

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

VIPS - Q4 2018 Vipshop Holdings Ltd Earnings Call

EVENT DATE/TIME: FEBRUARY 21, 2019 / 1:00PM GMT



CORPORATE PARTICIPANTS

Donghao Yang *Vipshop Holdings Limited - CFO*

Jessie Fan *Vipshop Holdings Limited - Head Of IR*

Ya Shen *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Alex C. Yao *JP Morgan Chase & Co, Research Division - Head of Asia Internet and New Media Research*

Alicia Yap *Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research*

Chen Shen *BOCI Research Limited - Research Analyst*

Hyungwook Choi *Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap*

Jin-Kyu Yoon *New Street Research LLP - Analyst*

Mon Han Chung *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

Monica Chen *Crédit Suisse AG, Research Division - Research Analyst*

Nan Ge *China Renaissance Securities (US) Inc., Research Division - Research Analyst*

Wendy Huang *Macquarie Research - Head of Asian Internet and Media*

Yuan Liu *UBS Investment Bank, Research Division - Co Head of HK and China Internet Research*

PRESENTATION

Operator

Ladies and gentlemen, good day, everyone, and welcome to Vipshop Holdings Limited's Fourth Quarter and Full Year 2018 Earnings Conference Call.

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

Jessie Fan - Vipshop Holdings Limited - Head Of IR

Thank you, operator. Hello, everyone, and thank you for joining Vipshop's Fourth Quarter and Full Year 2018 Earnings Conference Call.

Before we begin, I will read the safe harbor statement. During this earnings 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 facts, 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 or 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.



Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

Good morning and good evening, everyone. Welcome and thank you for joining our fourth quarter and full year 2018 earnings conference call. We delivered solid operation results in the fourth quarter of 2018, with total active customer growing by 13% year over year. Our collaboration with Tencent and JD continued to bring us high quality new customers. In the fourth quarter, new customers WeChat and JD accounted for 23% of our total new customers.

Our existing customers are also becoming more loyal to our platform. As of the end of 2018, around 3.2 million customers joined our Super VIP paid membership, which is a 38% increase quarter over quarter. The initial renewal rate for customers who joined the program before 2018 was over 70%. We are glad that our customers realize the value of this membership or the success as a result of our focus on merchandising and the shift back to deep discount products.

In the fourth quarter, we also delivered good results during the 2 promotional events. The number of active customer who purchasing during the year's Single Days' increased by 20% -- 23% year over year. In addition, our suppliers are now even more willing to partner with us as a result of the change to focus on discounted retailing. More than 5,500 brands joined in the December 8 Anniversary Sale, representing a 14% year-over-year increase.

Looking ahead, we will continue to focus on discounting the retail and our merchandising strategy, which have already show some positive results in the fourth quarter. We are committed to getting the best products that meeting to our customer needs by becoming the dominant player in the apparel discount retail segment. We aim to further drive our profitability and deliver robust shareholder return in the long run.

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 to go over our operational and the financial results.

Donghao Yang - *Vipshop Holdings Limited - CFO*

Thanks, Eric, and hello, everyone.

In the fourth quarter of 2018, we saw a healthy sequential recovery of our net margins, which is a reversal from the previous trend of declining year-over-year net income profile. Additionally, we generated robust free cash flow of RMB 6 billion during the quarter as compared with RMB 2.1 billion in the prior year period. The positive changes in gross margin and net margin trends resulted from our focus on the highly profitable apparel category.

During the fourth quarter of 2018, we began to shift some low-margin categories from our first-party business into the marketplace platform, which reduced their drag on our profitability. Further, GMV contribution from the apparel category, which has a relatively high return rate but is more profitable as compared to other categories, increased from the prior period. As a result, we delivered improved profitability while still achieving a solid 15% year-over-year growth in GMV.

We began to disclose GMV as an additional operational metric this quarter primarily due to a few considerations. First of all, as compared to total net revenue, we believe GMV serves as a better metric for industry comparison. Furthermore, GMV provides an additional perspective to understanding the scale of our business in light of the recent development in our revenue mix. We record product revenue for our first-party business and other revenue for our marketplace business. As we currently expect contribution from other revenue to increase, we believe the additional disclosure of GMV could help the investors understand the scale of our business in a more consistent fashion. In the fourth quarter of 2018, while our total net revenue grew by 8% year over year, our GMV grew by 15% year over year.

