ZTO 中通快递
ZTO EXPRESS

ZTO Express

Q4 of Fiscal Year 2017 Investor Relations Presentation

Mar 9, 2018

Safe Harbor Statement and Disclaimer

This presentation contains "forward-looking" statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements include but are not limited to our unaudited results for the fourth quarter of 2017, our management quotes and our financial outlook for the first quarter of 2018.

Our forward-looking statements are not historical facts but instead represent only our belief regarding expected results and events, many of which, by their nature, are inherently uncertain and outside of our control. Our actual results and other circumstances may differ, possibly materially, from the anticipated results and events indicated in these forward-looking statements. Announced results for the fourth quarter of 2017 are preliminary, unaudited and subject to audit adjustment. In addition, we may not meet our financial outlook for the first quarter of 2018 and may be unable to grow our business in the manner planned. We may also modify our strategy for growth. In addition, there are other risks and uncertainties that could cause our actual results to differ from what we currently anticipate, including those relating to the development of the e-commerce industry in China, our significant reliance on the Alibaba ecosystem, risks associated with our network partners and their employees and personnel, intense competition which could adversely affect our results of operations and market share, any service disruption of our sorting hubs or the outlets operated by our network partners or our technology system. For additional information on these and other important factors that could adversely affect our business, financial condition, results of operations, and prospects, please see our filings with the U.S. Securities and Exchange Commission.

All information provided in this presentation is as of the date of the presentation. We undertake no obligation to update any forward-looking statement, whether as a result of new information, future events or otherwise, after the date of this release, except as required by law.

2017Q4 Key Highlights

Significant Scale

2,015m
parcel volume in Q4 2017

4,800+
Line-haul Vehicles[(1)]

~29,000
Pickup/Delivery Outlets[(2)]

82
Sorting Hubs[(3)]

Robust Growth

35.8% YoY parcel volume growth in Q4 2017 , above industry growth of 24.3% YoY[(4)]

35.7% YoY revenue growth in Q4 2017, beating Q4 guidance

25.6% YoY operating profit growth in Q4 2017

65.4% basic earnings per ADS YoY growth in Q4 2017[(5)]

Superior Profitability

RMB1,226m
operating profit with operating margin of **28.3%** in Q4 2017, decreased from 30.6% in Q4 2016

RMB1,222m
net income with net margin of **28.2%** in Q4 2017, increased from 23.2% in Q4 2016

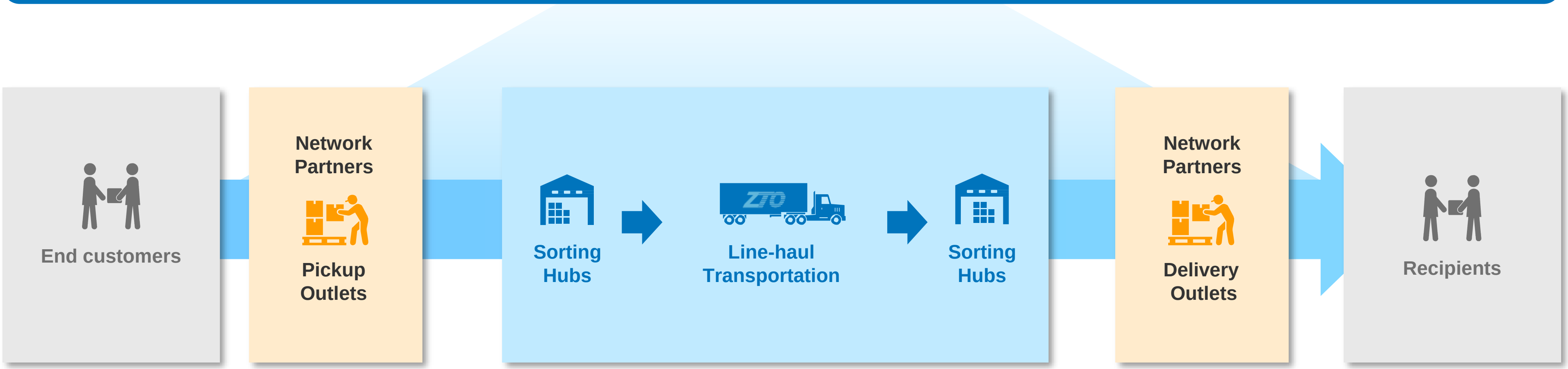
RMB1.72
basic earnings per ADS in Q4 2017, up from RMB1.04 in Q4 2016[(5)]

Notes

1. Includes around 3,600 self-owned trucks as of December 31, 2017, an increase from 3,250 self-owned trucks as of September 30, 2017, among which over 1,800 are high capacity, 15-17 meter long trucks, as of December 31, 2017, compared to over 1,400 as of September 30, 2017.
2. Number of total service outlets across entire network as of December 31, 2017, an increase from about 28,900 service outlets as of September 30, 2017.
3. Includes 76 self-operated sorting hubs, and 6 sorting hubs operated by our network partners.
4. Average industry parcel volume growth rate for Q4 2017 is from the State Post Bureau.
5. After giving effect to an one-off tax credit of RMB285.9 million in Q4 2017. Excluding that, basic earnings per ADS would have been RMB1.36, an increase of 30.5% from the same period last year.

Who We Are

We are a leading express delivery company in China focusing on providing timely and reliable services through our highly scalable network partner model



