

# ZTO Express

## Q1 of Fiscal Year 2017 Investor Relations Presentation

May 18, 2017



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 first quarter of 2017, our management quotes and our financial outlook for the second quarter of 2017.

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 first quarter of 2017 are preliminary, unaudited and subject to audit adjustment. In addition, we may not meet our financial outlook for the second quarter of 2017 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.

# 2017Q1 Key Financial Highlights

## Significant Scale



**1,175m**  
parcel volume in  
Q1 2017



**4,200+**  
Line-haul  
Vehicles<sup>(1)</sup>



**~27,000**  
Pickup/Delivery  
Outlets<sup>(2)</sup>



**75**  
Sorting Hubs<sup>(3)</sup>

## Robust Growth



**42% YoY**  
parcel volume  
growth in Q1 2017  
, above industry  
growth of 31.5%  
YoY<sup>(4)</sup>



**34% YoY**  
revenue growth in  
Q1 2017, beating  
upper end of Q1  
guidance



**45% YoY**  
operating profit  
growth in Q1 2017



**49%** basic and  
diluted earnings  
per ADS YoY  
growth in Q1 2017

## Superior Profitability



**RMB657m**  
operating profit with  
operating margin of  
**25.1%** in Q1  
2017, up from 23.2% in  
Q1 2016



**RMB503m**  
net income with net  
margin of  
**19.2%** in Q1  
2017, up from 17.3% in  
Q1 2016



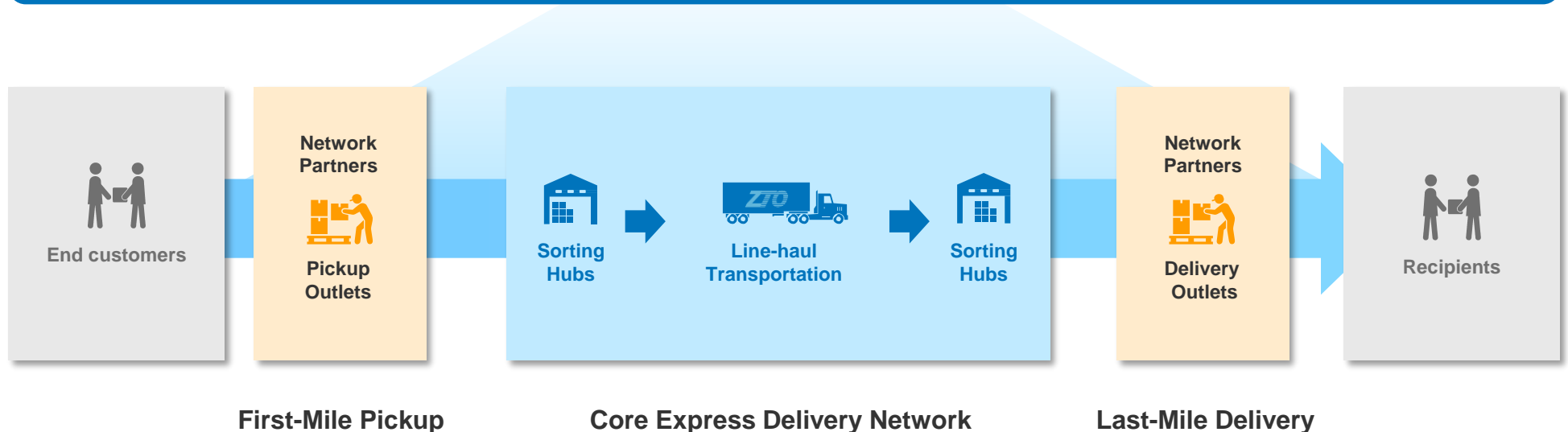
**RMB0.70**  
basic and diluted  
earnings per ADS in  
Q1 2017, up from  
RMB0.47 in Q1 2016

### Notes

1. Includes around 3,000 self-owned trucks as of March 31, 2017, an increase from 2,930 self-owned trucks as of December 31, 2016, among which 1,200 are high capacity, 15-17 meter long trucks, as of March 31, 2017, compared to over 1,145 as of December 31, 2016.
2. Number of total service outlets across entire network as of March 31, 2017, an increase from about 26,000 service outlets as of December 31, 2016.
3. Includes 69 self-operated sorting hubs, and 6 sorting hubs operated by our network partners.
4. Average industry parcel volume growth rate for Q1 2017 is from the State Post Bureau.