This recent development in revenue mix will have a rather significant impact on our reported total net revenue in the coming quarters, making it less meaningful to compare future total net revenue numbers with historical figures. Therefore, we encourage the investors to use GMV as an additional metric to measure the scale of our business and also focus on our profitability trends going forward. Please note that we continue to be committed to doing business on the first-party model for our core categories, which is a key competitive advantage for Vipshop.

Moving on to logistics. We continued to build out our warehousing capability, adding around 86,000 square meters of warehouses in the fourth quarter. As of December 31, 2018, we have approximately 3.0 million square meters of total warehousing space of which around 1.9 million square meters is owned by the company.

Turning to our internet finance business. Approximately 6.4 million active customers used our consumer financing service during the quarter, which accounted for around 24% of GMV. As of December 31, 2018, the total balance of credit outstanding to customers was approximately RMB 5.7 billion, and the total balance of credit outstanding to suppliers was approximately RMB 1.3 billion.

We remain focused on stabilizing our margins through implementing strict cost control, as well as improving our category mix. Our core competency lies in our ability to procure desirable products at low costs. By continuing to execute on our merchandising strategy, we will enhance our profitability and drive improved shareholder return over time.

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 percentage changes refer to year-over-year changes unless otherwise noted.

Total net revenue for the fourth quarter of 2018 increased by 8.1% to RMB 26.1 billion from RMB 24.1 billion in the prior year period, primarily driven by the growth in the number of total active customers.

Gross profit for the fourth quarter of 2018 increased by 2.8% to RMB 5.4 billion from RMB 5.2 billion in the prior year period. Gross margin was 20.6% as compared with 21.7% in the prior year period.

Fulfillment expenses for the fourth quarter of 2018 were RMB 2.1 billion as compared with RMB 2.1 billion in the prior year period. As a percentage of total net revenue, fulfillment expenses decreased to 8.0% from 8.9% in the prior year period.

Marketing expenses for the fourth quarter of 2018 were RMB 1.1 billion as compared with RMB 1.0 billion in the prior year period. As a percentage of total net revenue, marketing expenses were 4.3% as compared with 4.2% in the prior year period.

Technology and content expense for the fourth quarter of 2018 were RMB 533 million as compared with RMB 486 million in the prior year period. As a percentage of total net revenue, technology and content expenses remained stable at 2.0% year over year.

General and administrative expenses for the fourth quarter of 2018 were RMB 821 million as compared with RMB 780 million in the prior year period. As a percentage of total net revenue, general and administrative expenses decreased to 3.1% from 3.2% in the prior year period.

Our income from operations for the fourth quarter of 2018 increased by 13.5% to RMB 1.0 billion from RMB 884 million in the prior year period. Operating margin increased to 3.8% from 3.7% 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 RMB 1.1 billion as compared with RMB 1.1 billion in the prior year period. Non-GAAP operating income margin was 4.3% as compared with 4.6% in the prior year period.

Our net income attributable to Vipshop's shareholders for the fourth quarter of 2018 increased by 2.3% to RMB 689 million from RMB 673 million in the prior year period.

Net margin attributable to Vipshop's shareholders was 2.6% as compared with 2.8% in the prior year period. Net income attributable to Vipshop's shareholders for diluted ADS was RMB 1.00 as compared with RMB 1.07 in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excludes share-based compensation expenses; impairment loss in investments; amortization of intangible assets resulting from business acquisitions and equity method investments; tax effect of amortization of intangible assets resulting from business acquisitions; loss or gain on disposal, revaluation and value changes of investments; and share of result investment

of limited partnership that is accounted for as an equity method investee, increased by 2.9% to RMB 914 million from RMB 888 million in the prior year period.

Non-GAAP net margin attributable to Vipshop's shareholders was 3.5% as compared with 3.7% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS for the fourth quarter of 2018 was RMB 1.33 as compared with RMB 1.41 in the prior year period.

