**Vipshop Holdings Limited (NASDAQ: VIPS)**
**First Quarter 2012 Earnings Conference Call**
**May 15, 2012**

**Operator:**

Good day everyone and welcome to Vipshop Holdings' first quarter 2012 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 1Q 2012 earnings conference call. Before we begin, I will read the forward-looking 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 in this release 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:**

Welcome everyone to our first earnings conference call as a public company. To begin with, we would like to thank our employees for their contributions. They have helped us build Vipshop into China's leading online discount retailer. Moreover, we want to also thank our shareholders for their support and confidence in our team.

This has truly been a significant quarter for us. First of all, we successfully completed our initial public offering on the New York Stock Exchange. In addition to this important milestone, we continued to build upon our market leadership and increase the distance between Vipshop and our competitors. Not only did we experience triple digit year over year top line growth, but we also improved our bargaining power with suppliers which resulted in continued gross margin expansion.

Operationally, we also continue to adjust our strategy to better service our customers and brand partners. We have brought down and will continue to bring down our fulfillment expenses by shifting towards regional couriers while expanding and localizing our warehouse capacity.

Financially, this lowers costs. Service-wise, this brings customers and the products they want closer together for faster, more reliable shipping. We have reduced our marketing expenses as a percentage of sales, demonstrating the company's ability to control cots and leverage word-of-mouth advertising

At this point, let me hand over the call to our CFO, Donghao Yang so that he may discuss this quarter of achievements in greater detail.

**Donghao Yang:**

Thank you Eric and hello everyone. To elaborate on Eric's introduction, I would like to discuss the quarter in more detail by highlighting 3 key areas:

- First, our strong results for the first quarter of 2012,
- Second, our evolving industry and competitive landscape as it stands today, and
- Third, Vipshop's focus going forward. We truly believe that, as China's leader in the discount retail space and freshly armed with funding from our IPO, we have only begun to tap into a huge market opportunity in China's growing e-commerce market.

First, let's turn our attention to our performance for the first quarter of 2012 as compared to the first quarter of 2011. We grew revenue by over 250 percent to 101.5 million dollars. We achieved this tremendous growth because of strength in two of our key metrics, total active customers, which grew over 247% to over 1 million users. And also, total orders, which grew over 276% to over 3.1 million orders.

Another key highlight during the quarter was the strengthening of our gross and operating margins. In China's highly competitive e-commerce market, we were able to further expand our gross margin to 21.1 percent due to our strengthening leverage in negotiating with the brand partners. By offering our consumers great savings on popular brands and our brand partners an effective means of monetizing excess inventory, we believe this win-win solution will continue to deliver consistently strong returns for our shareholders over the long term. This success combined with our ability to continue reducing fulfillment cost, attest to both the sustainability of our model and our superior operational expertise.

That leads us to our second discussion point: our evolving industry and the competitive landscape as we see it today in China. According to the Boston Consulting Group, online retail sales in China are expected to triple to more than 350 billion US dollars by 2015. It is widely expected that by this time, China will likely become the largest online retail market in the world, even surpassing the US. This growth is driven by greater consumer acceptance of e-commerce as well as the growing numbers of Internet users. Another key reason China's e-commerce is growing so rapidly is because the offline discount retailing market is extremely underdeveloped. There are very few, if any true equivalents of popular US retail channels such as outlet malls or TJ Maxx. Because of this underdevelopment, we believe that China's online discount retail market is developing significantly faster than that in the US and e-commerce's overall impact on China's discount retail industry will be much greater as a result.

Now, let's look at our business in more detail. We are proud to be China's leading online discount retailer for brands. We believe this leadership is based on several important factors.

- We have the right model. Because of China's underdeveloped discount retail market, Vipshop's unique model fills this online retail void by providing consumers with popular brands at deep discounts while enabling brand partners to efficiently monetize excess inventory without diluting their brand allure. This has already proven to be a win-win for both our customers and our brand partners.
- We have the operational expertise. Our strong brand name and growing scale continue to drive expansion of our gross margin whereas our strategy to localize our warehouse capacity and delivery partners is helping to continuously improve our operating margins. At Vipshop, we experience short sales cycle and large volumes being shipped in and out every day. Therefore, the demands placed on our logistics and warehousing system are more sophisticated than those of traditional B2C companies. Our expanded warehouse capacity and integrated IT infrastructure are structured to handle these unique high traffic spikes that are characterized by the flash sale model. Over the long run, we will succeed not only because we have strong top-line growth but we also have the infrastructure to support it.
- Lastly, our growth and market leadership is extremely viral in nature. The way our business works is that customers want to buy from the site with the best selection. At the same time, brands want to partner with the sites with the most customers. That means that as the biggest site with the most customer and the most brands, we have built a self-reinforcing competitive advantage that is difficult, if not impossible, to replicate.

Looking forward, we believe that offering our consumers great savings on popular brands and our brand partners an effective means of monetizing excess inventory will lead to further customer and brand partner satisfaction and loyalty. We are also confident that our dual focus on strong top line growth and achieving greater operating efficiencies will lead to stronger shareholder returns over the long term.

Now let's examine the financial results of the first quarter of 2012. Vipshop experienced an exceptionally strong quarter in both revenues and margins.

For the first quarter of 2012, our **net revenues** grew year-over-year by 250.7% to US$101.3 million from US$28.9 million in the first quarter last year. This is primarily driven by growth in two of our key operating metrics, specifically, the number of active customers and the number to total orders.

