

Operator:

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's fourth quarter and full year 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 fourth quarter and full year 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 David Cui, 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 2020 earnings conference call.

We finished the year of 2020 with strong financial and operational results in the fourth quarter. During the quarter, our total GMV increased by 25% year over year to 59.3 billion from 47.6 billion in the same period last year, continuing the trend of accelerated growth. Specifically, GMV for our core apparel-related categories increased even faster by 28% year over year, driven by the robust growth in our number of active customers, which increased by 37% year over year in the fourth quarter. Our new customers grew faster than total active customers during the quarter, demonstrating that our differentiated offerings procured by our professional merchandising team are becoming more attractive to customers who did not shop with us before. We believe these strong customer acquisition trends are driven by the superior value and convenient shopping experience we offer our customers as compared to marketplace platforms.

The reason we are able to see continued robust growth momentum in our key operating and financial metrics is due to our focus on and expertise in the discount retail industry. We have over a decade of experience in the inventory clearance industry in China and have deep expertise in this field. We offer superior value to consumers looking for deals, particularly in apparel-related categories, while at the same time, helping brands achieve faster inventory turnover, grow their business, and reach new customer segments.

Looking into 2021 and beyond, we are deeply devoted to continuing to execute on our merchandising strategy, aiming to acquire more top brands while increasing our share in the business of our existing brand partners, which will in turn enable us to offer more diversified, desirable products to our customers and attract new customers. In addition, we will continue to enhance our big data capabilities and technological knowhow in order to serve a broader customer base, enabling customers from different age groups, demographics, and income levels to shop with us and enjoy our product offerings.

At this point, let me hand over the call to our CFO, David Cui, so that he may discuss our strategies in more detail and go over our operational and financial results.

David Cui:

Thanks Eric and hello everyone.

We are glad to have delivered another quarter with strong financial results. In the fourth quarter of 2020, we delivered accelerated topline growth driven by the strong 37% year-over-year growth in our number of active customers. Importantly, our non-GAAP net income attributable to Vipshop's shareholders also demonstrated robust growth in the quarter, increasing by 33% year over year to 2.6 billion from 1.9 billion in the prior year period. Additionally, for the trailing twelve months ended December 31, 2020, we generated robust free cash inflow of 8.3 billion, which increased significantly from 2.5 billion in the prior year period.

We are dedicated to offering our customers with desirable merchandises at a deep discount on a daily basis, while providing them with superior logistics services and post-sales customer service as compared to marketplace platforms. As a result, our conversion rate in the fourth quarter of 2020 increased by 10% from the same period in the prior year.

Going forward, we will continue to enhance our product assortment and balance our topline growth and profitability. We are confident that the healthy customer acquisition and retention trends will continue to drive our growth in the future. By continuously offering value to our customers and providing unparalleled inventory management solutions to our suppliers, we will ultimately generate sustainable, long-term value for all of 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 fourth quarter of 2020 increased by 22.0% year over year to 35.8 billion from 29.3 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 2020 increased by 12.1% year over year to 7.8 billion from 7.0 billion in the prior year period. **Gross margin** for the fourth quarter of 2020 was 21.9%, as compared with 23.9% in the prior year period.

Total operating expenses for the fourth quarter of 2020 were 5.4 billion, as compared with 5.4 billion in the prior year period. As a percentage of total net revenue, total operating expenses for the fourth quarter of 2020 decreased to 15.2% from 18.3% in the prior year period.

- **Fulfillment expenses** for the fourth quarter of 2020 were 2.2 billion, as compared with 2.1 billion in the prior year period. As a percentage of total net revenue, fulfillment expenses for the fourth quarter of 2020 decreased to 6.1% from 7.0% in the prior year period, primarily attributable to the change in fulfillment logistic arrangement.
- **Marketing expenses** for the fourth quarter of 2020 were 1.7 billion, as compared with 944.1 million in the prior year period. As a percentage of total net revenue, marketing expenses for the fourth quarter of 2020 were 4.8%, as compared with 3.2% in the prior year period, primarily attributable to increased investment in customer acquisition.
- **Technology and content expenses** for the fourth quarter of 2020 decreased to 272.4 million from 362.2 million in the prior year period. As a percentage of total net revenue, technology and content expenses for the fourth quarter of 2020 decreased to 0.8% from 1.2% in the prior year period.
- **General and administrative expenses** for the fourth quarter of 2020 were 1.3 billion, as compared with 1.7 billion in the prior year period. As a percentage of total net revenue, general and administrative expenses for the fourth quarter of 2020 decreased to 3.5% from 5.9% in the prior year period.

Our **income from operations** for the fourth quarter of 2020 increased by 45.9% year over year to 2.6 billion from 1.8 billion in the prior year period. **Operating margin** for the fourth quarter of 2020 increased to 7.2% from 6.1% 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 30.2% year over year to 2.8 billion from 2.2 billion in the prior year period. Non-GAAP operating income margin for the fourth quarter of 2020 increased to 7.9% from 7.4% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the fourth quarter of 2020 increased by 67.7% year over year to 2.4 billion from 1.5 billion in the prior year period. **Net margin attributable to Vipshop's shareholders** for the fourth quarter of 2020 increased to 6.8% from 5.0% in the prior year period. Net income attributable to Vipshop's shareholders per diluted ADS for the fourth quarter of 2020 increased to 3.51 RMB from 2.14 RMB in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders for the fourth quarter of 2020, which excluded share-based compensation expenses; tax effect of share-based compensation expenses, 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 partnerships that are accounted for as equity method investees, increased by 33.4% year over year to 2.6 billion from 1.9 billion in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** for the fourth quarter of 2020 increased to 7.2% from 6.6% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS for the fourth quarter of 2020 increased to 3.70 RMB from 2.84 RMB in the prior year period.

As of December 31, 2020, our company had cash and cash equivalents and restricted cash of 12.8 billion and short term investments of 7.3 billion. For the fourth quarter of 2020, net cash from operating activities was 7.2 billion.

Looking at our business outlook for the first quarter of 2021, we expect our total net revenue to be between 27.2 billion RMB and 28.2 billion RMB, representing a year-over-year growth rate of approximately 45% to 50%. 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 – David Cui:

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