As of December 31, 2018, the company had cash and cash equivalents and restricted cash of RMB 10.0 billion and short-term investments of RMB 2.3 billion. For the fourth quarter of 2018, net cash from operating activities was RMB 5.9 billion.

Looking at our business outlook for the first quarter of 2019, we expect our total net revenue to be between RMB 19.9 billion and RMB 20.9 billion, representing a year-over-year growth rate of approximately 0% to 5%. 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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Alicia Yap of Citigroup.

Alicia Yap - Citigroup Inc, Research Division - MD and Head of Pan-Asia Internet Research

Have a question that I think, Donghao, you mentioned that GMV is now probably a better metric indication to look at the business. So just wonder, any color that you could share regards how fast we should expect the GMV to grow in 2019? Given you ended 2018 with a very strong GMV growth of 21%, how should we reconcile your 1Q net revenue guidance to how fast we could expect for 1Q GMV? And then any color on the full-year GMV would be helpful.

Donghao Yang - Vipshop Holdings Limited - CFO

Well again, we do not provide guidance for the full year GMV. But if you look at our earnings release, we actually disclosed our GMV year-over-year growth for Q4 2018, as well as net revenue growth for the same period. The GMV growth for Q4 2018 was 15% compared to roughly 8% of net revenue growth for the same period. So there is obviously a gap between the growth rates of these two metrics, which can serve as a very good indication on the gap between these two numbers going forward. So back to your question about the GMV growth of Q1, what we can tell you now is the GMV growth for Q1 2019 will for sure be higher than the net revenue guidance that we've provided here.

Operator

Our next question is from the line of Wendy Huang of Macquarie.

Wendy Huang - Macquarie Research - Head of Asian Internet and Media

So your round year guidance is suggesting a deceleration. I just wonder if you can actually quantify the impacts on the different sectors which are the macro impact over consumption demand, the competition from other emerging players, especially those in the lower-tier cities, as well as the change of the business strategies.



Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

So Wendy, we are not seeing a lot of negative impact macro-wise on the ecommerce industry, particularly given that our ticket size is not too high, in the few hundred RMB range. And we are not seeing further intensified competition in the lower-tier city given that we're actually seeing the strongest growth in the lower-tier city. And we're quite strong in tier 2 and tier 3 cities, so not as much in the 5 -- tier 5 and tier 6 cities. So even though we are seeing a revenue deceleration accelerating, but that's mostly due to the revenue recognition from shifting some of our products from 1P to the 3P platform. So in terms of GMV, we are still quite pleased with the growth rate, particularly given the improvement in profitability.

Operator

(Operator Instructions) Your next question comes from the like of Alex Yao of JP Morgan.

Alex C. Yao - *JP Morgan Chase & Co, Research Division - Head of Asia Internet and New Media Research*

I have a question regarding the user growth trends. We understand that in second quarter and third quarter, the user growth acceleration was primarily driven by Tencent traffic. But another quarter of further acceleration is quite achievement, in our view, because you guys have been strategically deemphasizing some of the standardized product categories. Can you elaborate to what are driving the user growth in this quarter, how sustainable it is? Are there any new traffic collaboration -- ways of a traffic collaboration you will do with Tencent and JD, et cetera? How should we think about the user growth outlook for 2019?

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

So Alex, our collaboration with Tencent and JD has been almost a year, and they're both platforms that are very helpful in terms of bringing new customers to our platform. So going forward, we will continue to collaborate with Tencent and JD and acquire new customers through these partners' channels. In 4Q, in addition to the partnership with Tencent and JD, we also adjusted our product offering. So we offered bigger discounts, we selected better products. In other words, we were more selective in terms of the kind of merchandising we put on the platform. And the good news is customers are very receptive to this change. Therefore, we achieved high new customer growth, and the ticket size -- the first ticket that they purchase is now a lot more towards the apparel category rather than the cosmetics category like it used to be. And we also noticed a very solid retention trend. So all of this proves that our merchandising strategy is in the right direction. And in particular, we launched this platform



called [Fung Chan] and [Kwai Chan] on our platform, which are more flash sales, deep discounts. Kwai Chan is single products and Fung Chan is by event. So both are delivering very solid results, and going forward, we will continue to work on deepening the kind of merchandising capability and the kind of discounts we offer to our customers.