First-Mile Pickup

Core Express Delivery Network

Last-Mile Delivery

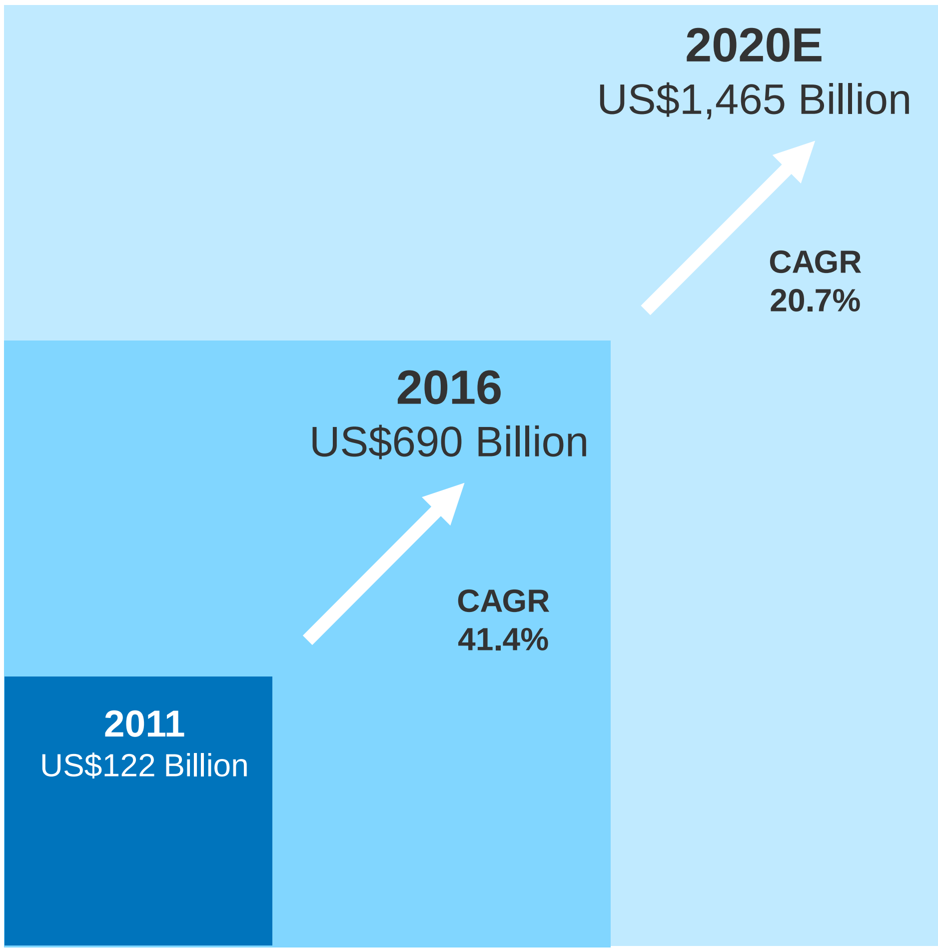
"ZTO Express" Brand

Integrated IT Platform

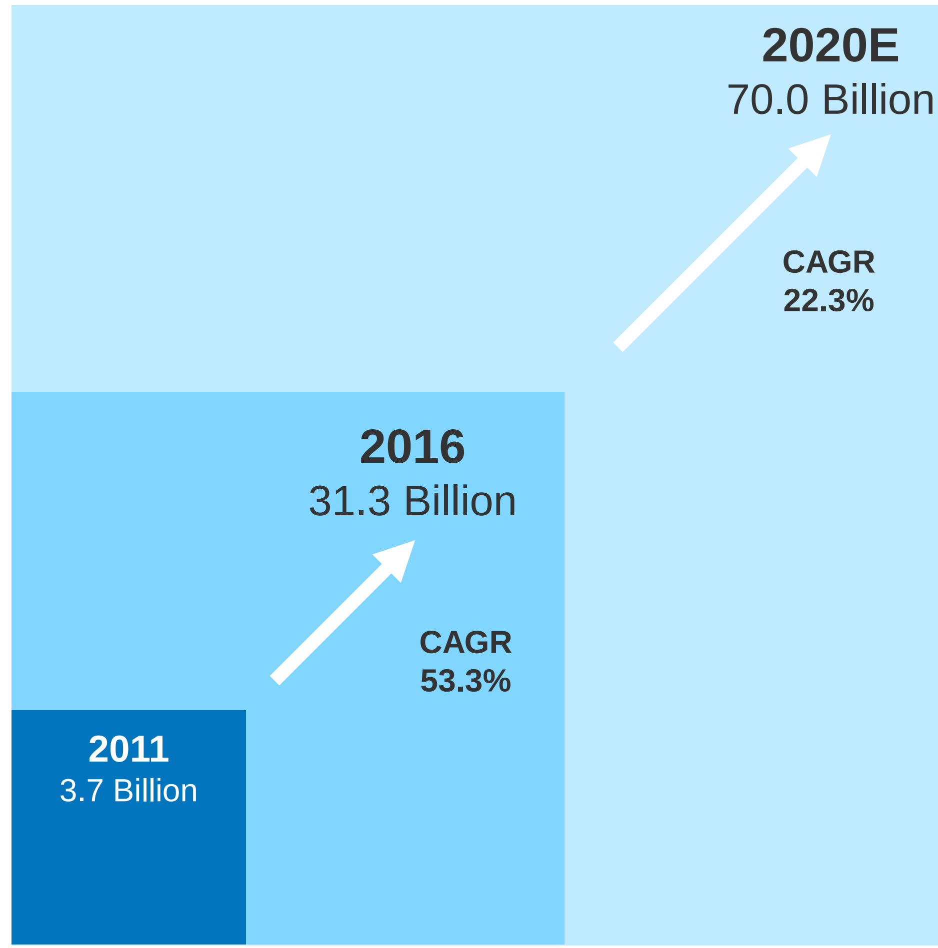
Service Standardization

Huge Market Opportunities from E-commerce Growth

Online Retail Sales (GMV) in China



Express Delivery Parcel Volume in China

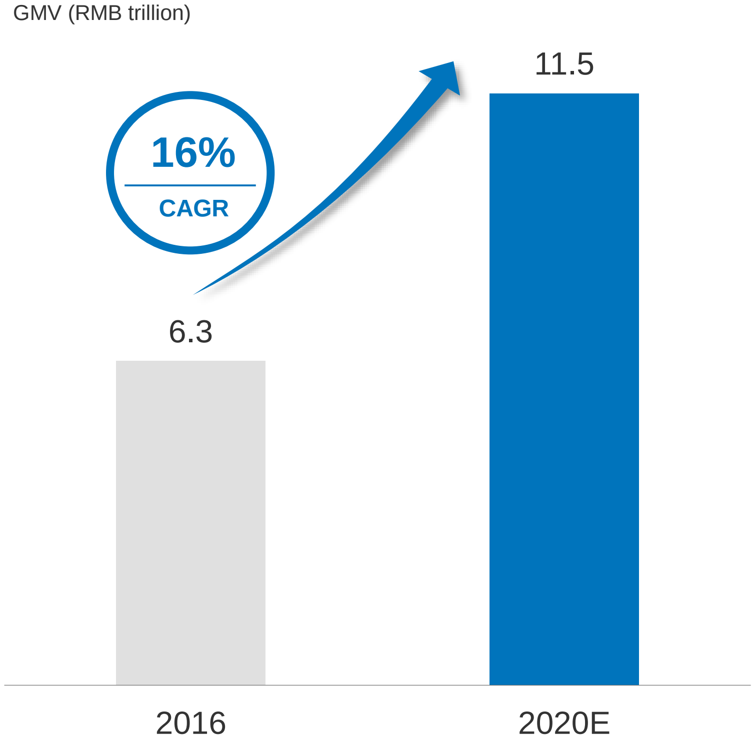


Source: CNNIC, iResearch Report

Source: *The 13th Five-Year Plan* issued by China Post Bureau.

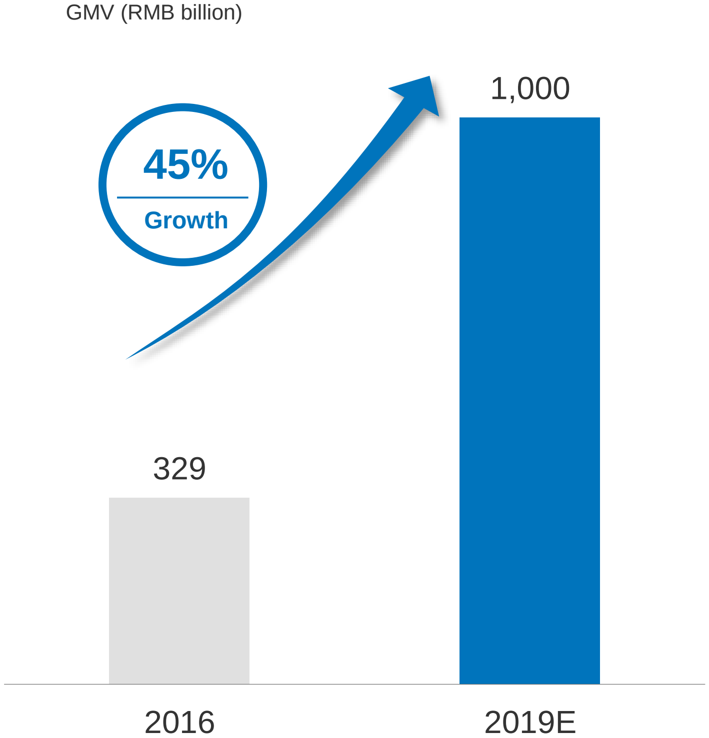
Significant Growth Potential from New Market Segments

China Cross-Border E-commerce Market



Source iResearch Report, iMedia

China Micro Merchants[1] Market



Source iResearch

Note

1. Micro merchants refer to online merchants who promote and sell merchandise on social networking and other mobile platforms

Our Scale Strengthens Our Leading Market Position[1]

2,015M
Parcels[2] in Q4 2017

82
Sorting Hubs[3]

4, 800+
Line-haul Vehicles[4]

>97% Cities and Counties Covered

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2,000+
Line-haul Routes[5]

16,000+
Direct Employees[7]

~29,000
Pickup/Delivery Outlets

~9,500
Network Partners[6]

Notes

1. Data presented as of December 31, 2017 unless otherwise indicated
2. "Parcel volume" in any given period is defined as the number of parcels collected by our network partners using our waybills
3. Includes 76 self-operated sorting hubs, and 6 sorting hubs operated by our network partners
4. Includes ~3,600 self-owned vehicles and ~1,200 vehicles owned and operated by Tonglu Tongze Logistics Ltd., an entity majority owned by our employees
5. Only includes line-haul routes between sorting hubs as of December 31, 2017