- For the first quarter of 2012, **the number of active customers** increased year-over-year by 247.2% to 1.0 million from approximately 300,000 in the prior year period. We define active customers as any registered member on vipshop.com who has purchased products from the Company at least once during a given period.
- For the first quarter of 2012, **the number of total orders** increased year-over-year by 276.4% to 3.1 million from approximately 800,000 in the prior year period. This is primarily because we have continued efforts to optimize product selection, increase the

number of our sales events and increase the number of SKUs available on our website. Our recent regional expansion to Shanghai, Chengdu and Beijing also contributed favorably to this growth.

- Furthermore, for the first quarter of 2012, the number of brands also increased to 2,723 brands with 412 exclusive brands. This compares to 1,900 brands and 360 exclusive brands at the end of 2011. As our scale grows, we have also become the increasingly preferred partner for monetizing excess inventory.

For the first quarter of 2012, our **gross profit** increased by 335.3% to US$21.4 million. Gross margin improved to 21.2% from 17.0% in the first quarter last year and 20.0% in the fourth quarter of 2011. This margin expansion is the result of Vipshop's continued growth in brand equity and bargaining power. Brands want to partner with the biggest player. This means that as the market leader and a partner with a history of strong performance, we are able to negotiate gradually larger discounts, decreasing product acquisition costs.

Total operating expenses for the first quarter of 2012 increased year-over-year by 158.7% to US$30.1 million.

- ***Fulfillment expenses*** increased year-over-year by 180.1% to US$16.9 million from US$6.0 million in the first quarter last year. This primarily reflects the increases in sales volume and number of orders fulfilled. As a percentage of total net revenues, fulfillment expenses decreased to 16.7% in the first quarter of 2012 from 20.9% in the prior year period and 18.6% in the fourth quarter of 2011.
    - This improvement is very noteworthy in that fulfillment expenses are not only the largest component of our operating expenses but also critical to the customer experience. This cost reduction was primarily due to the successful implementation our distributed warehouse strategy. We have expanded our capacity to four warehouses which are strategically located in Shanghai, Beijing, Chengdu and Guangzhou. In addition, we continue to shift more fulfillment needs to high-quality local couriers, lowering our fulfillment cost while improving delivery times to our end customers.
- ***Marketing expenses*** increased to US$5.9 million from US$1.7 million in the first quarter last year. As a percentage of net revenues, marketing expenses remained stable at 5.8% compared to 5.7% in the prior year period and decreased from 6.4% in the fourth quarter of 2011. This demonstrates our Company's ability to control marketing expenses by focusing on word-of-mouth advertising. This type of advertising has proven invaluable to us. We have needed to invest little in sales and marketing as the majority of our brand equity and consumer awareness has been built through the satisfaction of past customers
- ***Technology and content expenses*** increased to US$2.4 million from US$0.5 million in the prior year period. As a percentage of net revenues, technology and content expenses were 2.4% compared to 1.7% in the prior year period and 2.8% in the fourth quarter of 2011, primarily reflecting our continued efforts to invest in our website and IT system to better support future growth.
- ***General and administrative expenses*** increased year-over-year to US$5.8 million from US$3.5 million in the first quarter last year. As a percentage of net revenues, general and

administrative expenses decreased to 5.7% from 12.2% in the prior year period and 52.8% in the fourth quarter of 2011 reflecting significant stock-based compensation expense in the certain quarters.

Moving on, our loss from operations for the first quarter of 2012 was US$8.7 million, compared to a loss from operations of US$6.7 million in the first quarter of 2011 reflecting the growing scale of our Company's operations. Operating loss margin narrowed to 8.6% from 23.2% in the prior year period and 60.3% in the fourth quarter of 2011.

Adjusted loss from operations, which excludes the impact of share-based compensation expense for the first quarter of 2012 was US$6.6 million, compared to US$4.2 million in the first quarter of 2011. Adjusted operating loss margin narrowed to 6.5% from 14.6% in the prior year period and 10.6% in the fourth quarter of 2011.

Our GAAP net loss for the first quarter of 2012 was US$8.6 million, compared to US$6.7 million in the first quarter of 2011. Net loss margin decreased to 8.5% from 23.2% in the prior year period. Net loss per diluted ADS was US$0.33 compared to a US$2.40 in the prior year period.

Adjusted net loss, which excludes share-based compensation, was US$6.5 million, compared to US$4.2 million in the first quarter of 2011. Adjusted net loss margin improved to 6.4% from 14.6%.

As of March 31, 2012, the Company had cash and cash equivalents of US$98.5 million.

I'd also like to update you on our warehouse capacity expansion strategy. Currently, we are renting four warehouses which are strategically located in Shanghai, Beijing, Chengdu and Guangzhou. These facilities total 118 thousand square meters. In 2012, we plan to build a new logistics center of approximately 100,000 square meters in Shanghai. The final construction schedule will depend on when we are able to secure a location and finalize negotiations. Furthermore, we plan to lease an 80,000 square meter logistics center in Guangzhou and expect it to be operational by year end. Our warehouse expansion plan will further enhance our fulfillment capabilities, reduce fulfillment expense and improve delivery times to our end customers.

***BUSINESS OUTLOOK***

Lastly, looking at our business outlook. For the second quarter of 2012, we are expecting our net revenues to be between US$120 million and US$125 million, representing year-over-year growth of approximately 196% to 208%.

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