Operator

Our next question is from the line of [Joyce Ju] of Merrill Lynch.

Unidentified Analyst

I would like to get more colors on where marketplace initiatives. Could you please elaborate a bit more in terms of our strategy to grow our marketplace, how should we kind of forecast the growth of the marketplace? Do we have any new category or like brands we would like to add? And how should we understand the future take rate trend as well as the gross profit trend? Thank you very much.

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

So Joyce, in terms of the marketplace in 4Q, as I mentioned earlier, we had some changes shifting certain standardized product, especially the ones with low gross margin and high fulfillment costs, from our principal model to the third-party platform. So this, one, improved our margin and also continued to enrich our category mix. Now the take rate for our marketplace is around 10% to 12% blended. And looking towards 2019, we will continue to work with our partners to grow our marketplace steadily and continuing to enrich the kind of offering we have across the platform, including the marketplace.

Operator

Our next question comes from the line of Hans Chung of KeyBanc Capital Markets.

Mon Han Chung - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

So can you elaborate more, the detail about the dynamics in the category change? When did we start this initiative in the fourth quarter? Like what category have we shift to the marketplace model specifically and the what category have we exit? And assuming this type of activity will continue into Q1, so should we expect the gap between the revenue and GMV growth become larger in fourth quarter than -- in first quarter than fourth quarter?

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

So Hans, we actually started to see movement in September. The impact is much bigger in 4Q, but we started to move the low ticket sized items, including products in the category of cosmetics and home goods and food, et cetera, from the principal model into the marketplace platform. In the fourth quarter, GMV contribution from the marketplace platform is 6%, and we do believe that in Q1 and Q2, that contribution may continue to increase.

Donghao Yang - *Vipshop Holdings Limited - CFO*

And let me take the other question from Hans. They were asking about if the gap between GMV and net revenue in Q1 2019 will be wider than that in Q4 2018. Well, that we can't be very sure about because there are a number of things that could have impact on the difference between those two numbers, for example seasonality. Q4 was the peak season for apparel. Q1 may be a little bit different. And also in Q1, we have our traditional Chinese Spring Festival. So those things may have an impact on the difference between GMV growth and net revenue growth in Q1. But one thing that we are quite sure about is the GMV growth is definitely going to be higher than net revenue growth in Q1.

Operator

(Operator Instructions). Our next question comes from the line of Jin Yoon of New Street Research.

Jin-Kyu Yoon - *New Street Research LLP - Analyst*

I think Jessie, you mentioned that GM -- did I hear you correctly, first of all, that GMV 1P/3P split is about 6% 3P right now, is that correct? And then my follow up to that is when you switch over from 1P to 3P mix, are you going to eventually envision your business being more of an FBA fulfillment by Amazon model where you're actually doing the logistics and distributions for your 3P partners and your merchants, so hence, we're going to be able to see that take rates actually scale? Is that how we should be thinking about the foreseeable future? Thanks.

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

To answer your first question, Jin, yes, you're right. The GMV contribution from marketplace is around 6% and the remaining is from our direct model. (foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

Jin, most of the marketplace customers actually use the major warehousing and delivery services in China and not our own, including ZTO, ITO. And so the majority is actually in that kind of model rather than the Amazon kind of model.



Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

Some customers use our delivery, but not necessarily our warehouses at the moment.

Operator

Our next question comes from the line of Jerry Liu of UBS.

Yuan Liu - *UBS Investment Bank, Research Division - Co Head of HK and China Internet Research*

I want to ask about the margin profile in 2019 and maybe beyond. If we shift a bit more to the 3P model, could we see gross margin improvement? And if we look at fulfillment, fulfillment expenses were also lower in the last few quarters, but especially in the fourth quarter. So if 3P uses other people's fulfillment, do we also see a bit of a change in our OpEx ratio, especially fulfillment ratio? And again, what is the impact on margin in that case?