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



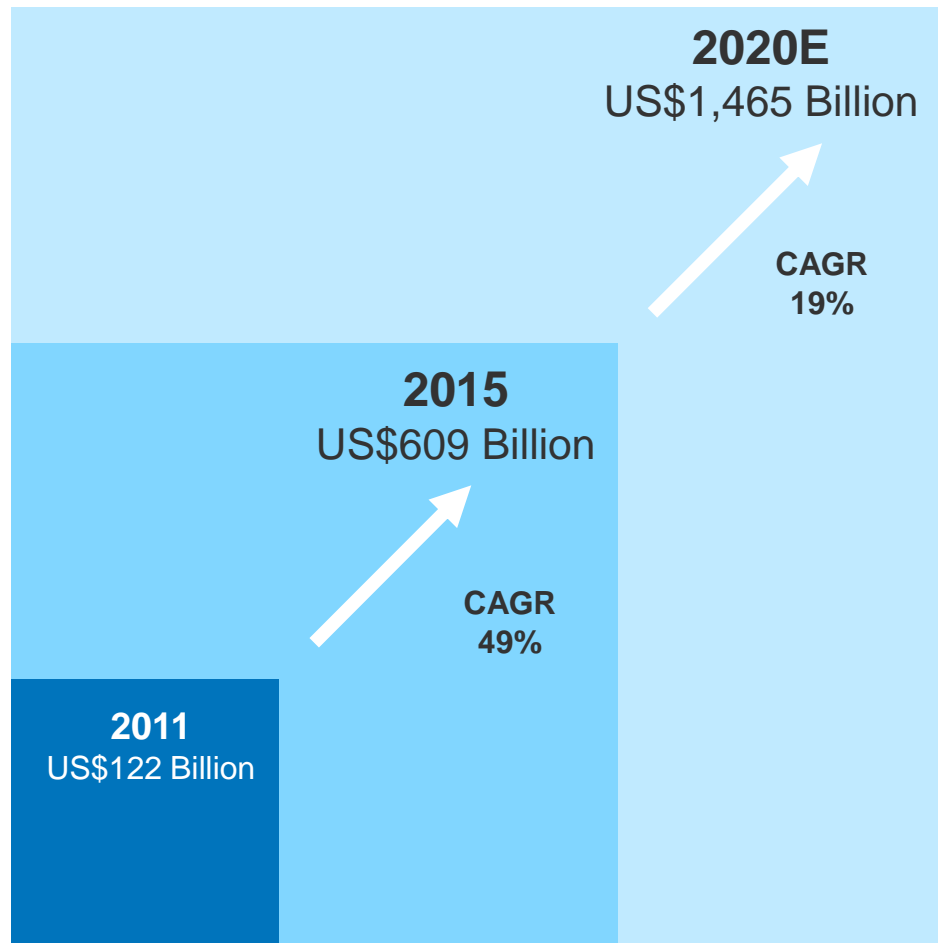
“ZTO Express” Brand

Integrated IT Platform

Service Standardization

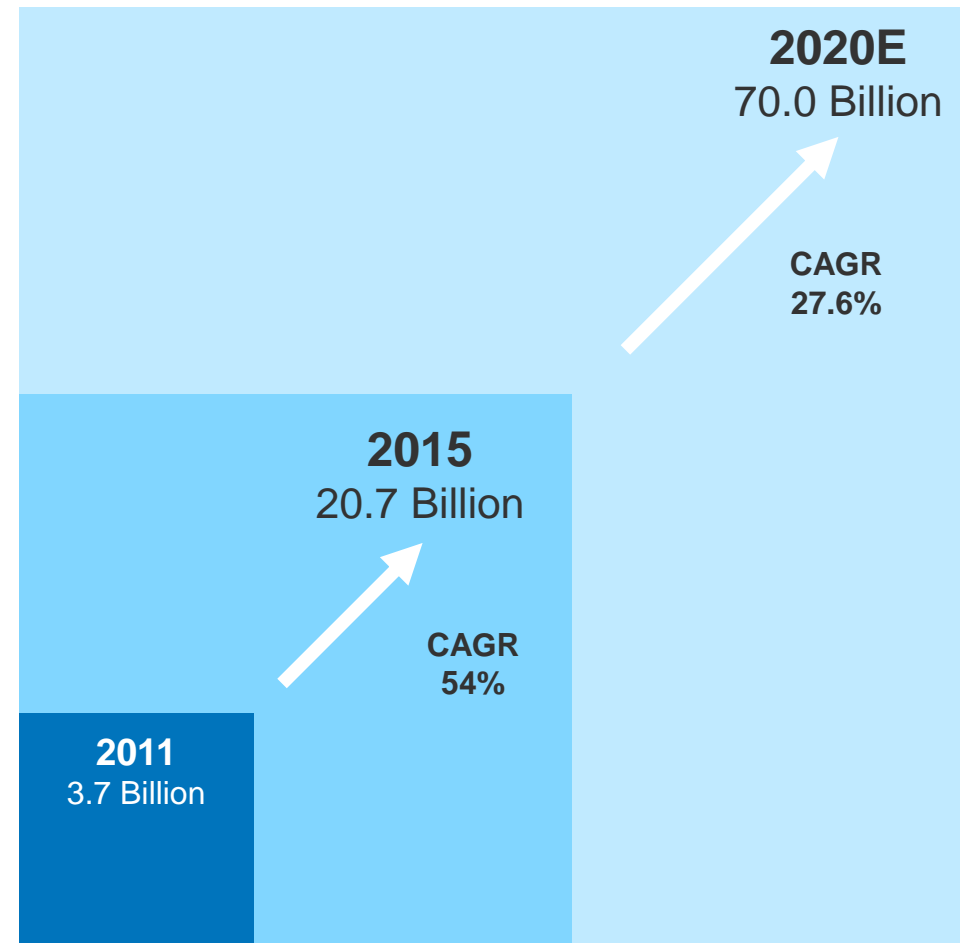
# Huge Market Opportunities from E-commerce