

Operator:

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's second quarter 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 second quarter 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 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 second quarter 2020 earnings conference call.

We delivered robust financial and operational results in the second quarter of 2020, due to our solid execution on the merchandising strategy. In the beginning of May, we saw strong recovery in apparel demand and acted quickly to help our suppliers destock their inventories after COVID-19. We ran a successful promotional campaign in June, offering customers the best deals while helping our suppliers monetize their inventory more efficiently.

During the quarter, total active customers grew by 17% year over year to 38.8 million from 33.1 million in the prior year period. In addition, our conversion rate and customer stickiness both improved. In the second quarter, conversion rate for our app increased by 10% year over year, and repeat customers as a percentage of total active customers increased to 90% from 87% in the prior year period.

Looking into the second half of the year and beyond, we will continue to focus on enhancing the product offerings on our platform, providing our customers with a differentiated experience as compared to other marketplace platforms. We believe we are well positioned to continue to gain share in China's discount retail market, delivering solid shareholder return overtime.

Lastly, today we announced that our CFO, Donghao Yang, will step down from his current position in November. I want to take some time to thank Donghao for his years of hard work and contribution to Vipshop. Our board has appointed Donghao as a new non-executive director,

effective on the day of the change of his position. We are delighted that he will continue to be a part of the Vipshop family as a member of our board.

Donghao has served as our CFO since 2011. In the past nine years, he made significant contributions to our transformation from a privately held company into a publicly listed company. He has helped the company build a solid finance team with effective internal control systems since our IPO. On behalf of all of us at Vipshop, I would like to thank Donghao for his leadership, professionalism, and strong work ethic. I wish him the best of luck with his future endeavors. We have already started the search process for a new CFO.

Donghao Yang:

Thanks Eric and hello everyone.

As Eric noted, I will be stepping down from the CFO position in November for personal reasons, after we report results for the third quarter. I would like to open up by saying that it has truly been an honor to be able to serve as Vipshop's CFO and grow with the company in the past nine years. I have made many trusted friends along the way and will always cherish the experiences we had together. I would like to thank Eric and Arthur for their support and friendship along this journey. I look forward to continuing to serve the company in the capacity of a non-executive director of the board. I trust that the company is well positioned to further fortify its leading position in China's discount retail market, and have full confidence in Eric, Arthur, and the team to continue to deliver outstanding results going forward.

Turning to our results for the second quarter of 2020. We delivered solid topline growth coupled with year-over-year improvement in profitability this quarter. Specifically, non-GAAP net income attributable to Vipshop's shareholders increased by 24.3% year over year to 1.3 billion from 1.1 billion in the prior year period. Our non-GAAP net margin attributable to Vipshop's shareholders increased to 5.5% from 4.7% in the prior year period, despite aggressive reinvestment in coupons and marketing expenses related to this year's June promotional campaign.

We were able to achieve these solid results because of our focus on optimizing our product assortment and providing our customers with superior customer experience. In the second quarter, GMV contribution from apparel-related categories increased to 69% from 63% in the prior year period, and GMV contribution from our Fengqiang and Kuaiqiang channels reached 50% of our online GMV.

Going forward, we will continue to balance our topline growth and profitability, aiming to grow as fast as possible while keeping our margins at a healthy level. We are confident that as China's leading discount retailer, we can continue to expand our market share and generate sustainable value creation for all of our stakeholders.

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 second quarter of 2020 increased by 6.0% year over year to 24.1 billion from 22.7 billion in the prior year period, primarily driven by the growth in the number of total active customers.

Gross profit for the second quarter of 2020 was 4.9 billion, as compared with 5.1 billion in the prior year period. **Gross margin** was 20.5%, as compared with 22.4% in the prior year period, primarily attributable to our strategy to reinvest into discounts and coupons during this year's June promotional event.

Total operating expenses for the second quarter of 2020 decreased to 3.8 billion from 4.2 billion in the prior year period. As a percentage of total net revenue, total operating expenses decreased to 15.8% from 18.5% in the prior year period.

- **Fulfillment expenses** for the second quarter of 2020 decreased to 1.7 billion from 2.2 billion in the prior year period. As a percentage of total net revenue, fulfillment expenses decreased to 7.0% from 9.7% in the prior year period, primarily attributable to the change in fulfillment logistic arrangement.
- **Marketing expenses** for the second quarter of 2020 were 1.0 billion, as compared with 877.6 million in the prior year period. As a percentage of total net revenue, marketing expenses were 4.3%, as compared with 3.9% in the prior year period.
- **Technology and content expenses** for the second quarter of 2020 decreased to 305.4 million from 422.3 million in the prior year period. As a percentage of total net revenue, technology and content expenses decreased to 1.3% from 1.9% in the prior year period.
- **General and administrative expenses** for the second quarter of 2020 were 804.6 million, as compared with 706.3 million in the prior year period. As a percentage of total net revenue, general and administrative expenses were 3.3%, as compared with 3.1% in the prior year period.

Our **income from operations** for the second quarter of 2020 increased by 28.4% year over year to 1.2 billion from 965.4 million in the prior year period. **Operating margin** increased to 5.1% from 4.2% 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 27.1% year over year to 1.5 billion from 1.2 billion in the prior year period. Non-GAAP operating income margin increased to 6.2% from 5.2% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the second quarter of 2020 increased by 88.9% year over year to 1.5 billion from 813.5 million in the prior year period. **Net margin attributable to Vipshop's shareholders** increased to 6.4% from 3.6% in the prior year period. Net income attributable to Vipshop's shareholders per diluted ADS increased to 2.24 RMB from 1.21 RMB in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excluded share-based compensation expenses; 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 partnership that is accounted for as an equity method investee, increased by 24.3% to 1.3 billion from 1.1 billion in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** increased to 5.5% from 4.7% in the prior year period. Non-GAAP net income

attributable to Vipshop's shareholders per diluted ADS increased to 1.92 RMB from 1.58 RMB in the prior year period.

As of June 30, 2020, our company had cash and cash equivalents and restricted cash of 8.1 billion and short term investments of 5.9 billion. For the second quarter of 2020, net cash from operating activities was 5.1 billion.

Looking at our business outlook for the third quarter of 2020, we expect our total net revenue to be between 20.6 billion RMB and 21.6 billion RMB, representing a year-over-year growth rate of approximately 5% to 10%. 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 – Donghao Yang:

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