Donghao Yang - *Vipshop Holdings Limited - CFO*

Let me take your question. For gross margin, if you compare our gross margins to the last few quarters, and you can easily see a recovery in our gross margins for the last few quarters, that was definitely having to do with our category shift in our mix, as well as the marketplace contribution to our business is increasing. And you had the questions related to the fulfillment cost reduction. Well, we are just starting to experiment with outsourcing some of our last mile delivery operations to third-party service providers, and it's going to take a while. And it's going to be depending on a number of things: one, our customer experience; two, the collaboration with third-party service providers. And so it's going to take a while and which we are not so sure about how long. So over the long term, the move to outsource some of the fulfillment services to outside -- to third-party providers will definitely help us reduce the cost, but it's just hard at this moment to quantify the impact on our financials, on our net margin, operating margins for this year, 2019.

Operator

Our next question is from Monica Chen of Credit Suisse.

Monica Chen - *Crédit Suisse AG, Research Division - Research Analyst*

I have a question about our ARPU. We noticed that ARPU's trends in this quarter is getting a little bit weaker than before. So we want to understand that a bit more of what's the reason behind, especially with the larger decline in the order size in this quarter. And how do you think about ARPU trends for 2019?

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)



Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

So Monica, to answer your question, yes, our ticket size is down by quite a bit in 4Q year over year, but it's due to a few reasons. The first reason is due to shifting some of the products from the first-party business to the third-party business. Orders shipped from our third-party suppliers is up around 15 million orders year over year, so that's quite significant impact in terms of average ticket size. And the second one is in the fourth quarter during our two major promotional events, Singles' Day and Anniversary Sale, we offered prepay. And the prepay amount increased also in terms of the number of orders by a few million. And the prepaid orders are also affecting ticket size given that customers don't always bundle (inaudible), given the value that they're getting from the prepayment. And the third major factor is the new policy that we rolled out, which is called (foreign language). In Chinese, it essentially means you no longer have to bundle multiple items in order to get a certain discount. In other words, customers can enjoy the deepest discount offered by Vipshop by buying only 1 product that they would like to purchase. So in terms of ticket size, that will have some impact, but the shopping experience has improved significantly. And the fourth and rather minor point is our Super VIP, because they enjoy free shipping and free returns, their ticket size tends to be lower than the rest of the customer base. Given that our ARPU decreased by 5% year over year, we don't think it's too much of a drastic change, especially given their robust customer growth. And we're actually quite pleased that we're seeing order frequency improve significantly to actually drive the GMV growth. That means our customers are more sticky to our platform, they're visiting more frequently. And going into 2019, we are actually okay to see this kind of trend going forward as what we want to do is serve our customers and also to improve the number of new customers coming into our platform, as well as their shopping experience and shopping frequency over time.

Operator

Our next question is from the line of Jamie Shen of Bank of China International.

Chen Shen - *BOCI Research Limited - Research Analyst*

I have a follow-up question on the removal of low-margin categories sales from the first-party to the third-party platform. Just wondering if we exclude the sales of these low-margin category sales from previous year's number, what would be the revenue growth with fourth quarter on an apple-to-apple basis? And also, what would be the revenue guidance for the first quarter of 2019?

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Donghao Yang - *Vipshop Holdings Limited - CFO*

Well, I think it's -- I better take that question. Well, I understand where you're coming from and your question, but we haven't actually done that calculation. But if you need that information, maybe we can talk offline.

Operator

Next question is from the line of Nicky Ge of China Renaissance.



Nan Ge - *China Renaissance Securities (US) Inc., Research Division - Research Analyst*

I have a question about the impact from our business focus shift from 1 to 3P to our last mile business, Pinjun, and our warehouse business. Actually, we have seen that this quarter we expanded our warehousing capacity. Just want to know what's the impact on those lines of the business here.

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

So Nicky, our shifting from 1P to 3P is not a big impact on Pinjun's business, which Pinjun is our own logistics unit. So given that our warehouses are quite massive, we are utilizing most of it ourselves, but we also plan to continue to lease out the spare capacity to other third parties. So we do not think this will have a major impact on the business on the warehousing side.

Operator

We got a question from John Choi of Daiwa.