Growth

## Online Retail Sales (GMV) in China



Source: CNNIC, iResearch Report

## Express Delivery Parcel Volume in China

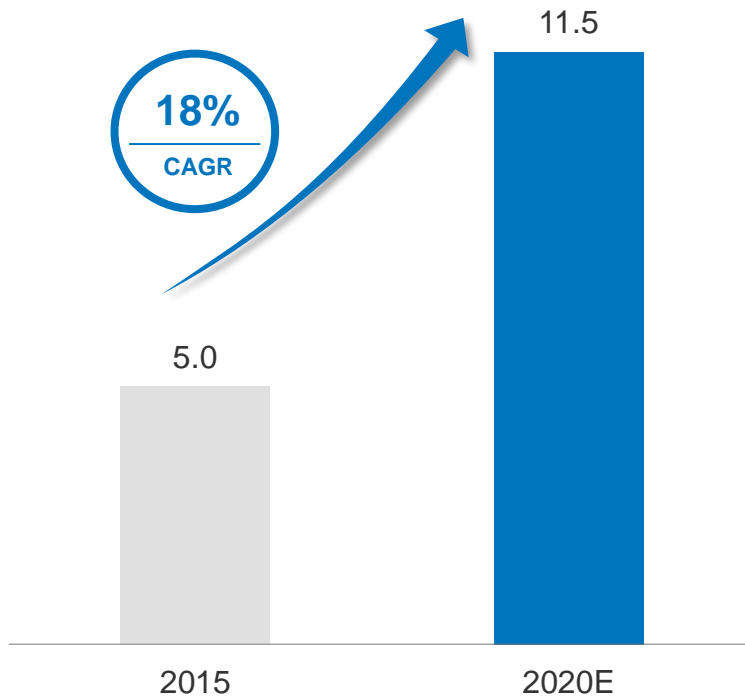


Source: The 13<sup>th</sup> Five-Year Plan issued by China Post Bureau.



