

Operator:

Good day everyone and welcome to Vipshop Holdings' third quarter 2014 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 Third Quarter 2014 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 third quarter 2014 earnings conference call.

We are happy to talk about our earnings results, which show our continued strong growth, both operationally and financially:

First, let me give you a few highlights:

- We grew our total net revenue by 130 percent year over year, to 882.6 million,
- We added, almost 4 million new active customers, closing out the quarter with 9.5 million total active customers,
- And the total orders on our platform, also continued to grow in line with revenues, to over 25 million in the third quarter, with close to 60% of our GMV coming from mobile.

As our fast growing user population, flocks from PC to mobile, we continue to ready our mobile platform, by improving the customer experience, and exploring technical improvements.

As we approach the end of 2014, we will continue to, make modest investments that focus on enhancing our technology, and marketing capabilities. We will expand headcount in these departments, and continue to invest in big data R&D. We are confident, that this will enable us to improve personalization, drive repeat purchases and growth, over the mobile platform, and attract new active customers in the future.

At this point, let me hand over the call to our CFO, Donghao Yang, so that he may discuss our plans, to further improve our operations, and customer experience, as well as this quarter's financial achievements.

Donghao Yang:

Thanks Eric and hello everyone.

Along with continuing to deliver strong growth and develop our mobile offering in the third quarter, we have concurrently been working to further optimize our logistics systems in order to support our goal of increasing our order volume and market share.

Since our IPO, we have continuously achieved strong sales growth, which has exceeded internal and external estimates. In order to maintain this operational momentum, we are accelerating our warehouse expansion. We now expect that by end of this year, our total warehouse capacity will reach over 700,000 square meters, exceeding our original target by 200,000 square meters.

Moreover, on the delivery solutions side, we began in early 2014 to invest judiciously in several courier companies with superior services and in some select cities we are also proceeding to launch our own last-mile services. We believe that by integrating our logistics solutions, we will enjoy greater economies of scale as we continue to grow our order volume. Over the next two years, we aim to scale our last-mile capabilities to support 70 to 80 percent of total orders on our platform.

Historically, we solidified our leadership position by establishing strong supply chain management systems and deepening our cooperation with logistics companies. Looking ahead, we believe strengthening these initiatives will further extend our market leadership in discount retail and improve the customer experience on our platform.

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 U.S. dollar amounts and all the percentage changes refer to year-over-year changes unless otherwise noted.

Total net revenues for the third quarter of 2014 increased by 130.0% to \$882.6 million, the growth of which was primarily driven by a 136.8% increase in the number of total active customers and a 117.6% increase in the number of total orders.

Gross margin for this quarter further expanded to 24.9% from 24.2% in the prior year period and gross profit increased by 136.1% to 219.5 million. This improvement was driven by the

increased scale of our business, leading to greater bargaining power with our suppliers as well as the development of our market place business. More specifically:

- **Fulfillment expenses** increased by 91.5% to \$84.4 million for the third quarter of 2014. As a percentage of total net revenues, fulfillment expenses decreased to 9.6% from 11.5% in the prior year period. The cost reduction was primarily due to our continued efforts to reduce warehousing and personnel costs, and negotiate better courier rates leveraging the growing order volume.
- **Marketing expenses** increased by 170.8% to \$47.1 million. As a percentage of total net revenues, marketing expenses increased to 5.3% from 4.5% in the prior year period, reflecting our strategy to continue expanding market share and building greater brand awareness.
- **Technology and content expenses** increased by 225.4% to \$31.3 million, primarily reflecting our continued effort to invest in IT systems and expand headcount to better support future growth. As a percentage of total net revenues, technology and content expenses increased to 3.5% from 2.5% in the prior year period.
- **General and administrative expenses** increased by 259.4% to \$42.8 million. As a percentage of total net revenues, general and administrative expenses increased to 4.9% from 3.1% in the prior year period, primarily due to headcount expansion and office rentals, associated with the growth in the Company's overall business, the amortization of intangible assets resulting from the Lefeng acquisition, as well as the increase in online payment expenses.

Driven by the growing scale of our company's operations, improved gross margin and cost control, **income from operations** increased by 76.6% to \$21.3 million for the third quarter of 2014. **Operating income margin** was 2.4%, compared to 3.1% 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, increased by 178.9% to \$42.1 million. Non-GAAP operating income margin increased to 4.8% from 3.9% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the third quarter of 2014 increased by 130.3% to \$27.7 million. Net income margin attributable to Vipshop's shareholders remained stable at 3.1% compared with the prior year period. Net income per diluted ADS increased to \$0.05 from \$0.02 in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excludes share-based compensation expenses and amortization of intangible assets resulting from business acquisitions, increased by 206.8% to \$46.3 million. Non-GAAP net income margin increased to 5.2% from 3.9% in the prior year period. Non-GAAP net income per diluted ADS increased to \$0.08 in the third quarter of 2014 from the \$0.03 in the prior year period.

As of September 30, 2014, our company had cash, cash equivalents and restricted cash of \$668.2 million and held-to-maturity securities of \$491.1 million. For the third quarter of 2014, net cash from operating activities was \$80.8 million.



Looking at our business outlook for the fourth quarter of 2014, we expect our total net revenues to be between \$1.20 billion and \$1.22 million, representing a year-over-year growth rate of approximately 84% to 87%. These forecasts reflect our current and preliminary view on the market and operational conditions, which are subject to change.