6. Includes over 3,800 direct network partners and around 5,700 indirect network partners as of December 31, 2017
7. As of December 31, 2017.

Key Differentiation from Our Competitors

Shared Success System

- ✓ Key regional managers are also the shareholders of ZTO
- ✓ Well-established network partner entry and exit mechanism

Operating Efficiency

- ✓ Centralized planning of sorting hubs enabling us to accommodate high capacity vehicles
- ✓ Increasing use of self-owned fleet, particularly large trailer trucks

Well-Balanced Network

- ✓ Stable network with expanding infrastructure capacity to support business growth
- ✓ Sophisticated last-mile delivery fee and transit fee mechanism tailored for local conditions

Superior Service Quality

- ✓ Industry leading service quality in terms of overall customer satisfaction[(1)], 72-hour punctuality rate[(2)], and customer complaint rate[(2)]

Notes

1. According to Horizon Consulting Group and State Post Bureau for 2015, 2016 and 2017
2. According to State Post Bureau for 2015
3. According to State Post Bureau for 2016 and 2017

Our Growth Strategies to Capture the Market Opportunities

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- **Strengthen our leading market position in China**
- **Enhance technology platform and infrastructure**
- **Expand presence in cross-border e-commerce express delivery**
- **Broaden service offerings and expand customer base**

Long-term Vision

Become a leading global logistic service provider

Near Term Initiatives

Build and Upgrade Sorting Hubs	Increase the Level of Sorting Automation	Invest in Information Technology
Expand and Upgrade Line-haul Fleet	Increase Urban Coverage Density	Increase Rural Penetration

Key Highlights for Q4 2017[1][2]