## China Cross-Border E-commerce Market

GMV (RMB trillion)

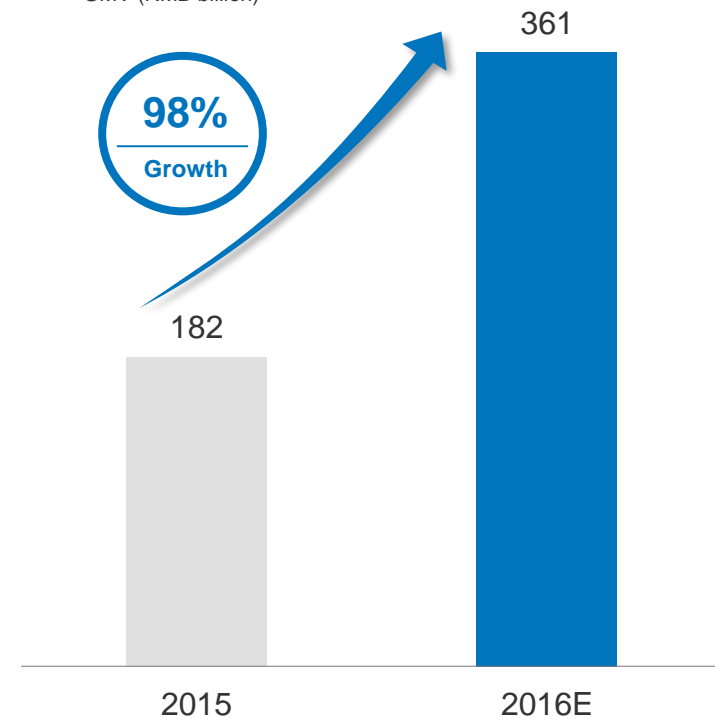


Source iResearch Report



## China Micro Merchants<sup>(1)</sup> Market

GMV (RMB billion)



Source Internet Society of China

### 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<sup>(1)</sup>



## Notes

1. Data presented as of March 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 69 self-operated sorting hubs, and 6 sorting hubs operated by our network partners
4. Includes ~3,000 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 March 31, 2017
6. Includes over 3,600 direct network partners and around 5,600 indirect network partners as of March 31, 2017
7. As of December 31, 2016,



# 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

- ✓ 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<sup>(1)</sup>, 72-hour punctuality rate<sup>(2)</sup>, and customer complaint rate<sup>(2)</sup>

