

Operator:

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's fourth quarter and full year 2017 earnings conference call.

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

Jessie Fan:

Thank you, operator. Hello everyone and thank you for joining Vipshop's fourth quarter and full year 2017 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 2017 earnings conference call.

We are pleased to have delivered solid results in the fourth quarter. Our total net revenue increased by 27% year over year. Our fashion-related categories have shown accelerated growth year over year, further strengthening the foundation of our platform. These successes were the result of our strong execution on the promotional events. More than 3,600 brands participated on December 8, 2017, representing a 122% year-over-year increase as compared to the anniversary sale in 2016. This is a testament of the power of our platform and an endorsement of our value to brands. Our Super VIP Paid Membership Program and the Internet finance business also helped to improve ARPU and enhance customer stickiness. Going forward, we will continue to optimize our operations so the positive trends can continue.

On December 18, 2017, we announced Tencent and JD's strategic investment in our company. Through this strategic partnership, the two companies will provide us with three powerful traffic entries: one on WeChat Wallet, one on JD's main page, and one on JD's WeChat Discovery shopping portal. We are delighted about this transaction and are excited about the opportunities ahead.

Tencent's ecosystem is becoming even more powerful in recent years, with many creative new functions and features. For example, we launched our WeChat mini program in August 2017 and are encouraged by its performance. Since then, the number of new customers that came in through the mini program has consistently doubled on a monthly basis. Therefore, we believe

WeChat traffic will be more important and relevant than many of the other traffic channels out there, which was the key reason behind our decision to partner with Tencent and JD. Leveraging Tencent's robust social ecosystem and big data capability, we will be able to better understand Chinese consumers, which will enable us to acquire new customers and better serve our existing customers. This partnership changed the fashion industry landscape, which increases our bargaining power with suppliers. Existing suppliers will work even more closely with us, and new suppliers will now be more willing to begin working with us.

We opened the trial entry on WeChat Wallet in February, and are on track to open the entry on JD's app and JD's WeChat Discovery shopping portal in March. It will take a few quarters for topline and customer growth to ramp up as it takes time for users to discover, browse, and try the new channels. We believe Tencent and JD will help to bring new customers to our platform, enabling us to grow our topline and core categories as fast as possible.

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 delivered robust financial results in the fourth quarter, with topline increasing by 27% year over year, which was above the high-end of our guidance range. Driven by the strong 22% year-over-year increase in average number of orders per customer, our ARPU for the quarter improved by 22% year over year.

In addition, we continued to make headway with the expansion of our warehousing capacity and the improvement of our logistics capability. During the quarter, we added a local warehouse in Quanzhou, China, and currently have a total of 15 local warehouses nationally. We further expanded our international warehousing capacity for the cross-border business by adding new locations in Italy and the U.K. As of the end of 2017, we have around 2.5 million square meters of total warehousing space, of which around 1.5 million square meters is owned by Vipshop.

Our logistics efficiency also continued to improve. During the quarter, leveraging our proprietary last mile network, we delivered approximately 99% of our orders and handled more than 77% of customer returns in-house. On average, we delivered to our customers nationwide within two days in the fourth quarter.

Turning to our Internet finance business, the spin-off was slightly pushed back due to the deal with Tencent and JD. However, we are currently working on the spin-off and aim to complete the process in the next few quarters. In the fourth quarter of 2017, the number of customers who used our consumer financing service increased by 107% year over year to 5.0 million from 2.4 million in the prior year period. As of December 31, 2017, the total balance of credit outstanding to customers was approximately 4.7 billion RMB, and the total balance of credit outstanding to suppliers was 1.5 billion RMB.

Looking ahead, we will continue to invest in our core categories and fulfillment capability, aiming to provide a superior shopping service to all our customers. We look forward to working closely with Tencent and JD to strengthen all three parties' market positioning. In particular, with the high quality traffic from Tencent and JD, we plan to grow our topline as fast as possible while

maintaining a stable net margin, further strengthening our leadership in our core categories and solidifying our strong position in China's fashion industry. This will also enable us to achieve further operating leverage in the long run.

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 2017 increased by 27.1% to 24.1 billion, primarily driven by the growth in the number of active customers and average revenue per customer.

Gross profit for the fourth quarter of 2017 increased by 17.3% to 5.2 billion from 4.5 billion in the prior year period. **Gross margin** was 21.7% as compared with 23.5% in the prior year period, primarily attributable to our investment in promotional activities for market share gain, which is balanced by reduced spending in our broader marketing efforts.

- **Fulfillment expenses** for the fourth quarter of 2017 were 2.1 billion, as compared with 1.6 billion in the prior year period, primarily reflecting an increase in sales volume and number of orders fulfilled. As a percentage of total net revenue, fulfillment expenses were 8.9% as compared with 8.7% in the prior year period.
- **Marketing expenses** for the fourth quarter of 2017 were 1.0 billion, as compared with 920 million in the prior year period. As a percentage of total net revenue, marketing expenses decreased to 4.2% from 4.8% in the prior year period.
- **Technology and content expenses** for the fourth quarter of 2017 were 486 million, as compared with 471 million in the prior year period. As a percentage of total net revenue, technology and content expenses decreased to 2.0% from 2.5% in the prior year period.
- **General and administrative expenses** for the fourth quarter of 2017 were 780 million, as compared with 624 million in the prior year period. As a percentage of total net revenue, general and administrative expenses decreased to 3.2% from 3.3% in the prior year period.

Our **income from operations** for the fourth quarter of 2017 was 884 million, as compared with 939 million in the prior year period. **Operating margin** was 3.7% 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 business acquisitions, was 1.1 billion as compared with 1.2 billion in the prior year period. Non-GAAP operating income margin was 4.6% as compared with 6.1% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the fourth quarter of 2017 was 673 million as compared with 768 million in the prior year period. **Net margin attributable to Vipshop's shareholders** was 2.8% as compared with 4.0% in the prior year period, primarily attributable to our investment in promotional activities for market share gain. Net income attributable to Vipshop's shareholders per diluted ADS was 1.07 RMB as compared with 1.26 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, and amortization of intangible assets resulting from business acquisitions and equity method investments, was 888 million as compared with 970 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** was 3.7% as compared with 5.1% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS was 1.41 RMB as compared with 1.58 RMB in the prior year period.

As of December 31, 2017, our company had cash and cash equivalents and restricted cash of 10.2 billion and held-to-maturity securities of 246 million. For the fourth quarter of 2017, net cash from operating activities was 0.9 billion.

Looking at our business outlook for the first quarter of 2018, we expect our total net revenue to be between 19.1 billion and 19.9 billion, representing a year-over-year growth rate of approximately 20% to 25%.

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.