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VIPS - Q4 2019 Vipshop Holdings Ltd Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, good day, everyone, and welcome to Vipshop Holdings Limited Fourth Quarter and Full Year 2019 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 - *Vipshop Holdings Limited - Head Of IR*

Thank you, operator. Hello, everyone, and thank you for joining Vipshop's Fourth Quarter and Full Year 2019 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 facts we 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 2019 earnings conference call.

In the fourth quarter of 2019, we delivered strong financial results and a solid operating performance. Our customer metrics continued to show strength. During the quarter, total active customers grew nicely at 19% year-over-year.

The number of active customers for the full year of 2019 increased by 14% year-over-year, reaching 69 million. These are the results of solid customer retentions and improved customer stickiness. In 2019, repeat customers as a percentage of total active customers increased to 80% from 76% in 2018.

We were able to achieve this success due to our focus on discount apparel. In the fourth quarter of 2019, apparel-related category contributed to over 70% of our total GMV. Since the fourth quarter of 2018, we have spent a lot of time and effort in improving our merchandising, offering desirable product to our customers at a deep discount. This has paid dividends to our business in 2019. Going forward, we will remain committed to the execution of our merchandising strategy, further enhancing our product offerings.

In November 2019, we discontinued our delivery unit operated by Pinjun and begin to work with SF Express. As a result, our delivery service has improved and our delivery cost has come down, allowing us to reinvest in enhancing the overall customer experience on our platform.

For example, in December 29, we lowered our free shipping threshold from RMB 288 to RMB 88, and the returns are now free. We also upgraded the benefits for our Super VIPs. On top of existing benefits, they now receive additional 2% off. We believe these changes will encourage customers to shop with us more, further enhancing their customer stickiness.

Currently, we are experiencing some short-term impacts from the novel coronavirus outbreak, which has affected our sales in the first quarter of 2020. The apparel category was especially impacted as customers are not leaving their home as much, which decreased their demand for apparel. We are working closely with our suppliers to get through this difficult time together. The good news is we have seen some signs of recovery in March and believe customer's demand will rebound quickly once the virus is contained.

We continue to have full confidence in the strength of our Chinese economy and the long-term growth potential in China's discount retail market.

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

Donghao Yang - Vipshop Holdings Limited - CFO

Thanks, Eric, and hello, everyone. We finished the fourth quarter of 2019 with solid top line growth that exceeded our expectations and extraordinary profitability despite having onetime costs related to the discontinuation of Pinjun.

During the quarter, our non-GAAP net income attributable to Vipshop's shareholders increased by 111.4% year-over-year to CNY 1.9 billion from CNY 914 million in the prior year period. Our non-GAAP net margin attributable to Vipshop's shareholders for the quarter increased to 6.6% from 3.5% in the prior year period. The meaningful improvement in profitability is mainly driven by gross margin expansion. In the fourth quarter of 2019, gross margin increased to 23.9% from 20.6% in the prior year period.



These strong financial results are made possible by our focus on apparel-related categories, which continued -- which contributed to over 70% of our total GMV in the fourth quarter of 2019. Our deep discount channels, [Fengqiang and Kuaiqiang], contributed to 45% of our online GMV during the quarter, further increasing from 42% in the prior quarter. We are confident that as long as we continue to work with our suppliers collaboratively and offer desirable products at a deep discount to our customers, these positive trends can and will continue.

Looking ahead, we remain committed to balancing our growth and profitability. We will explore reinvestment opportunities that enhance our customer experience and help our suppliers work with us more effectively. We're confident in the long-term outlook of the company despite short-term turbulences caused by the novel coronavirus.

Now moving on to our quarterly financial highlights. Before I get started, I would like to clarify that all 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 2019 increased by 12.4% to CNY 29.3 billion from CNY 26.1 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 2019 increased by 30% to CNY 7 billion from CNY 5.4 billion in the prior year period. Gross margin increased to 23.9% from 20.6% in the prior year period. Fulfillment expenses for the fourth quarter of 2019 were CNY 2.1 billion as compared with CNY 2.1 billion in the prior year period. As a percentage of total net revenue, fulfillment expenses decreased to 7% from 8% in the prior year period, primarily attributable to the change in fulfillment, logistics arrangement.