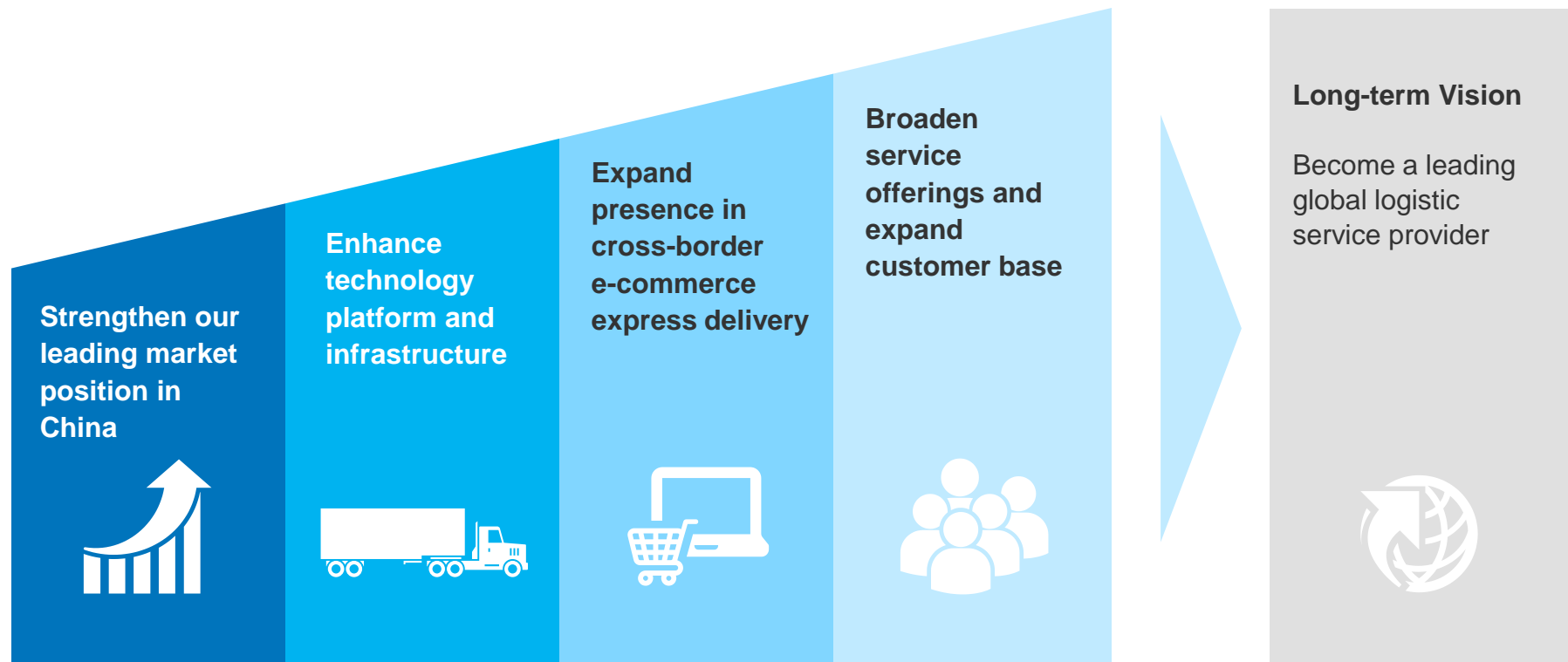
### Notes

1. According to Horizon Consulting Group

2. According to State Post Bureau



# Our Growth Strategies to Capture the Market Opportunities



## 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 Financial Highlights for Q1 2017<sup>(1)(2)</sup>

## Robust Growth

### Parcel Volume

1,175m  
+41.9% YoY

### Revenue

RMB2,615m  
+33.5% YoY

### Income from Operations

RMB657m  
+44.5% YoY

## Superior Profitability

### Operating Margin

25.1% vs. 23.2% in  
Q1 2016

### Net Margin

19.2% vs. 17.3% in  
Q1 2016<sup>(3)</sup>

### Adjusted Net Income<sup>(4)</sup>

RMB503m  
+36.8% YoY

#### Notes

1. Total revenue and margins refer to the quarter ended March 31, 2017.

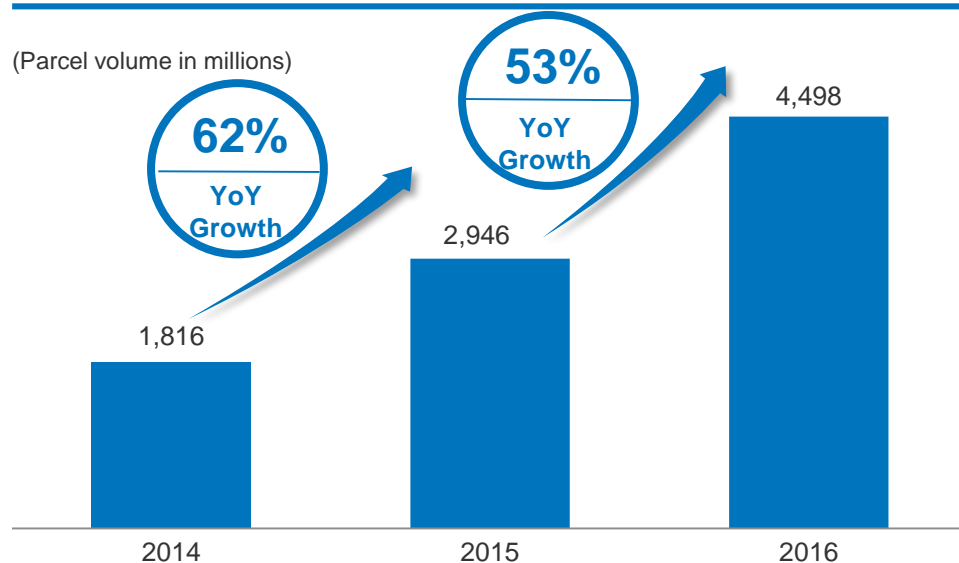
2. All Margins are calculated as a % of total revenue.

