a result of better operating leverage, our non-GAAP net income attributable to Vipshop's shareholders increased by 15% year over year to 1.4 billion from 1.2 billion in the prior year period. In addition, we generated robust free cash flow, with free cash inflow for the trailing twelve months ended September 30, 2020 increasing to 5.4 billion from 4.8 billion in the prior year period.

We are pleased to see that more customers, old and new, are coming to us more frequently for our differentiated product offerings. Our merchandisers carefully procure products and launch new deals on a daily basis, providing superior value to our customer base while helping our suppliers clear their excess inventory more efficiently. In the third quarter of 2020, our total GMV grew by 21% year over year, and GMV for our core apparel-related categories grew even faster at 29% year over year. These successes are made possible by our strategy to focus on discount retail, especially in non-standardized categories.

Looking ahead, we remain keenly focused on balancing our topline growth and profitability. We believe the healthy growth momentum in our number of active customers will continue to drive our future growth. Importantly, we strictly follow the lifetime value model to evaluate the quality of the customers we acquire, ensuring the long term sustainability of our growth and profitability. We aim to generate sustainable value creation for our customers, suppliers, and 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 third quarter of 2020 increased by 18.2% year over year to 23.2 billion from 19.6 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 2020 increased by 15.3% year over year to 4.9 billion from 4.2 billion in the prior year period. **Gross margin** was 21.1%, as compared with 21.6% in the prior year period.

Total operating expenses for the third quarter of 2020 were 3.9 billion, as compared with 3.4 billion in the prior year period. As a percentage of total net revenue, total operating expenses decreased to 16.9% from 17.3% in the prior year period.

- **Fulfillment expenses** for the third quarter of 2020 were 1.6 billion, as compared with 1.6 billion in the prior year period. As a percentage of total net revenue, fulfillment expenses decreased to 7.0% from 8.1% in the prior year period, primarily attributable to the change in fulfillment logistic arrangement.
- **Marketing expenses** for the third quarter of 2020 were 1.1 billion, as compared with 721.3 million in the prior year period. As a percentage of total net revenue, marketing expenses were 4.9%, as compared with 3.7% in the prior year period, primarily attributable to increased investment into customer acquisition.
- **Technology and content expenses** for the third quarter of 2020 decreased to 305.1 million from 400.7 million in the prior year period. As a percentage of total net revenue, technology and content expenses decreased to 1.3% from 2.0% in the prior year period.
- **General and administrative expenses** for the third quarter of 2020 were 848.6 million, as compared with 681.6 million in the prior year period. As a percentage of total net revenue, general and administrative expenses were 3.7%, as compared with 3.5% in the prior year period.

Our **income from operations** for the third quarter of 2020 increased by 6.7% year over year to 1.2 billion from 1.2 billion in the prior year period. **Operating margin** was 5.4%, as compared with 6.0% in the prior year period.

Non-GAAP income from operations, which excluded share-based compensation expenses and amortization of intangible assets resulting from business acquisitions, increased by 8.0% year over year to 1.5 billion from 1.4 billion in the prior year period. Non-GAAP operating income margin was 6.4%, as compared with 7.0% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the third quarter of 2020 increased by 42.1% year over year to 1.2 billion from 875.5 million in the prior year period. **Net margin attributable to Vipshop's shareholders** increased to 5.4% from 4.5% in the prior year period. Net income attributable to Vipshop's shareholders per diluted ADS increased to 1.80 RMB from 1.30 RMB in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excluded share-based compensation expenses; 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 loss in investment of limited partnerships that are accounted for as equity method investees, increased by 15.2% to 1.4 billion from 1.2 billion in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** was 6.0%, as compared with 6.1% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS increased to 2.01 RMB from 1.78 RMB in the prior year period.

As of September 30, 2020, our company had cash and cash equivalents and restricted cash of 9.6 billion and short term investments of 4.9 billion. For the third quarter of 2020, net cash from operating activities was 1.2 billion.

Looking at our business outlook for the fourth quarter of 2020, we expect our total net revenue to be between 33.7 billion RMB and 35.2 billion RMB, representing a year-over-year growth rate of approximately 15% to 20%. 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.