

Operator:

Good day everyone and welcome to Vipshop Holdings Limited's third quarter 2015 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. Hello everyone and thank you for joining Vipshop's Third Quarter 2015 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 chairman, chief executive officer and co-founder, and Donghao Yang, our chief financial officer. At this time, I would now like to turn the conference call over to Eric Shen.

Eric Shen:

Good morning and good evening everyone. Welcome to our third quarter 2015 earnings conference call. We were disappointed that we missed our top-line guidance due to unexpected seasonal factors, over-optimistic expectations and conservative marketing investments. Donghao will discuss this in more detail shortly.

After the close of the quarter, we strengthened our efforts to spur user growth and buying activity. On the famous singles day, November 11, we achieved a GMV 3 times higher than last year's singles day. New active customers for this promotional event increased by 292% year over year. This gave a strong boost to our platform and helped us improve new customer growth momentum. With the success of our singles day sales event and new marketing efforts in the fourth quarter so far, we believe we are back on the right track to drive further customer and revenue growth.

Turning to our quarterly progress, a promising aspect of our company is that our flash sales model is very suitable for mobile devices. In the third quarter, the GMV from mobile rose to 79 percent, up from 57 percent one year ago. And the total active customers on mobile in our core flash sale business increased by 137 percent year over year.

We are also excited about our new cross-border offering which allows foreign brands to tap into the Chinese market, and brings our customers a wider range of international products. Strategically it provides us with good cross-selling opportunities. During the third quarter,

revenues from the cross-border business grew by over 164 percent quarter over quarter and we expect to sustain strong growth in the coming quarters.

With our continued growth, and exciting new initiatives, we remain confident in the strong fundamentals and market opportunities for our company.

At this point, let me hand over the call to our CFO, Donghao Yang, so that he may discuss our operations and financial results.

Donghao Yang:

Thanks Eric and hello everyone.

As Eric mentioned, unfortunately, we missed our top line guidance for the first time in the 12 quarters since we become a publicly-listed company. In hind sight, our third quarter guidance was over-optimistic to begin with and, additionally, we didn't invest enough in marketing. Seeing traffic acquisition costs increasing at a rate faster than we anticipated we erred on the conservative side - our total marketing expense for the third quarter was less than that for the second quarter. Lastly we saw different seasonal patterns this year especially late into the quarter impacting customers' purchasing behavior, which further hindered our top-line growth.

Despite this miss, we continued to have solid revenue growth of 63% year over year and made strong operational progress during the third quarter.

In the last quarter, we added more than five million new active customers to our platform, bringing our total active customers to nearly 15 million. These customers placed nearly 45 million orders in the third quarter, up from 28 million one year ago. Excluding the impact of the group-buy business and Lefeng, the number of total active customers and total orders for Vipshop's core flash sales business increased by 71% and 75% year over year, respectively.

Our customers remain sticky and loyal to our platform. The number of repeat customers grew to over 11 million in the last quarter and these repeat customers contributed 92.5% of our total orders. In the third quarter our average active customer made 3.1 purchases and spent 595 RMB on our platform, up from 2.9 purchases and 541 RMB, in the prior year period.

Furthermore, our operating margins further expanded to 5.0%, from 2.4% in the prior year period, driven by a decline in our operating expenses as a percentage of total revenue. The growing size of our platform, stronger customer loyalty, increased buying activity and strengthening operating leverage brings us many opportunities to offer more products, provide better service and reduce costs.

On the logistics side, we have continued to build out a strong infrastructure of warehouses and network of invested-delivery companies to support and enhance our order fulfillment capabilities. By the close of the third quarter, our warehouse capacity reached 1.6 million square meters. And we also started automation projects in some of our warehouses.

On the last-mile side, through our network of in-house and invested couriers, we are now delivering 80% of our total orders across almost all provinces in mainland China. Our logistical enhancements enable us to reduce delivery times, provide more coordinated and friendly delivery service, reduce costs, and ultimately provide a more consistent and pleasant customer

experience. For example, leveraging our last-mile capabilities, we are now able to return orders more promptly and cost-effectively utilizing our own logistics infrastructure.

Overall, it is our unique and proven offering, as well as the exemplary beginning-to-end customer experience we provide, which sets us apart in the market. We are confident that by continuing to leverage our proven model, improve our operations and deliver the best experience possible to our loyal customers, we are very well-positioned to further expand our platform, and build our brand globally.