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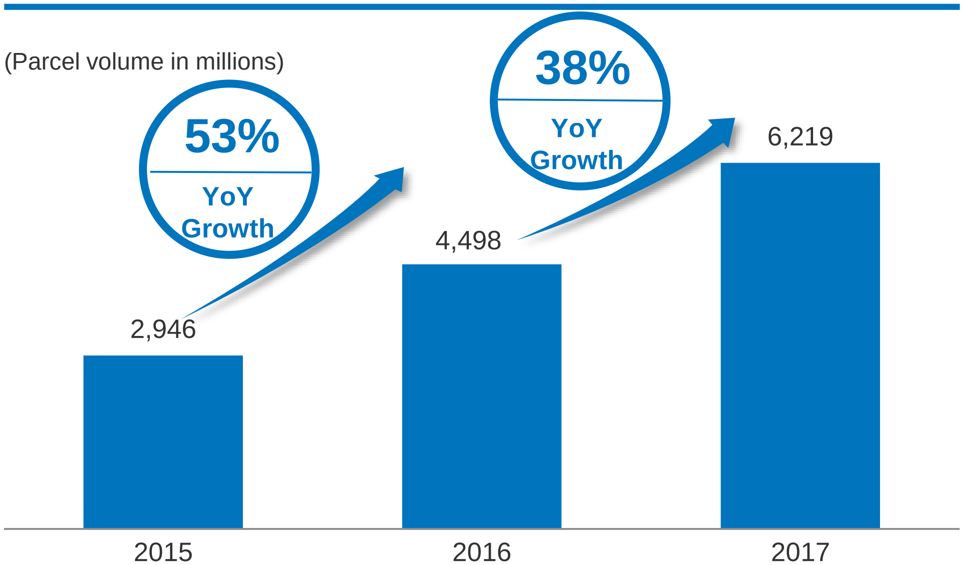
Robust Growth	**Parcel Volume** 2,015m +35.8% YoY	**Revenue** RMB4,331m +35.7% YoY	**Income from Operations** RMB1,226m +25.6% YoY
Superior Profitability	**Operating Margin** 28.3% vs. 30.6% in Q4 2016	**Net Margin** 28.2% vs. 23.2% in Q4 2016	**Adjusted Net Income**[3] RMB1,265m +71.0% YoY

Notes

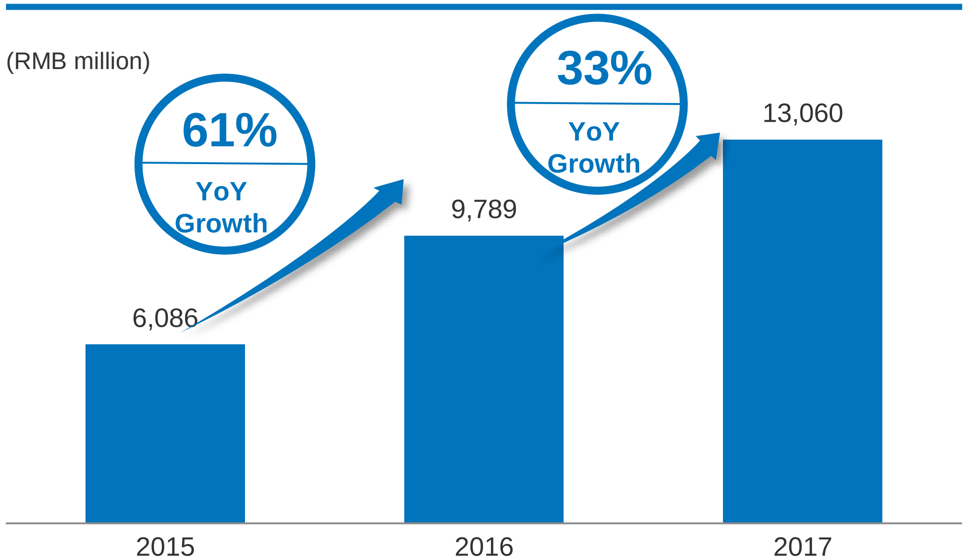
1. Total revenue and margins refer to the quarter ended December 31, 2017.
2. All Margins are calculated as a % of total revenue.
3. Net income adjusted for share-based compensation expenses, gain on deemed disposal of equity method investments and impairment of investments in equity investees, if any. The net income for the three months ended Dec. 31, 2017 was RMB1,222 million, up from RMB740 million in the same period last year. The net income for the three months ended December 31, 2017 included an income tax credit of RMB285.9 million arising from the reduced income tax rate of 15% after a subsidiary of the Company became qualified as a High and New-Tech Enterprise in China in Q4 2017.

