

**Operator:**

Ladies and gentlemen, good day everyone and welcome to Vipshop Holdings Limited's first quarter 2018 earnings conference call.

At this point, I would like to turn the call to Ms. Jessie Fan, Vipshop's Senior Manager of Investor Relations. Please proceed.

**Jessie Fan:**

Thank you, operator. Hello everyone and thank you for joining Vipshop's first quarter 2018 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 2018 earnings conference call.

We delivered solid operational results in the quarter. Our efforts to continue to enhance customer loyalty are bearing fruit. During the quarter, ARPU increased by 25% year over year, driven by the strong improvement in shopping frequency. Further, the contributions from repeat customers and orders placed by repeat customers have shown strong improvement. As of the end of March, nearly 1.5 million customers enrolled in our Super VIP Program, which was an over 50% increase as compared to last quarter.

We continue to look for ways to offer value and quality services to our customers, including promotional events on our main app as well as through WeChat and JD. During this year's April 19 event, our cross-border business did very well, and sales increased by 43% year over year. In the coming months, we will also have events for May 20 and June 16, continuing to bring more exciting deals to our customers.

Turning to the partnership with Tencent and JD. We are pleased with the progress we have made so far. In March, we launched our JD flagship store and front page entry. In April, we opened the WeChat wallet entry, and did a round of promotions with red dots, encouraging users to click into our mini-program.

Our JD flagship store attracted around half a million fans in just two months' time. We are pleased to see most of the customers from the JD channel are new customers, and male

apparel is particularly strong. This proves our assumption that JD and Vipshop's customers are highly complementary, and there is a lot of room for us to grow together.

We have also made solid progress with our WeChat mini-program. So far, we have seen robust traffic flow, and it is very strong in acquiring new customers. From March to the beginning of May, average daily number of customers and orders from the mini-program have more than doubled. Comparing to our app users, customers from the mini-program are younger, and the share of male customers is higher. In addition, leveraging our technological capability, merchandising know-how, and national warehousing and delivery networks, we are enabling our brand partners to grow their business within the WeChat ecosystem. For example, on May 8, 2018, L'Oréal Paris launched its official WeChat mini-program, which was developed and operated by Vipshop.

Our partnership with Tencent and JD is still in an early stage, and it will take more time before we see notable contributions from these channels. Looking ahead, we will continue to work closely with both partners in order to improve the traffic flow and conversion rates, which we believe will help with our long-term topline and customer growth.

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.

Before we begin, I would like to note that in the first quarter of 2018, we reclassified costs related to third-party logistics from fulfillment expenses into cost of revenues, which had a 0.9% impact on our gross margin and reduced our fulfillment expenses as a percentage of topline by 0.9% in the current quarter.

Turning to our financial results. In the first quarter, our topline increased by 25% year over year, which was at the high-end of our guidance range. We are pleased to see continued improvement in ARPU, primarily driven by the success of our Super VIP Paid Membership Program, various promotional events, and our consumer financing product. Our efforts in improving personalization and enriching our product portfolio also contributed to the positive trend. We believe these factors are key to our future success and will fuel our long-term growth.

We continued to build out our overseas warehousing capability during the quarter and added a warehouse in Frankfurt, Germany. Currently, we have approximately 59,000 square meters of overseas warehousing space in nine locations. As of March 31, 2018, we have approximately 2.8 million square meters of total warehousing space, of which around 1.8 million square meters is owned by the Company.

Our delivery efficiency also improved. During the quarter, we delivered around 99% of orders through our own last mile delivery network, up from 93% in the prior year period. More than 81% of customer returns were handled directly by our last mile delivery team, up from 67% in the prior year period.

Turning to our Internet finance business. Instead of a spin-off, we are currently conducting a Series A round of financing to introduce outside capital to support the cash needs of our Internet

finance business. We are in discussions with a number of strategic investors and aim to close the deal in the coming quarters. Approximately 4.6 million active customers used our consumer financing in the first quarter, accounting for around 21% of GMV. As of March 31, 2018, the total balance of credit outstanding to customers was approximately 4.3 billion RMB, and the total balance of credit outstanding to suppliers was approximately 1.3 billion RMB.

Looking ahead, we will continue to invest in our core business to grow our topline and gain market share. We will work closely with Tencent and JD in order to realize the vast amount of potential within WeChat and JD's ecosystems.

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 2018 increased by 24.6% to 19.9 billion, primarily driven by the improvement in average revenue per customer.

**Gross profit** for the first quarter of 2018 increased by 8.5% to 4.0 billion from 3.7 billion in the prior year period. **Gross margin** was 20.2% as compared with 23.2% in the prior year period, primarily attributable to our investment in promotional activities to drive growth, which is balanced by reduced spending in our broader marketing efforts. As mentioned at the beginning of my remarks, during the quarter, we reclassified costs related to third party logistics from fulfillment expenses into cost of revenues, which had a 0.9% impact on the gross margin for this quarter.

- **Fulfillment expenses** for the first quarter of 2018 were 1.7 billion, as compared with 1.4 billion in the prior year period, primarily reflecting an increase in sales volume and number of orders fulfilled. As a percentage of total net revenue, fulfillment expenses decreased to 8.7% from 9.0% in the prior year period.
- **Marketing expenses** for the first quarter of 2018 were 645 million, as compared with 730 million in the prior year period. As a percentage of total net revenue, marketing expenses decreased to 3.2% from 4.6% in the prior year period.
- **Technology and content expenses** for the first quarter of 2018 were 466 million, as compared with 420 million in the prior year period. As a percentage of total net revenue, technology and content expenses decreased to 2.3% from 2.6% in the prior year period.
- **General and administrative expenses** for the first quarter of 2018 were 614 million, as compared with 542 million in the prior year period. As a percentage of total net revenue, general and administrative expenses decreased to 3.1% from 3.4% in the prior year period.

Our **income from operations** for the first quarter of 2018 was 663 million, as compared with 737 million in the prior year period. **Operating margin** was 3.3% as compared with 4.6% 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, was 878 million as

compared with 1.0 billion in the prior year period. Non-GAAP operating income margin was 4.4% as compared with 6.3% in the prior year period.

Our **net income attributable to Vipshop's shareholders** for the first quarter of 2018 was 530 million as compared with 552 million in the prior year period. **Net margin attributable to Vipshop's shareholders** was 2.7% as compared with 3.5% in the prior year period, primarily attributable to our investment in promotional activities to drive growth. Net income attributable to Vipshop's shareholders per diluted ADS was 0.77 RMB as compared with 0.92 RMB in the prior year period.

**Non-GAAP net income attributable to Vipshop's shareholders**, which excludes share-based compensation expenses, impairment loss of investments, and amortization of intangible assets resulting from business acquisitions and equity method investments, was 728 million as compared with 799 million in the prior year period. **Non-GAAP net margin attributable to Vipshop's shareholders** was 3.7% as compared with 5.0% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS was 1.05 RMB as compared with 1.31 RMB in the prior year period.

As of March 31, 2018, our company had cash and cash equivalents and restricted cash of 7.4 billion and short term investments of 1.8 billion. For the first quarter of 2018, net cash from operating activities was 171 million.

Looking at our business outlook for the second quarter of 2018, we expect our total net revenue to be between 20.5 billion and 21.3 billion, representing a year-over-year growth rate of approximately 17% to 22%.

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.