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 third quarter of 2015 increased by 63% to 8.67 billion, primarily driven by continued robust growth in the number of total active customers and total orders, as well as the increasing revenue contribution from our mobile platform.

On the mobile platform, the number of total active customers and total orders for Vipshop's core flash sales business increased by 137% and 141% year over year, respectively.

Gross profit for the third quarter of 2015 increased by 63% to 2.16 billion, primarily driven by the expanding scale of the business. **Gross margin** for this quarter remained stable at 24.9%, as compared with the prior year period.

- **Fulfillment expenses** for the third quarter of 2015 were 778 million, as compared with 509 million in the prior year period, primarily reflecting the increase in sales volume, and number of orders fulfilled. As a percentage of total net revenue, fulfillment expenses decreased to 9.0% from 9.6% in the prior year period, primarily reflecting the scale effect associated with our growth in total net revenue and the increase in average ticket size.
- **Marketing expenses** for the third quarter of 2015 were 470 million, as compared with 284 million in the prior year period, reflecting our strategy to drive long-term growth through increasing investments in strengthening our brand awareness particularly for our mobile application, attracting new users and expanding our market share. As a percentage of total net revenue, marketing expenses were 5.4%, as compared to 5.3% in the prior year period.
- **Technology and content expenses** for the third quarter of 2015 were 253 million as compared with 190 million in the prior year period, reflecting our continued efforts to invest in human capital and advanced technologies such as data analytics, which can help improve the ability to predict consumer behavior and further enhance user experience. As a percentage of total net revenue, technology and content expenses decreased to 2.9% from 3.6% in the prior year period, primarily reflecting the scale effect associated with the growth in total net revenue.
- **General and administrative expenses** for the third quarter of 2015 were 297 million, as compared with 259 million in the prior year period. As a percentage of total net revenue, general and administrative expenses decreased to 3.4% from 4.9% in the prior year period, primarily reflecting the scale effect associated with our growth in total net revenue.

Driven by the growing scale of our company's operations and decrease in fulfillment, technology and content, and general and administrative expenses as a percentage of total net revenue, our **income from operations** increased by 241% to 436 million for the third quarter of 2015. **Operating income margin** increased to 5.0% from 2.4% in the prior year period.

Non-GAAP income from operations, which excludes share-based compensation expenses and amortization of intangible assets resulting from a business acquisition, increased by 131% to 587 million from 254 million in the prior year period. Non-GAAP operating income margin increased to 6.8% from 4.8% in the prior year period.

Exchange loss was 57 million, as compared to an exchange gain of 21 million in the prior year period, primarily driven by the weakening value of the Renminbi relative to the U.S. dollar.

Our **net income attributable to Vipshop's shareholders** for the third quarter of 2015 increased by 90% to 317 million from 167 million in the prior year period. Net income margin attributable to Vipshop's shareholders increased to 3.7% from 3.1% in the prior year period. Net income per diluted ADS increased to 53 cents from 28 cents 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 a business acquisition and equity method investments, increased by 62% to 453 million from 279 million in the prior year period. Non-GAAP net income margin remained stable at 5.2%, as compared to the prior year period. The stagnant growth in non-GAAP net income margin was primarily attributable to the relatively large exchange loss in the period. Non-GAAP net income per diluted ADS increased to 76 cents from 47 cents in the prior year period.

As of September 30, 2015, our company had cash, cash equivalents and restricted cash of 3.54 billion and held-to-maturity securities of 2.58 billion. For the third quarter of 2015, net cash from operating activities was 285 million. As we discussed last quarter, this was primarily due to Vipshop substantially expediting our payments to suppliers, in order to support their growth and create an ecosystem that will strengthen our competitive advantages. We also continued to significantly increase our supplier financing, and this was one of the large cash outflow items in the quarter.

Looking at our business outlook for the fourth quarter of 2015, we expect our total net revenue to be between 12 billion and 12.5 billion, representing a year-over-year growth rate of approximately 43% to 49%.

In order to secure the necessary land for the future office space in the Pazhou Internet Innovation Zone, Vipshop incurred a capital expenditure of 837 million in the third quarter of 2015.

Lastly, the board of directors has approved a share repurchase program whereby we may purchase up to 300 million dollars of our ADSs over the next 24-month period. We expect to fund the repurchase from our existing cash balance, including cash generated from operations.