Marketing expenses for the fourth quarter of 2019 decreased to CNY 944 million from CNY 1.1 billion in the prior year period. As a percentage of total net revenue, marketing expenses decreased to 3.2% from 4.3% in the prior year period.

Technology and content expenses for the fourth quarter of 2019 decreased to CNY 362 million from CNY 533 million in the prior year period. As a percentage of total net revenue, technology and content expenses decreased to 1.2% from 2% in the prior year period.

General and administrative expenses for the fourth quarter of 2019 were CNY 1.7 billion as compared with CNY 821 million in the prior year period. As a percentage of total net revenue, general and administrative expenses were 5.9% as compared with 3.1% in the prior year period, primarily attributable to a severance payment of CNY 652 million and other provision of assets of CNY 154 million related to the discontinuation of Pinjun, as well as an impairment of CNY 200 million related to our Tai'an and Hengyang warehouses.

Goodwill impairment loss for the fourth quarter of 2019 was CNY 278 million as compared with 0 in the prior year period, primarily attributable to the goodwill write-down of Pinjun.

Our income from operations for the fourth quarter of 2019 increased by 76.9% to CNY 1.8 billion from CNY 1 billion in the prior year period. Operating margin increased to 6.1% from 3.8% in the prior year period.

Non-GAAP income from operations, which excluded share-based compensation expenses, amortization of intangible assets resulting from business acquisitions and goodwill impairment loss, increased by 93.7% to CNY 2.2 billion from CNY 1.1 billion in the prior year period. Non-GAAP operating income margin increased to 7.4% from 4.3% in the prior year period.

Our net income attributable to Vipshop's shareholders for the fourth quarter of 2019 increased by 111.4% to CNY 1.5 billion from CNY 689 million in the prior year period. Net margin attributable to Vipshop's shareholders increased to 5% from 2.6% in the prior year period. Net income attributable to Vipshop's shareholders per diluted ADS increased to RMB 2.14 from RMB 1 in the prior year period.

Non-GAAP net income attributable to Vipshop's shareholders, which excluded share-based compensation expenses, goodwill impairment loss, impairment loss of the 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 loss in investment of limited partnership that is accounted for as an equity method investee, increased by 111.4% to CNY 1.9 billion from CNY 914 million in the prior year period.

Non-GAAP net margin attributable to Vipshop's shareholders increased to 6.6% from 3.5% in the prior year period. Non-GAAP net income attributable to Vipshop's shareholders per diluted ADS increased to RMB 2.84 from RMB 1.33 in the prior year period.

As of December 31, 2019, our company had cash and cash equivalent and restricted cash of CNY 7.7 billion and short-term investments of CNY 3.1 billion. For the fourth quarter of 2019, net cash from operating activities was CNY 6.1 billion.

Looking at our business outlook for the first quarter of 2020, we expect our total net revenue to be between RMB 17.1 billion and RMB 18.1 billion, representing a year-over-year decline of approximately 15% to 20%, primarily factoring in the short-term impact from the novel coronavirus outbreak. 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) Our first question comes from the line of Thomas Chong of Jefferies.

Thomas Chong - Jefferies LLC, Research Division - Equity Analyst

I have a question regarding the supply of discounted apparels. Given the fact that coronavirus lead to business slowdown, of course, offline, should we expect there would be -- the supply of discounted apparels would go up rapidly and there would be a lot of brand partners who would want to partner with us in selling discounted apparels after it's over? And my -- may I ask also a follow-up question, is about the margin, in particular, the GP margin that is mentioned on a substantial improvement on a year-on-year basis. How should we look at the GP margin trend and the net profit margin trend over the long run?

Jessie Fan - Vipshop Holdings Limited - Head Of IR

(foreign language)

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

(foreign language)

Thomas Chong - Jefferies LLC, Research Division - Equity Analyst

(foreign language)

Jessie Fan - Vipshop Holdings Limited - Head Of IR

[Interpreted] Due to the coronavirus, lots of offline stores were closed during the outbreak. Some stores have reopened recently. But because a lot of people are not going out as much, the business is still not stellar for the apparel retailers. Therefore, we are working closely with our suppliers, and we'll continue to work closely with them to help them sell more inventory to our platform.