Strong Revenue Growth Driven by Robust Parcel Volume Growth

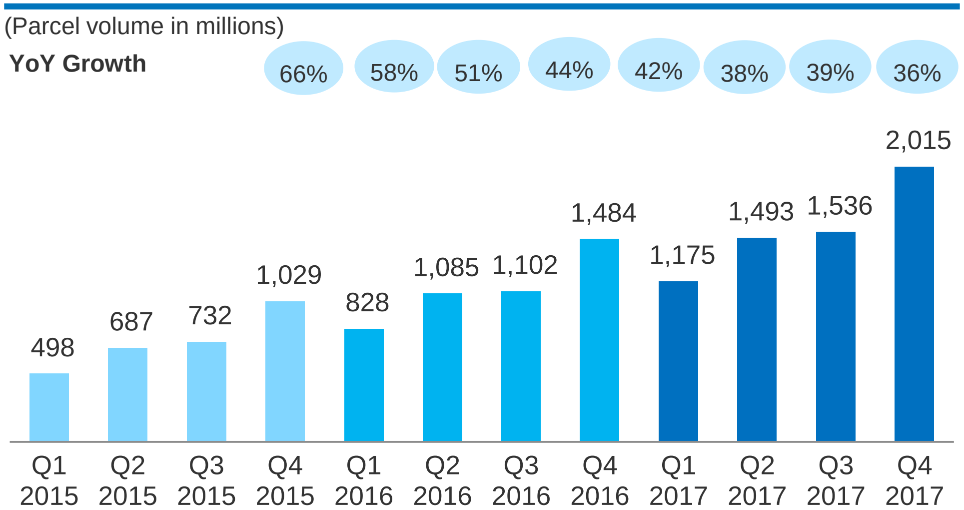
Parcel Volume



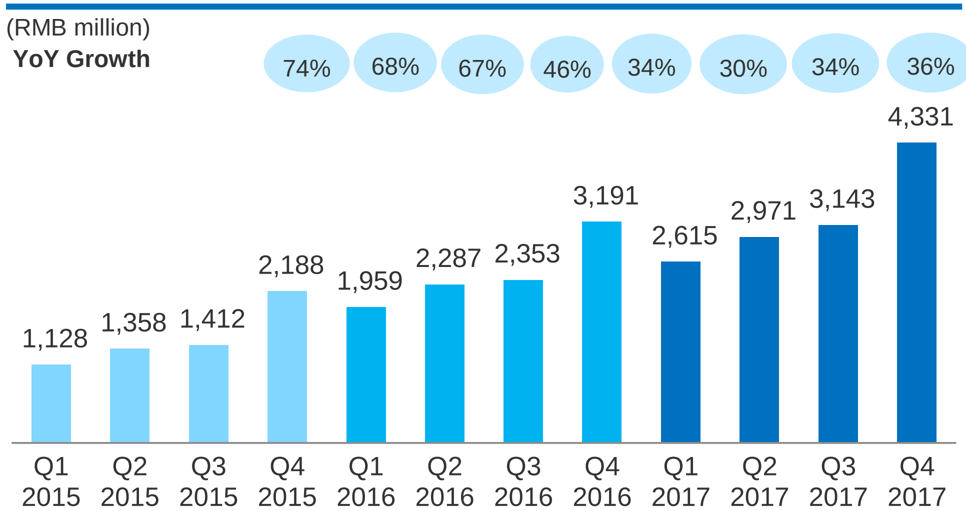
Total Revenue



Quarterly Parcel Volume

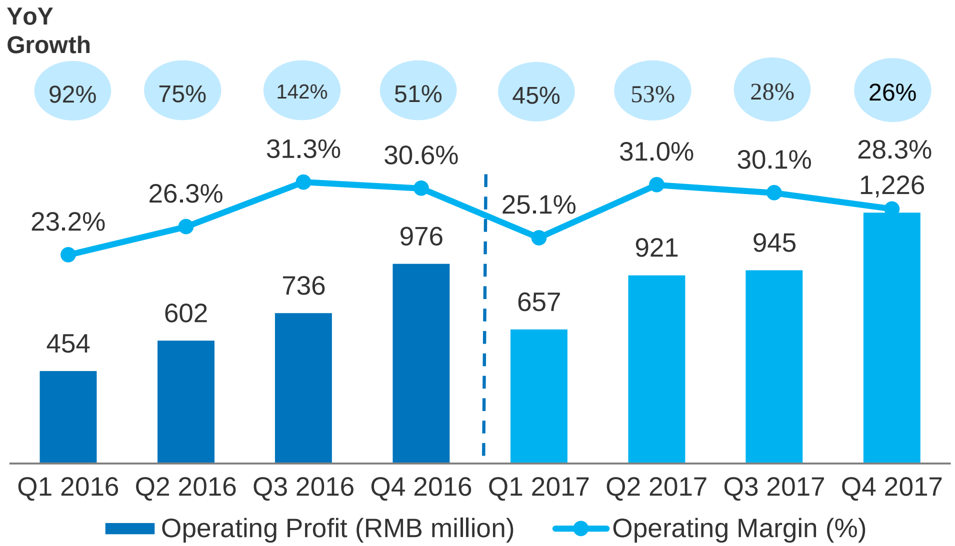


Quarterly Revenue

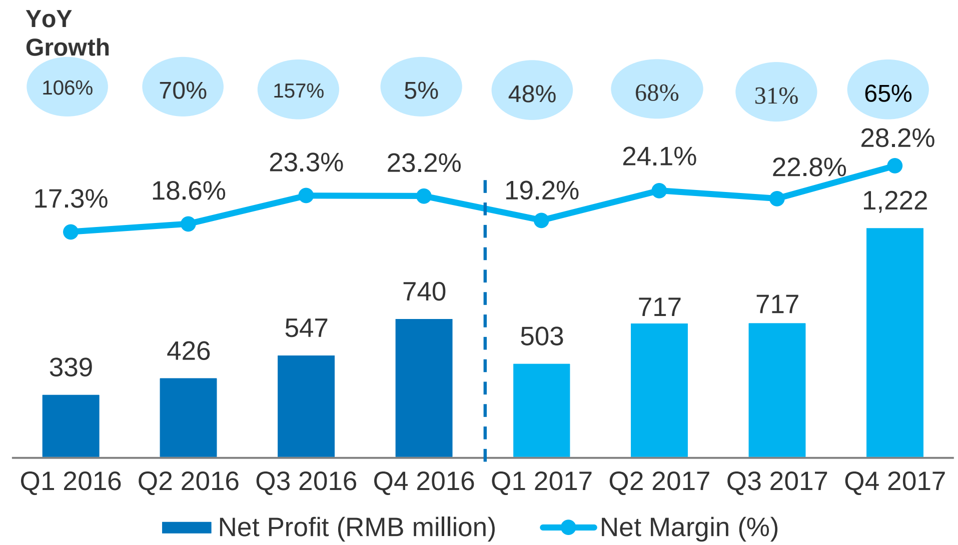


Strong Profit Growth and Healthy Margins

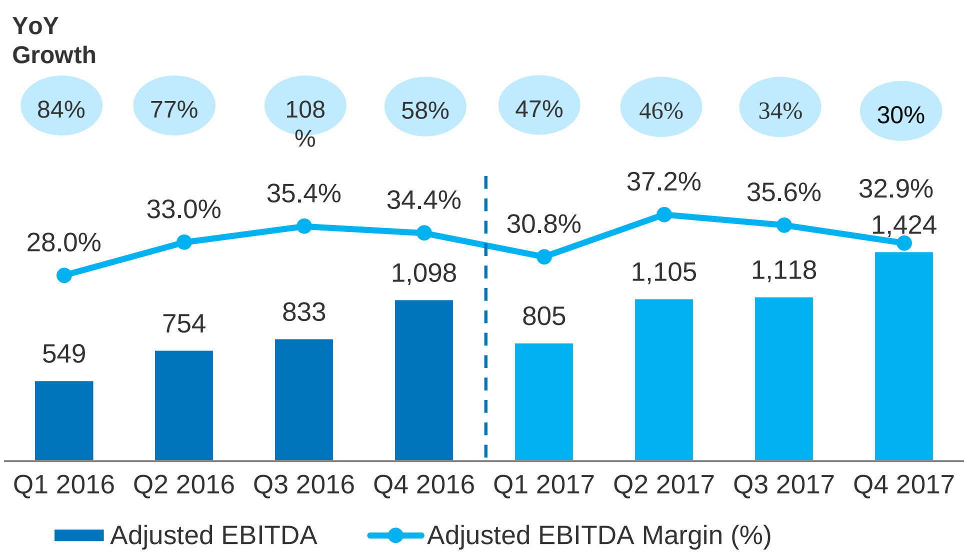
Income from Operations and Margin



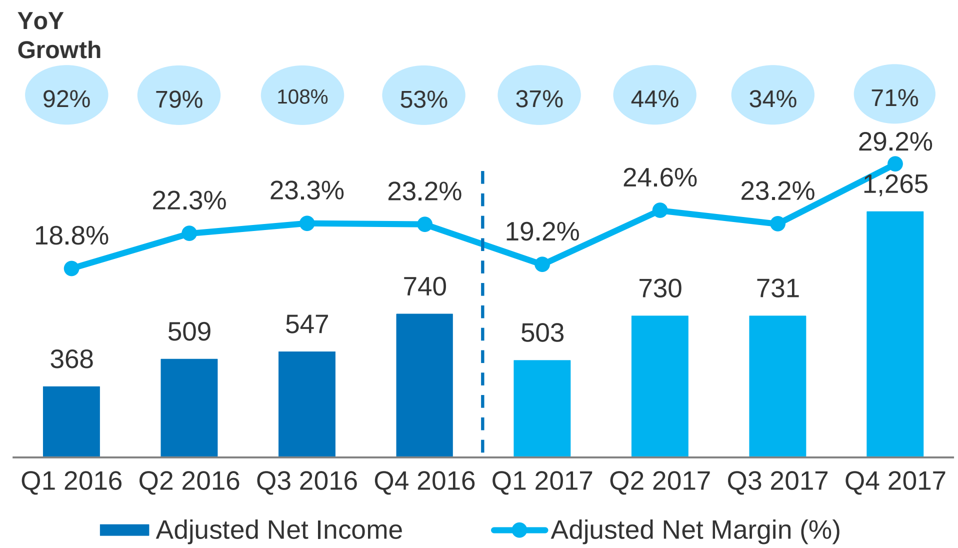
Net Income and Margin



Adjusted EBITDA[1] and Margin



Adjusted Net Income[2] and Margin

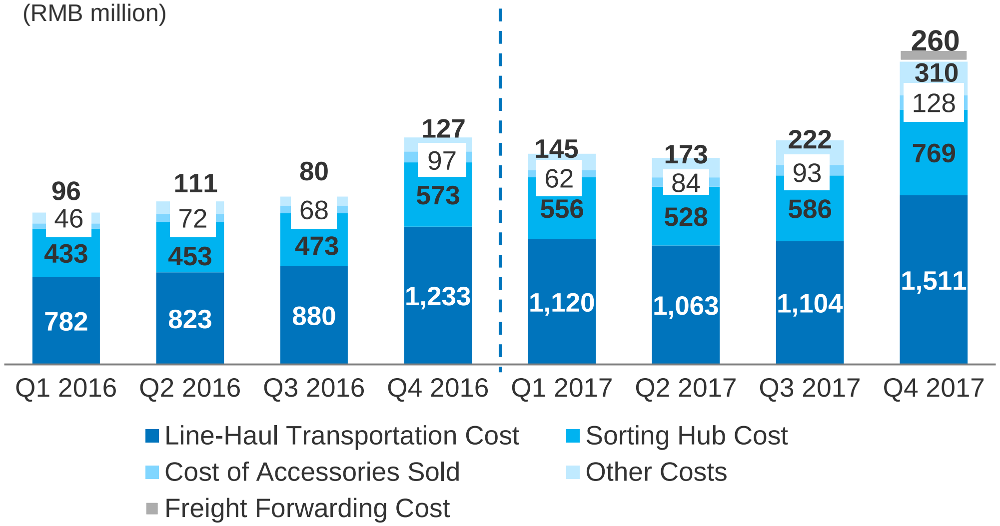


Notes

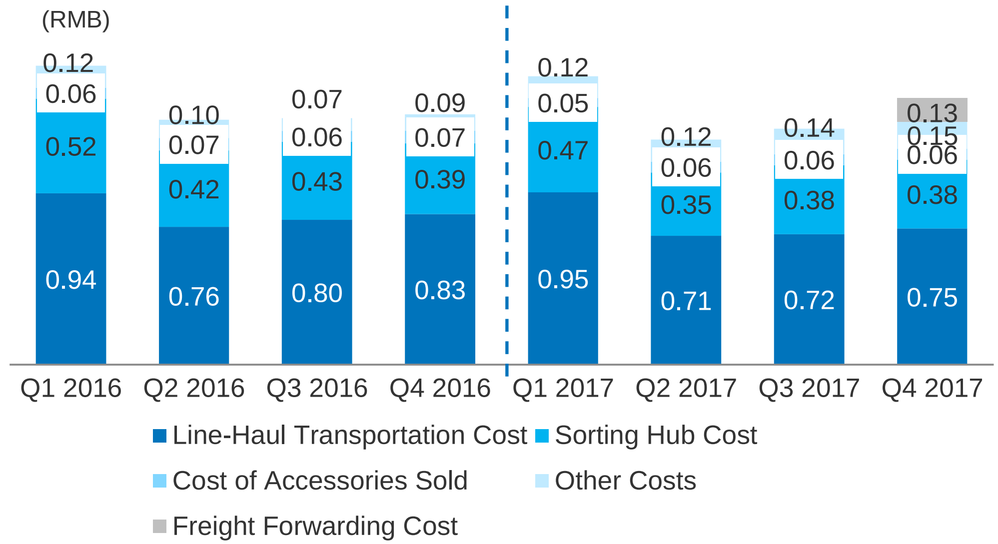
1. Adjusted EBITDA is a non-GAAP financial measure, which is defined as net income before depreciation, amortization, interest expenses and income tax expenses, and further adjusted to exclude (i) shared-based compensation expense; (ii) gain on deemed disposal of equity method investments, and (iii) impairment of equity investments.. See slide 15 for GAAP reconciliation.
2. Adjusted net income is a non-GAAP financial measure, which is defined as net income before (i) share-based compensation expense, (ii) gain on deemed disposal of equity method investments, and (iii) impairment of equity investments. See slide 16 for GAAP reconciliation.

