Operator:

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

In the fourth quarter of 2019, we delivered strong financial results and solid operating performance. Our customer metrics continued to show strengths. During the quarter, total active customers grew nicely at 19% year over year. The number of active customers for the full year of 2019 increased by 14% year over year, reaching 69 million. These are the results of solid customer retention and improved customer stickiness. In 2019, repeat customers as a percentage of total active customers increased to 80% from 76% in 2018.

We were able to achieve these successes due to our focus on discount apparel. In the fourth quarter of 2019, apparel-related categories contributed to over 70% of our total GMV. Since the fourth quarter of 2018, we have spent a lot of time and effort in improving our merchandising, offering desirable products to our customers at a deep discount. This has paid dividends to our business in 2019. Going forward, we remain committed to the execution of our merchandising strategy, further enhancing our product offerings.

In November 2019, we discontinued our delivery unit operated by Pinjun and began to work with SF Express. As a result, our delivery services have improved and our delivery cost has come down, allowing us to reinvest in enhancing the overall customer experience on our platform.

For example, in December 2019, we lowered our free shipping threshold from 288 RMB to 88 RMB, and returns are now free. We also upgraded the benefits for our Super VIPs. On top of existing benefits, they now receive an additional 2% off. We believe these changes will encourage customers to shop with us more, further enhancing their customer stickiness.

Currently, we are experiencing some short-term impact from the novel coronavirus outbreak, which has affected our sales in the first quarter of 2020. The apparel category was especially impacted as consumers are not leaving their homes as much, which decreased their demand for apparel. We are working closely with our suppliers to get through this difficult time together. The good news is we have seen some signs of recovery in March and believe consumer demand will rebound quickly once the virus is contained. We continue to have full confidence in the strength of the Chinese economy and the long-term growth potential in China's discount retail market.

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 fourth quarter of 2019 with solid topline growth that exceeded our expectations, and extraordinary profitability, despite having one-time costs related to the discontinuation of Pinjun. During the quarter, our non-GAAP net income attributable to Vipshop's shareholders increased by 111.4% year over year to 1.9 billion from 914 million in the prior year period. Our non-GAAP net margin attributable to Vipshop's shareholders for the quarter increased to 6.6% from 3.5% in the prior year period. The meaningful improvement in profitability is mainly driven by gross margin expansion. In the fourth quarter of 2019, gross margin increased to 23.9% from 20.6% in the prior year period.

These strong financial results are made possible by our focus on apparel-related categories, which contributed to over 70% of our total GMV in the fourth quarter of 2019. Our deep discount channels, Fengqiang and Kuaiqiang, contributed to 45% of our online GMV during the quarter, further increasing from 42% in the prior quarter. We are confident that as long as we continue to work with our suppliers collaboratively and offer desirable products at a deep discount to our customers, these positive trends can and will continue.

Looking ahead, we remain committed to balancing our growth and profitability. We will explore for reinvestment opportunities that enhance our customer experience and help our suppliers work with us more effectively. We are confident in the long-term outlook of the Company, despite short-term turbulences caused by the novel coronavirus outbreak.

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 fourth quarter of 2019 increased by 12.4% to 29.3 billion from 26.1 billion in the prior year period, primarily driven by the growth in the number of total active customers.

Gross profit for the fourth quarter of 2019 increased by 30.0% to 7.0 billion from 5.4 billion in the prior year period. **Gross margin** increased to 23.9% from 20.6% in the prior year period.

- **Fulfillment expenses** for the fourth quarter of 2019 were 2.1 billion, as compared with 2.1 billion in the prior year period. As a percentage of total net revenue, fulfillment expenses decreased to 7.0% from 8.0% in the prior year period, primarily attributable to the change in fulfillment logistic arrangement.

- **Marketing expenses** for the fourth quarter of 2019 decreased to 944 million from 1.1 billion in the prior year period. As a percentage of total net revenue, marketing expenses decreased to 3.2% from 4.3% in the prior year period.

- **Technology and content expenses** for the fourth quarter of 2019 decreased to 362 million from 533 million in the prior year period. As a percentage of total net revenue, technology and content expenses decreased to 1.2% from 2.0% in the prior year period.

- **General and administrative expenses** for the fourth quarter of 2019 were 1.7 billion, as compared with 821 million in the prior year period. As a percentage of total net revenue, general and administrative expenses were 5.9%, as compared with 3.1% in the prior year period, primarily attributable to a severance payment of 652 million and other provision of assets of 154 million related to the discontinuation of Pinjun, as well as an impairment of 200 million related to our Tai'an and Hengyang warehouses.

- **Goodwill impairment loss** for the fourth quarter of 2019 was RMB278 million, as compared with nil in the prior year period, primarily attributable to the goodwill write-down of Pinjun.

Our **income from operations** for the fourth quarter of 2019 increased by 76.9% to 1.8 billion from 1.0 billion in the prior year period. **Operating margin** increased to 6.1% from 3.8% in the prior year period.

Non-GAAP income from operations, which excluded share-based compensation expenses, amortization of intangible assets resulting from business acquisitions, and goodwill impairment loss, increased by 93.7% to 2.2 billion from 1.1 billion in the prior year period. Non-GAAP operating income margin increased to 7.4% from 4.3% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the fourth quarter of 2019 increased by 111.4% to 1.5 billion from 689 million in the prior year period. **Net margin attributable to Vipshop's shareholders** increased to 5.0% from 2.6% in the prior year period. Net income attributable to Vipshop's shareholders per diluted ADS increased to 2.14 RMB from 1.00 RMB in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excluded share-based compensation expenses; goodwill impairment loss; 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 loss in investment of limited partnership that is accounted for as an equity method investee, increased by 111.4% to 1.9 billion from 914 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** increased to 6.6% from 3.5% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS increased to 2.84 RMB from 1.33 RMB in the prior year period.

As of December 31, 2019, our company had cash and cash equivalents and restricted cash of 7.7 billion and short term investments of 3.1 billion. For the fourth quarter of 2019, net cash from operating activities was 6.1 billion.

Looking at our business outlook for the first quarter of 2020, we expect our total net revenue to be between 17.1 billion RMB and 18.1 billion RMB, representing a year-over-year decline of approximately 15% to 20%, primarily factoring in the short-term impact from the novel coronavirus outbreak. 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.