Donghao Yang - *Vipshop Holdings Limited - CFO*

And Thomas, let me take your second question regarding margins. Well, yes, you're right. Our gross margin improved -- both net margin and gross margin improved substantially in Q4 on a year-over-year basis. And for the gross margin improvement, I think the biggest reason behind that is the increase of apparel in our category mix. And as we said earlier, more than 70% of our GMV is now coming from apparel-related categories and apparel tends to have higher margins than other categories.

And also on the net margin side, we've been able to improve on our net margin not only because our improvement in gross margin but also our efforts on reducing the costs. And one of that -- those efforts was obviously the discontinuation of our own Pinjun operations. So now we're working with Shunfeng. They have a much better service quality and also a lower cost. So going forward, we will continue to focus on our core category, which is apparel, to make sure that we have a decent gross margin. And also, we will continue to make efforts wherever possible to lower our costs. So we're confident that in the long term, our gross margin and net margin levels are going to be sustainable.

Operator

(Operator Instructions) Our next question comes from the line of Tina Long of Crédit Suisse.

Yuanyuan Long - *Crédit Suisse AG, Research Division - Co-Head of China Internet*

Thank you management. Congratulations on a very strong fourth quarter. I have a quick question. Because I understand that the company actually reinvested some of the logistic gain to lower the free shipping threshold, so I'm wondering how should we look at order size going forward? Because order size probably will be impacted and whether the growth of order frequency can actually be able to offset some of the shortfalls, if any? Can you probably share some thoughts on the -- along that line?

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*

[Interpreted] Tina, we made a lot of changes recently regarding our consumer experience. Specifically, we lowered free shipping threshold from RMB 288 to RMB 88, and we also offer free return now. The whole purpose of doing all this is so that customers can buy more easily, wherever they want and whenever they want. And therefore, from our perspective, customers like us more and they will buy more frequently. Even if the ticket size is lower compared to before, we do believe that over time their ARPUs will maintain and even improve.

Operator

Our next question is from the line of Natalie Wu of CICC.



Yue Wu - China International Capital Corporation Limited, Research Division - Analyst

Congratulations on the solid quarter. My question is regarding the live broadcasting. Actually, seeing that you've already made quite a [competitive styles] all these years on live broadcasting, but given that the environment has become more sophisticated these years, both with the supply chain and with the user acceptance, just wondering should we be anticipating some greater efforts for adding these live broadcasting features to strengthen your flash sale model? If management can share some color on that?

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

[Interpreted] We have experimented with the live streaming format in the past. We haven't had a lot of successes and, therefore, it's not a core initiative for us and we're not going to invest heavily into live streaming at this moment either. We do believe that the (technical difficulty) itself works better with hit items and more standardized categories. For apparel, because we have so many SKUs, we actually think it's plentiful to just offer the best pricing and accompany the pricing and the quality of the products with good pictures and good display of the product information. And therefore, it is our focus to continue to -- for care products, format a deep discount instead of focusing on these new formats that are quite popular such as live streaming for now.

Operator

Our next question is from the line of Andre Chang of JPMorgan.

Andre Chang - JP Morgan Chase & Co, Research Division - Analyst

(foreign language) My question is about the offline retail expansion and the investment. With a very strong profit right now, what's our pace to invest in the offline for the outlets and also the offline stores, et cetera, especially considering the epidemic situation right now? And what's our related CapEx regarding this?

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

[Interpreted] Andre, the offline piece is an important piece for our long-term strategy. We've just gotten started and entered the business quite recently, and we think it takes time for us to learn and explore in the -- both the offline -- off-store segment as well as the outlets. We do believe



that it takes time for us to learn about the model and, therefore, we are not going to invest very heavily very fast. And we do believe that we need to have a profit-making business. So it's not we're going to invest heavily of our online profit into the offline segment, but we will continue to look for opportunities in the outlet business as well as adjusting our business model for our own offline stores.

Operator

(Operator Instructions) Next question is from the line of Alicia Yap of Citigroup.