Cost Improvement Driven by Economies of Scale and Operational Efficiency Enhancement

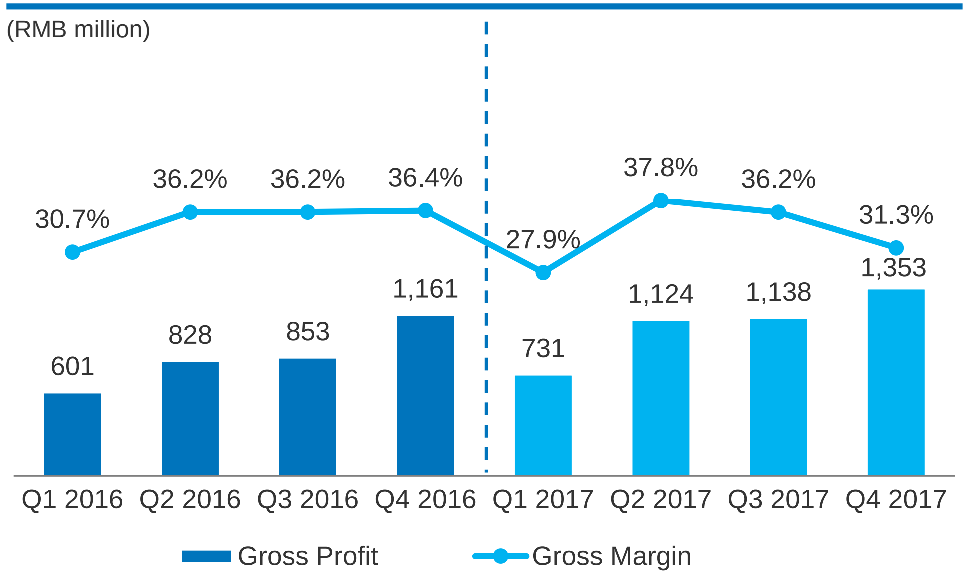
Cost of Revenues - Breakdown



Cost of Revenues per Parcel (1)



Gross Profit and Margin



Key Observations on Q4 2017 Results

- **Line-haul transportation cost per parcel** decreased yoy mainly due to (i) economies of scale, (ii) increased use of self-owned, more cost-efficient, higher capacity trailer trucks in place of third-party trucks, and (iii) improved truck utilization through optimized route planning and back-haul transportation.
- **Sorting hub cost per parcel** decreased yoy mainly due to economies of scale and improved operating efficiency as a result of the increased use of automation in the company's sorting facilities.
- **Cost of accessories sold per parcel** decreased yoy mainly because increased cost of thermal paper was offset by decreased cost of other accessories.
- **Gross margin** decreased to 31.3% compared with the same period last year, mainly because of (i) the increase of enterprise customers' business, (ii) the acquisition of freight forwarding business, both of which had relatively lower gross margin, and (iii) the increase in labor costs at the sorting hubs during online sales promotion seasons .

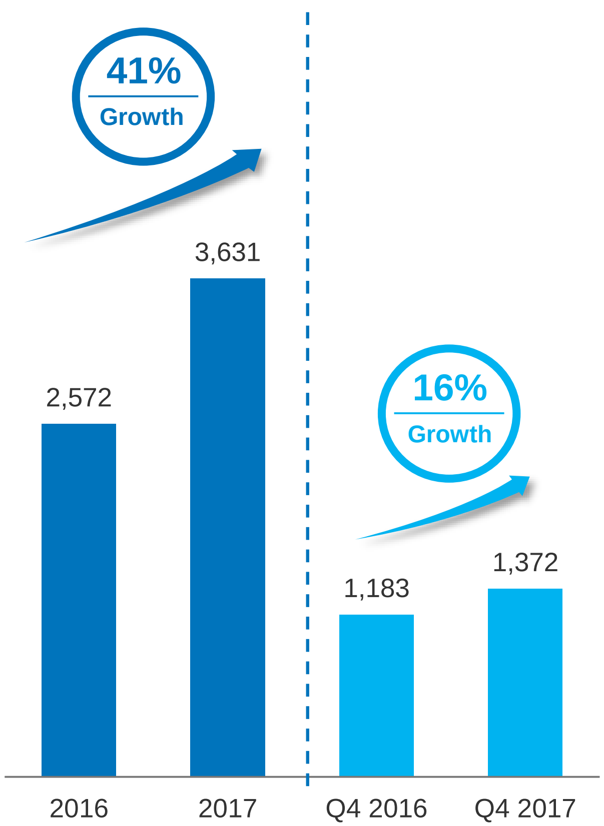
Note

(1) Cost of revenues per parcel is calculated based on costs of revenues divided by the number of parcels handled in a given quarter.

Strong Cash Flow and Continued Investment in Capacity Expansion

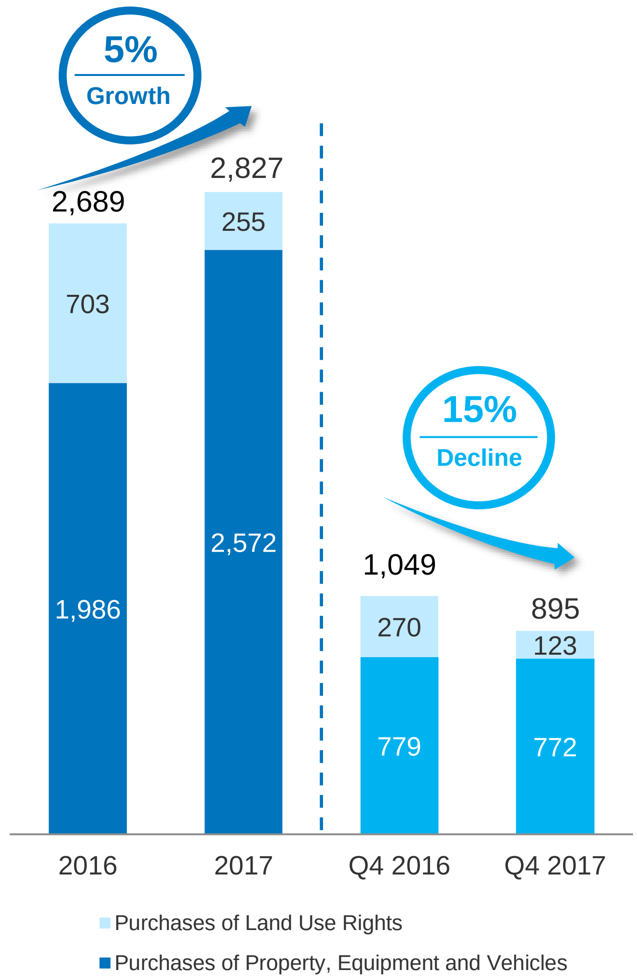
Operating Cash Flow [1]

