

Operator:

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

We are pleased to have delivered resilient results in the first quarter of 2020, despite the negative impact from the COVID-19 pandemic. The retail industry was meaningfully impacted by the pandemic, and the apparel category was particularly affected due to people leaving their homes less often. Through this difficult time, we worked closely with our suppliers and SF Express to continue to provide great products and reliable services to our customers. We also spent a lot of effort in procuring medical and sanitizing products such as face masks and alcohol wipes that consumers needed during this time.

We are glad that everyday life in China has returned to normal, and our business has seen healthy recovery as well. Our GMV has grown nicely in May, driven by the consumption recovery in our core categories. In addition, we will be launching our June promotional event soon. We see this year's June promotional event as a great opportunity to help our suppliers catch up on sales, while providing our customers with great deals in summer wear at the change of season.

Looking into the rest of the year and beyond, we stay positive about the outlook of our company. We believe now is a great time for ecommerce companies to gain share from offline retailers, and we are especially well positioned to expand our market share in China's discount retail market. Looking ahead, we will continue to improve on our merchandising capabilities. As our brand partners are facing challenges with excess inventory, we are committed to working with

them more effectively, while offering the best deals to our customers, creating a win-win situation for all parties.

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

Donghao Yang:

Thanks Eric and hello everyone.

We are glad to have finished the first quarter of 2020 with topline growth that exceeded our expectations and solid profitability, even amidst the COVID-19 pandemic. Although our gross margin was impacted during this quarter as a result of selling more standardized products with lower take rates during the pandemic, we delivered solid bottom-line through the execution of effective cost control. Therefore, in the first quarter of 2020, non-GAAP net income attributable to Vipshop's shareholders increased by 20.8% year over year to 986 million from 816 million in the prior year period. Our non-GAAP net margin attributable to Vipshop's shareholders increased to 5.2% from 3.8% in the prior year period.

During the first quarter, our number of active customers remained stable year over year, and our total orders increased by 4% year over year to 121.7 million from 116.5 million in the prior year period. We see these metrics as strong results during such a turbulent time, especially since we invested very little into customer acquisition this quarter.

In the current environment, we believe the counter-cyclical nature of our business positions us well for opportunities to gain market share in our core categories. Desirable brands that don't currently work with us will be more open to partnering with us to clear their inventory through our platform. At the same time, as offline retail and in-season apparel are facing challenges, our existing suppliers will work with us even more closely and give us more desirable products at deeper discounts. Going forward, we will continue to balance our topline growth and bottom-line, supporting our brand partners where we can to drive more sales for both parties.

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 first quarter of 2020 decreased by 11.8% year over year to 18.8 billion from 21.3 billion in the prior year period, primarily attributable to soft consumer demand for discretionary categories, delayed logistic services and slow response from the supply chain during the COVID-19 pandemic.

Gross profit for the first quarter of 2020 was 3.6 billion, as compared with 4.4 billion in the prior year period. **Gross margin** was 19.2%, as compared with 20.4% in the prior year period, primarily attributable to higher revenue contribution from standardized products with lower gross margin during the COVID-19 pandemic.

Total operating expenses for the first quarter of 2020 decreased to 3.0 billion from 3.6 billion in the prior year period. As a percentage of total net revenue, total operating expenses decreased to 15.9% from 16.9% in the prior year period, primarily attributable to strict cost control.

- **Fulfillment expenses** for the first quarter of 2020 decreased to 1.4 billion from 1.8 billion in the prior year period. As a percentage of total net revenue, fulfillment expenses decreased to 7.4% from 8.3% in the prior year period, primarily attributable to the change in fulfillment logistic arrangement.
- **Marketing expenses** for the first quarter of 2020 decreased to 412 million from 781 million in the prior year period. As a percentage of total net revenue, marketing expenses decreased to 2.2% from 3.7% in the prior year period, primarily attributable to reduced spending during the COVID-19 pandemic.
- **Technology and content expenses** for the first quarter of 2020 decreased to 338 million from 383 million in the prior year period. As a percentage of total net revenue, technology and content expenses remained stable at 1.8% year over year.
- **General and administrative expenses** for the first quarter of 2020 were 839 million, as compared with 669 million in the prior year period. As a percentage of total net revenue, general and administrative expenses were 4.5%, as compared with 3.1% in the prior year period, primarily attributable to operating expenses related to our offline stores and share options granted to our co-founders.

Our **income from operations** for the first quarter of 2020 was 782 million, as compared with 863 million in the prior year period. **Operating margin** increased to 4.2% from 4.0% 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, was 1.0 billion, as compared with 1.0 billion in the prior year period. Non-GAAP operating income margin increased to 5.6% from 4.9% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the first quarter of 2020 was 685 million, as compared with 872 million in the prior year period. **Net margin attributable to Vipshop's shareholders** was 3.6%, as compared with 4.1% in the prior year period. Net income attributable to Vipshop's shareholders per diluted ADS was 1.00 RMB, as compared with 1.27 RMB in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excluded 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 gain or loss in investment of limited partnership that is accounted for as an equity method investee, increased by 20.8% to 986 million from 816 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** increased to 5.2% from 3.8% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS increased to 1.44 RMB from 1.19 RMB in the prior year period.

As of March 31, 2020, our company had cash and cash equivalents and restricted cash of 5.8 billion and short term investments of 3.4 billion. For the first quarter of 2020, net cash used in operating activities was 1.7 billion.

Looking at our business outlook for the second quarter of 2020, we expect our total net revenue to be between 22.7 billion RMB and 23.8 billion RMB, representing a year-over-year growth rate of approximately 0% to 5%, primarily factoring in the continued impact from the COVID-19 pandemic. 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.