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

Congrats on the results. My question is related to the guidance. Could you describe the situation that you saw in January? And then how much the difference was February versus January? If you could give like month-over-month changes or year-over-year changes, and how has that been for the past week for March? And then could you share with us your expectation on the recovery progress in April, May? And when would you see things to fully normalize? Just to make sure this is a demand issue, right? It's not the logistics bottleneck given you are already using Shunfeng?

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*

[Interpreted] So our plan -- our original plan for the first quarter was quite significantly impacted by the coronavirus. Starting from late January all the way into February, our business plan was affected. The worst impact happened in February, but we're already starting to see some recovery in March. So the situation right now is better than what we've seen in February. We do believe that it's going to take some time for things to normalize. So at this moment, it's our best estimate that things will recover likely in the second half of the second quarter.

Operator

Our next question is from the line of Ronald Keung of Goldman Sachs.

Ronald Keung - *Goldman Sachs Group Inc., Research Division - Executive Director*

My question would be on -- maybe can you talk about your Internet finance business? Because we do see some free cash flow impact from this business. What are the outstanding balances, if you could share, usually? And would you consider any potential fundraisings or different spin-off, updates on that part of the business?

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*

[Interpreted] Ronald, regarding the Internet finance business, we have started to work with banks in 2019 late last year, and working with them so that they outsource essentially -- we outsourced the capital and the loan financing to them, and we provide the traffic as a traffic platform. Currently, it occupies around CNY 1 billion to CNY 2 billion of our cash flow. So it's already reduced significantly from the peak of around CNY 5 billion to CNY 6 billion at some point. So from our perspective, we will continue to offer this service to the customers, but it won't occupy our cash flow as much. And in the future, likely even less than what we're seeing right now.

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

(foreign language)

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

[Interpreted] And no plans to spin-off or get investments from outside investors either on that business.

Operator

We have our next question from the line of Eddy Wang of Morgan Stanley.

Eddy Wang - *Morgan Stanley, Research Division - Research Analyst*

My question is actually a follow-up in terms of the margin side. So as Shen-zong mentioned that you have seen strong demand of the brands due to the destocking right now. So is there any chance that we can further improve our margin because there is strong demand of the brand so we don't need to do a lot of marketing events? And at the same time, they can give higher discount in terms of the sales. So this will further help to improve the overall margin in the second quarter or third quarter.

I have a very quick follow-up in terms of the GMV side. So we can see the gap between the GMV growth and the product sales, 1P revenue growth actually is narrowed in the fourth quarter. Did that mean that the 3P then -- the proportion has actually declined? So yes, just a very quick follow-up on that.

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*

[Interpreted] Eddie, Regarding your 2 questions, the first question regarding margins is, we are actually long-term partners with most of our suppliers. And right now, we are working with them closely to help them get through this difficult situation together. So it's not our intention to increase our take rate in this environment. Instead, we might be lowering our take rate or giving subsidies in certain situations to help them get through this time and work collaboratively for a long-term, a win-win situation. Therefore, we don't anticipate meaningful improvement in our margins in 2020 because of the inventory increase in the market.

And regarding your second question, the gap between GMV and revenue, our marketplace contribution increased only slightly year-over-year in the fourth quarter as compared to last year's fourth quarter. This is because we started to shift a lot of the products from 1P into 3P, starting in the fourth quarter of 2018. And therefore, the comp is a lot more similar this -- in the fourth quarter as compared to the first 3 quarters. As far as how we view the marketplace, we will continue to expand our marketplace steadily, adding more products into the platform as needed.

Operator

(Operator Instructions) Our next question is from the line of Han Joon Kim of Macquarie.

Han Joon Kim - *Macquarie Research - Analyst*

As you guys lowered your free shipping threshold in December, just wanted to get a sense of what kind of behavior that you saw in January as a response to that? And I just want to also, within that, double check whether the satisfaction rate for SF delivery has been on par with what you've been doing with your own in the past?

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*

[Interpreted] Han Joon, regarding your first question, since we've lowered the free shipping threshold, the customers' reactions were very positive. So they like us more. They shopping -- they shop with us more frequently, longer time spent as compared to before and also higher conversion rate. So across the board, consumer experience has improved, and we're seeing that from the feedback on the platform as well.