(RMB million)



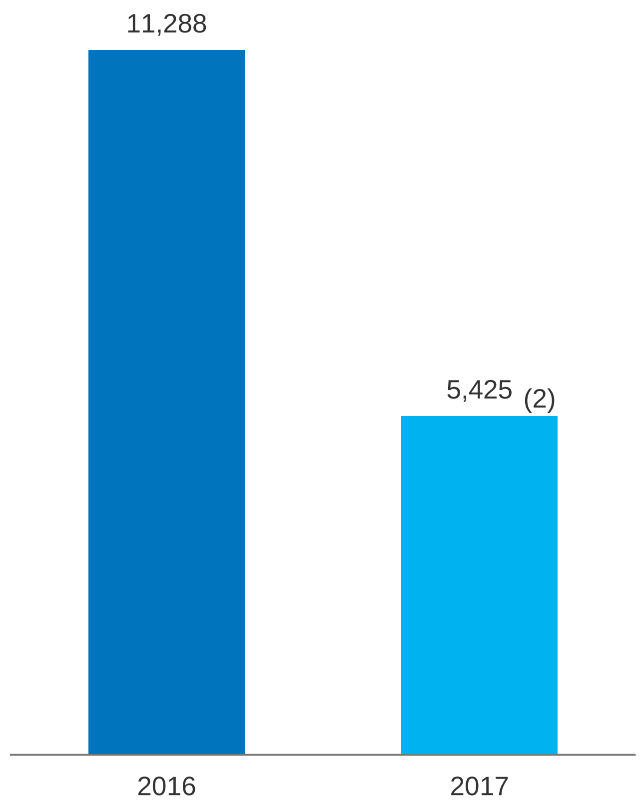
Capital Expenditure

(RMB million)



Cash and Cash Equivalents

(RMB million)



Note
(1) The operating cash flow in 2016 has been retroactively adjusted to reflect the impact of restricted cash presentation in the cash flow statement as a result of ZTO's adoption of a new accounting standard starting from 2017.
(2) The decrease of cash & cash equivalents as of December 31, 2017 from the end of 2016 was mainly due to (i) increase in short-term investments of RMB5.22 billion, (ii) RMB858 million in the repurchase of shares; and (iii) RMB424 million arising from the depreciation of RMB against US$ in 2017.

Reconciliation of GAAP to Adjusted / Non-GAAP Measures

	For the Three Months Ended	
	Dec. 31, 2016	Dec. 31, 2017
Adjusted EBITDA	**RMB million**	**RMB million**
Net Income	**740**	**1,222**
Add: Depreciation	99	135
Add: Amortization	7	13
Add: Interest Expenses	1	2
Add: Income Tax Expenses	252	9
EBITDA	**1,098**	**1,381**
Add: Share-based Compensation Expense	0	13
Add: Impairment of investment in equity investee	-	30
Less: Gain on Deemed Disposal of Equity Method Investments		-
Adjusted EBITDA	**1,098**	**1,424**
Adjusted EBITDA margin	*34.4%*	*32.9%*
Adjusted Net Income		
Net Income	**740**	**1,222**
Add: Share-based Compensation Expense	0	13
Add: Impairment of investment in equity investee	-	30
Less: Gain on Deemed Disposal of Equity Method Investments	-	-
Adjusted Net Income	**740**	**1,265**
Adjusted Net Margin	*23.2%*	*29.2%*

Note: Numbers may not add up due to rounding

Reconciliation of GAAP to Adjusted / Non-GAAP Measures

	For the Three Months Ended 2016				For the Three Months Ended 2017			
	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017
Adjusted EBITDA	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Net Income	338,814	425,802	547,177	739,811	502,870	716,923	717,230	1,221,874
Add: Depreciation	51,008	62,453	89,174	99,032	122,011	127,083	138,757	135,002
Add: Amortization	4,688	5,349	6,310	6,963	7,595	8,702	8,455	12,760
Add: Interest Expenses	3,644	4,742	3,766	834	5,708	5,029	2,479	2,452
Add: Income Tax Expenses	122,018	171,954	186,468	251,547	166,609	233,323	237,670	8,759
EBITDA	520,172	670,300	832,895	1,098,187	804,793	1,091,060	1,104,591	1,380,847
Add: Share-based Compensation Expense	38,634	83,366	251	251	251	13,492	13,492	13,492
Add: Impairment of investment in equity investee	-	-	-	-	-	-	-	30,000
Less: Gain on Deemed Disposal of Equity Method Investments	(9,551)	-	-	-	-	-	-	-
Adjusted EBITDA	549,255	753,666	833,146	1,098,438	805,044	1,104,552	1,118,083	1,424,339
Adjusted EBITDA margin	28.0%	33.0%	35.4%	34.4%	30.8%	37.2%	35.6%	32.9%
Adjusted Net Income	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Net Income	338,814	425,802	547,177	739,881	502,870	716,923	717,230	1,221,874
Add: Share-based Compensation Expense	38,634	83,366	251	251	251	13,492	13,492	13,492
Add: Impairment of investment in equity investee	-	-	-	-	-	-	-	30,000
Less: Gain on Deemed Disposal of Equity Method Investments	(9,551)	-	-	-	-	-	-	-
Adjusted Net Income	367,897	509,168	547,428	740,062	503,121	730,415	730,722	1,265,366
Adjusted Net Margin	18.8%	22.3%	23.3%	23.2%	19.2%	24.6%	23.2%	29.2%

Note: Numbers may not add up due to rounding

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