Vipshop Holdings
Fourth Quarter 2013 Earnings Conference Call Script
March 4, 2014

Operator:

Good day everyone and welcome to Vipshop Holdings' fourth quarter and full year 2013 earnings conference call.

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

Millicent Tu:

Thank you, operator. Hi everyone and thank you for joining Vipshop's 4Q13 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, Chairman, the company's CEO and Co-Founder, and Donghao Yang, the company's Chief Financial Officer. At this time, I would now like to turn the conference call over to Eric Shen.

Eric Shen:

Hello everyone. Welcome to our fourth quarter and full year 2013 earnings conference call.

We are very proud and excited to have ended 2013 with four quarters of consecutive profitability and strong momentum heading into 2014. This success was driven by our solid year-over-year financial growth which remained in triple-digit percentages for both the top line and bottom line quarterly results throughout the year. For the 2013 full year, our total revenues grew by 145% to over 1.7 billion dollars, and net income grew to 52.3 million dollars, compared with a net loss of 9.4 million dollars in 2012.

Behind our impressive financial performance was a dedicated focus on strengthening our core operations. In the past year, we focused on expanding and improving our product offering, ramping up warehousing capabilities and enhancing our merchandising and IT infrastructures. We believe that this effort has laid the foundation for the continued growth of our unique online flash sales business.

Earlier this month, we announced our acquisition of a controlling stake in Lefeng and a strategic investment in Ovation. These partnerships have solidified our leading position as China's number one cosmetics e-commerce platform, which is one of the fastest growing e-commerce sectors in China. In addition, this acquisition provides us significant cross-selling opportunities, allowing us to benefit from combining our operational expertise and marketing resources. We look forward to working with Li Jing and her team to further expand both of our offerings together.

With a successful year of strong growth, combined with our acquisition of Lefeng, we're very excited to further expand and solidify our leadership in China's discount retail market as we head into 2014."

At this point, let me hand over the call to our CFO, Donghao Yang so that he may discuss some new growth initiatives as well as this quarter's financial achievements.

Donghao Yang:

Thanks Eric and hello everyone.

We're pleased with our results for the fourth quarter and full year 2013, which demonstrate the continually-improving scale effects associated with our growing business. Over the course of 2013, the total number of our customers and orders increased by 129.8% and 124.1% year-over-year, respectively. As we built Vipshop into a much larger business than it was a year ago, we established a more powerful and virtuous cycle of business, which will help propel and accelerate our revenue growth going forward.

Moving on, I would like to update you regarding our progress in some key growth areas and initiatives.

Heading into 2014, we are committed to further scaling our platform by growing our brand, broadening our product offering, and enlarging our warehousing and logistics capabilities.

Enhancing our warehousing and logistics capabilities remains one of our top priorities for 2014. In recent years, we invested heavily in the build out of warehouse capabilities, which are well-equipped to effectively manage the overwhelming sales volume associated with the flash sales model, in order to gain an advantage in driving incremental sales, improving customer experience as well as strengthening our competitive positioning. With our warehouse capacity reaching approximately 290 thousand square meters at the end of 2013, we are very confident in our ability to better accommodate surging customer orders and demands. We are also on track to expand our total capacity to over 700K square meters by 2016。

We continued to progress well on mobile monetization. Mobile revenues further increased in the fourth quarter, representing a strong quarter-over-quarter growth of 122%. We see the growing prevalence of mobile internet as representing one of the most transformational and disruptive technology shifts in China's eCommerce sector and leaving many opportunities in its wake. We will capitalize on these opportunities through continuing to invest in strengthening our mobile and IT capabilities. We believe these initiatives will optimally position us to capitalize on the opportunities in China's dynamic, evolving eCommerce market.

Now, moving on to our quarterly financial highlights:

Before I get started, I'd like to clarify that all the financial numbers we are presenting today are in USD amounts and all the percentage changes refer to year-over-year changes, unless otherwise noted.

Total net revenues for the fourth quarter of 2013 increased by 117.3% to 651.0 million. This tremendous growth was primarily driven by a 119.5% increase in the number of total active customers to 5.7 million and a 102.4% increase in the number of total orders to 17.7 million.

Gross margin for this quarter further expanded to 24.5% from 22.9% in the prior year period, and gross profit increased by 131.9% to 159.4 million. This improvement was driven by the increased scale of our business leading to greater bargaining power with our suppliers. Moreover, as we discussed earlier, we continued to see improvement in operating margins as a result of improved economies of scale and increased operational leverage. More specifically:

- **Fulfillment expenses** increased by 95.7% to 73.2 million for the fourth quarter of 2013. As a percentage of total net revenues, fulfillment expenses decreased to 11.2% from 12.5% in the prior year period. This cost reduction was primarily due to the successful implementation of our distributed warehouse strategy as well as our ongoing shift to high-quality regional and local couriers, both lowering our fulfillment cost and shortening delivery times to our end customers.
- **Marketing expenses** increased by 131.3% to 28.9 million. As a percentage of total net revenues, marketing expenses remained stable at 4.4%, compared with 4.2% in the prior year period.

- **Technology and content expenses** increased by 123.6% to 14.2 million. As a percentage of total net revenues, technology and content expenses remained stable at 2.2%, compared with 2.1% in the prior year period.
- **General and administrative expenses** increased by 121.4% to 17.5 million. As a percentage of total net revenues, general and administrative expenses were 2.7% compared with 2.6% in the prior year period.

Driven by the growing scale of our Company's operations, improved gross margin and cost control, **income from operations** increased by 445% to 29.6 million for the fourth quarter of 2013 from 5.4 million in the prior year period. Operating income margin increased to 4.5%, from 1.8% in the prior year period.

Non-GAAP income from operations, which excludes share-based compensation expenses, increased by 357.0% to 33.0 million from 7.2 million in the prior year period. Non-GAAP operating income margin increased to 5.1% from 2.4% in the prior year period.

Our **net income** for the fourth quarter of 2013 increased by 300% to 25.4 million from 6.3 million in the prior year period. **Net income margin** increased to 3.9% from 2.1% in the prior year period. Net income per diluted ADS increased to 43 US cents, from 12 US cents in the prior year period.

Non-GAAP net income increased by 253.9% to 28.8 million from 8.1 million in the prior year period. Non-GAAP net income margin increased to 4.4% from 2.7% in the prior year period. Non-GAAP net income per diluted ADS increased to 49 US cents in the fourth quarter of 2013 from 16 US cent in the prior year period.

As of December 31, 2013, our Company had cash and cash equivalents of 334.7 million and held-to-maturity securities of 385.8 million. For the fourth quarter and full year of 2013, **net cash from operating activities** were 255.8 million and 437.1 million, respectively. .

Looking at our business outlook. For the first quarter of 2014, we expect our total net revenues to be between 640 million and 650 million, representing a year-over-year growth rate of approximately 106% to 109%. These forecasts reflect our current and preliminary view on the market and operational conditions, which are subject to change.

With that, I would now like to open the call to Q&A.

Closing Remarks from Donghao Yang:

Thank you for taking the time to join us and we look forward to speaking with you next quarter!