And secondly, regarding the experience of SF Express, we actually do think that SF Express offers better customer experience on the delivery side than Pinjun before and the cost they offered is also very reasonable. Especially, during the virus situation, they still continue to be a very reliable partner, ensuring that our packages get delivered in February. So we do think that working with them is a very, very right decision.

Operator

Next question is from the line of Charlie Chen of China Renaissance.



Charlie Chen - *China Renaissance Securities (US) Inc., Research Division - Analyst*

I have a question regarding the users. So basically, I think you have a very solid user number growth in the past 2 quarters, about 20% each quarter. So I'm thinking, how do you think of this trend for the total addressable markets that we can reach? So basically, how big you think you can grow in terms of user numbers? And also, the new additional users, where are they from? Are they from markets from different tiers, from different geographic areas or different income levels? So how is the profile of the new users different from existing users?

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*

[Interpreted] Charlie, regarding your questions, after we've lowered the free shipping threshold, we're seeing a few different types of users. The first type is our existing loyal customers. Because the free shipping threshold is much lower, they buy more with us and buy more frequently. The second type are old users who shopped with us less frequently before. Now we're seeing them being more active as they no longer need to buy a lot of products in 1 order to get free shipping. And the third type is a completely new customers. For these customers, before, sometimes they have difficulties making the first purchase with us given that our free shipping threshold of CNY 288 was quite high, but now it's much easier for them to make their first purchase. So across the board, we're seeing more dynamic trends in the consumer profiles.

Regarding where they are coming from, we haven't seen too much difference from our old customers. So it's not like they're specifically coming from the lower tier cities, but rather across the board. In terms of profile, it's quite similar to the existing pools of customers. We do believe that given the Chinese Internet users and the e-commerce users is a massive pool, and we're owning a small percentage of that market, and we have a lot of opportunities to continue to grow and expand our market share.

Operator

We have our next question from the line of Hans Chung of KeyBanc Capital.

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

So I have a question regarding the customer and then just wonder what's the retention rate and also the purchasing behavior, like the ticket size or frequency for the new customer we acquired last year? Because we have a very good year in terms of new customer acquisition last year.

And then -- and follow-up on that is about the fulfillment. Just wonder what's the current level of automation in our warehousing? And then do we -- are we going to do more automation in the future? And then what was the implication for that -- for the fulfillment costs going forward?

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*

[Interpreted] Hans, regarding your 2 questions, on the first one, we want high-quality customers and, therefore, we spent a lot of effort last year to attract these high-quality customers. And we are very pleased that new customer retention was doing better every quarter sequentially last year. So we're seeing quite good results in terms of retention. And this is -- this holds true for both new customers as well as existing customers. Customers are the main drivers of our future growth. So we do believe that offering them things such as lower free shipping threshold and so on and better customer experience will make them being more loyal and improve their stickiness on our platform.

And secondly, regarding our plans on the warehousing side, currently, we have 7 warehouses domestically and 5 warehouses overseas. We think that's plentiful for our own use and we don't have any plans to expand our own warehousing capacity.

Operator

(Operator Instructions) Next question is from the line of Joyce Ju of Bank of America.

Lixin Ju - *BofA Merrill Lynch, Research Division - VP & Research Analyst*

I have one question. My question is regarding the reinvestment into the supply chain mentioned in the opening remarks. Can we have more color in terms of the company's plan, how you are going to invest and in what areas? And also, is the company going to increase the percentage of like product, actually? And the like full procurement model, i.e., with prepayment compared to the previous like relatively like refundable model? Thanks for the color.

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*

[Interpreted] Joyce, we are looking to work very collaboratively with our suppliers and encourage us -- encourage them to give us more supply and more good quality supply to expand our market share. So in certain areas, we will look to give a subsidy to our suppliers. But of course, these have to be key suppliers and will be very selective with where we use our money to expand our market share or our share with these key suppliers.

Operator

Our next question is from the line of Sally Chan of CLSA.