Hyungwook Choi - *Daiwa Securities Co. Ltd., Research Division - Head of Hong Kong & China Internet and Regional Head of Small/Mid Cap*

I have a question on your gross margins. Given that we are changing -- we're focusing more on the -- back on the apparel, how should we be thinking on a take rate on this part? Should we be expecting a gradual uptake, or do you think it's mainly going to be driven by more 3P, you're kind of offloading the profitability on the 3P business, more to the 3P categories? And just a quick follow up on the new user growth. You mentioned that 23% is from Tencent and JD this quarter, but it's been almost a year. Can you kind of give us kind of the user habit that has changed over the past 1 year that has happened about this collaboration?

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)



Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

So John, as for your first question regarding gross margins, we do believe that in the future, gross margin expansion is going to come from higher contribution from the apparel category, including better terms with our suppliers, as well as doing more and doing better at making our core apparel category. It's not going to come from continuing to move what we do well, which we consider our core into the marketplace. So in terms of the marketplace, we will only be using that to enrich the category offering and the more standardized categories. And we're quite confident that we have a dominant position in the apparel discounted retail segment, and we can continue to hone in our skill sets, as well as improve our merchandising capability. As far as the WeChat side and the collaboration goes, we continue to experiment with both Tencent and JD in terms of how we can collaborate better. New customers from the wallet has improved by quite a bit, as well as conversion rates in the WeChat mini-program. So we do believe there is a lot more to do with the 2 partners, but we're still at the effort of continuing to experiment with them.

Operator

Our next question is from the line of Hans Chung of KeyBanc Capital Markets.

Mon Han Chung - *KeyBanc Capital Markets Inc., Research Division - Research Analyst*

So it seems like the inventory level in the apparel industry getting elevated, given the weak consumer demand environment. So I would think this should be naturally a positive for the company, given the company is doing the off-season apparel sales. So can management team share with us how -- so far how do we see the trend, how do we benefit from the trend? And then any evidence to support that? For example, like you probably have more interest to bring customer, or you have new, more new brands doing the off-season sales. And then finally, so how has been the apparel performers so far? Like what's the GMV growth versus the overall GMV growth?

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

So Hans, we did notice that brands actually always have a need to clear inventory, and lately, more brands have had more need and they come to us because we're the biggest channel. So we will continue to work with our partners to help them clear inventory, whether that's in-season or out-of-season, as long as they can offer a good price. In terms of apparel contribution, Hans, 4Q 2017 to 4Q 2018 we saw a 7% to 8% increase, so that's quite positive, given our refocus back into the apparel category.

Operator

We're taking our last question from Wendy Huang of Macquarie.



Wendy Huang - *Macquarie Research - Head of Asian Internet and Media*

Can you give us some update on the in-season versus off-season GMV breakdown? And if so, I think previously you had some matrix such as a sell-through rate is 50% and the return rate is 20%. So is there any changes with these two matrix?

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

(foreign language)

Ya Shen - *Vipshop Holdings Limited - Co-Founder, Chairman & CEO*

(foreign language)

Jessie Fan - *Vipshop Holdings Limited - Head Of IR*

So Wendy, regarding your 3 questions, the first one is we used to say we have approximately 35% in new in-season apparel and around 65% in off-season apparel. And now given that we're focused on deeper discount product and inventory clearance, our new inventory apparel is under 30%, and we will continue to focus on deep discounted product. The second point regarding sell-through rate, that metric is no longer relevant, given that we used to disclose that metric in the logistics model of first-in, first-out. But now we have connected our inventory with our suppliers, so we no longer need to ship everything to our warehouse ahead of time, therefore given the JIT model, sell-through rate is no longer something we track. And the third point of return rates, in the fourth quarter we disclosed that apparel contribution is up 7% to 8%. Given that, the return rate naturally will be slightly higher than before. It's up around 2% year over year.

Operator

If there are no more questions, I'd now like to hand the conference back to our presenters. Please continue.

Donghao Yang - *Vipshop Holdings Limited - CFO*

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

Operator

Thank you. Ladies and gentlemen, that does conclude the conference for today. Thank you for participating. You may now all disconnect.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.