Sally Chan - CLSA Limited, Research Division - Research Analyst

(foreign language) The first question is actually on the user growth. We actually saw very solid user growth of 19% year-on-year in the fourth quarter, but this is actually done with a meaningfully reduced sales and marketing ratio, both year-on-year and Q-on-Q. The absolute amount actually fell like 15% year-on-year. This shows that our differentiated merchandising strategy is actually continuing to gain recognition from our customers. So from the commentaries just now, it seems that we are very committed to drive our user growth and buying frequency further going forward. So I'm wondering if management could share some thoughts on the sales and marketing ratio trends going forward?

And my second question is a housekeeping question. This is our second quarter of consolidating Shan Shan, so just wondering if management can share, say, the financial contribution, say, in terms of how much of it is in the others revenue? And then in terms of the GMV contribution?

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

[Interpreted] Sally, regarding marketing expenses, we are using merchandise and good merchandise to attract customers and retain customers. As far as how we look at the marketing expenses, we're actually using lifetime value to evaluate the effectiveness of different channels. And we'll be looking at the ROI of marketing expenses very carefully, and we've learned that certain channels are more effective than others, especially for our business. So going forward, in terms of how we look at the trend for marketing expenses, it's either going to stay at the current level or be slightly lower. So we won't be spending too aggressively on the marketing front to drive customer acquisition and retention.

Donghao Yang - Vipshop Holdings Limited - CFO

Let me take your second question regarding Shan Shan. Shan Shan is still very small compared to overall scale. GMV-wise, I think Shan Shan is about 4% to 5% of our total GMV. And net revenue of Shan Shan is even smaller because we only book the commission that Shan Shan charges to suppliers as our net revenue. So in terms of net revenue, I think Shan Shan's contribution to our consolidated financials is less than 1%.

Operator

We have our next question from the line of Jerry Liu of UBS.

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

(foreign language) My question is about GMV mix post the virus outbreak period once we normalize. How do we see the GMV mix, especially in terms of apparel? We are thinking that should go up. And then also in terms of 1P versus 3P, are we going to shift more towards 3P in the future?

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

(foreign language)

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

[Interpreted] Jerry, our apparel contribution currently is around 70%, and we do believe that it's a reasonable level for us to be at given that our customers have other demands for different products such as cosmetics, and maybe certain customers also buy FMCG and so on from us. That takes us to our marketplace plans. We are actually doing most of the category expansion as needed through our marketplace. So our marketplace contribution might increase slightly, but not aggressively. For example, right now, marketplace contribution might be at around 6%. And if we do add more categories through marketplace, it might go to 8%, but not a lot higher than that. When we choose our marketplace suppliers, we actually are quite strict in terms of the quality service and so on that they offer and the products that they offer. So overall, we aim to offer a more comprehensive consumer and good customer shopping experience on our platform.

Operator

We have our next question from the line of 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 user growth. I think this is kind of follow-up. But if you look at the user growth, it's been very strong. Can you kind of give us some detail about like whether the collaboration with Tencent has helped? And how would that really evolve in the coming quarters? And also in the less developed areas, given that we have lowered the threshold, is that going to kind of help us penetrate into the less developed areas?

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*

[Interpreted] John, regarding your 2 questions. On the first question, Tencent and JD contributed to around 22% of our new customers in the fourth quarter. And in the past quarter, it was around 23%. But for -- as far as how we look at customer acquisition, our goal is to use our merchandising to attract customers so that they come and look for desirable products at a deep discount, and they want to come back and shop with us again.

Regarding where our customers are coming from or how much we're focused, we're not specifically focused on the lower tier cities. Of course, since we've lowered free shipping threshold, it makes it easier for them to shop with us and we welcome for these customers to shop from us. But from our perspective, given that our ticket size is still quite high, it hasn't lowered much since we've lowered the free shipping threshold. We don't believe that it's specifically attracting lower tier customers. We believe it's attracting customers across the board. And we don't believe that our ticket size will drop significantly to something like RMB 50 to RMB 60 in the future either.

Operator

Thank you. Ladies and gentlemen, that concludes our Q&A session. And I'd like to hand the conference back to the presenters. Please continue.



Donghao Yang - *Vipshop Holdings Limited - CFO*

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

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

Thank you.

Operator

Thank you. And ladies and gentlemen, that concludes our conference for today, and thank you for participating. You may now all disconnect.

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