3. Net income for the first quarter of 2016 included a RMB9.55 million gain on deemed disposal of equity method investments. Excluding the impact of that factor, the net margin in the first quarter of 2016 would have been around 16.8%.

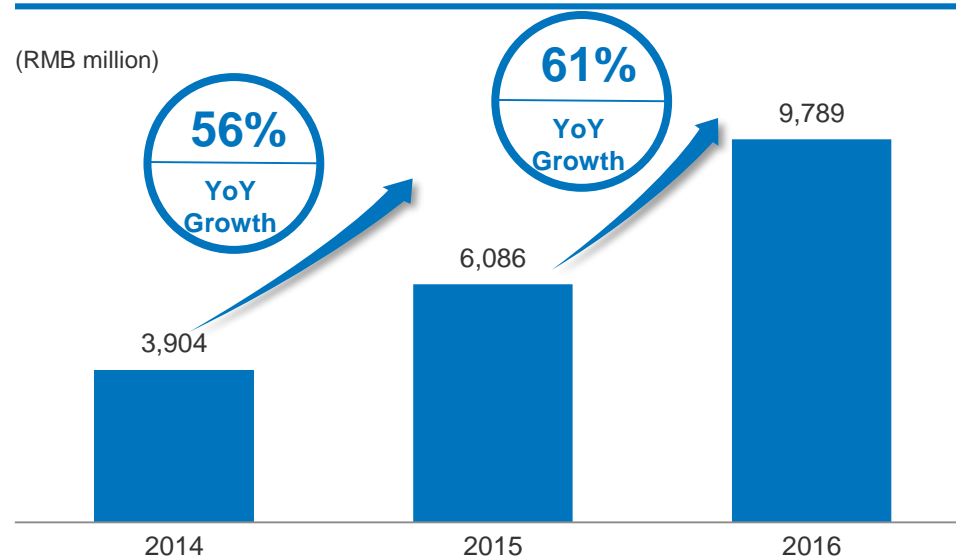
4. Net income adjusted for share-based compensation expenses and gain on deemed disposal of equity method investments, if any.

# Strong Revenue Growth Driven by Robust Parcel Volume Growth

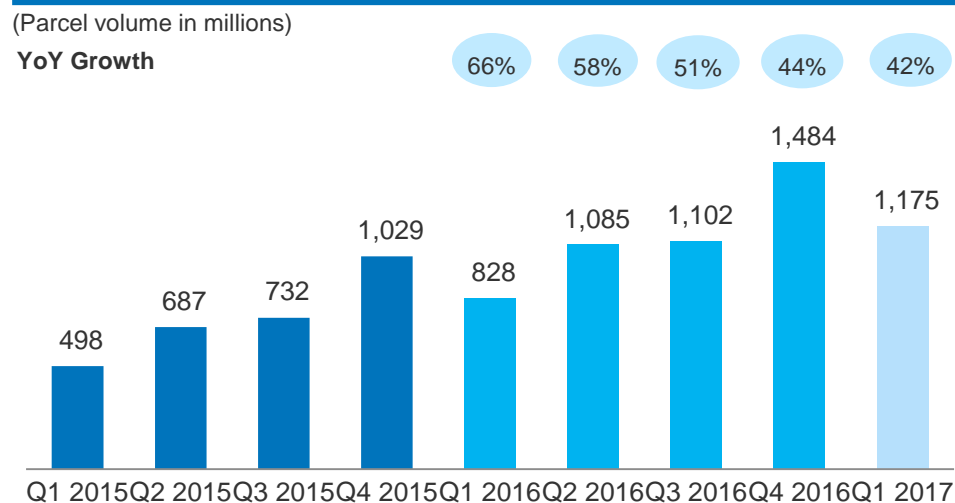
## Parcel Volume



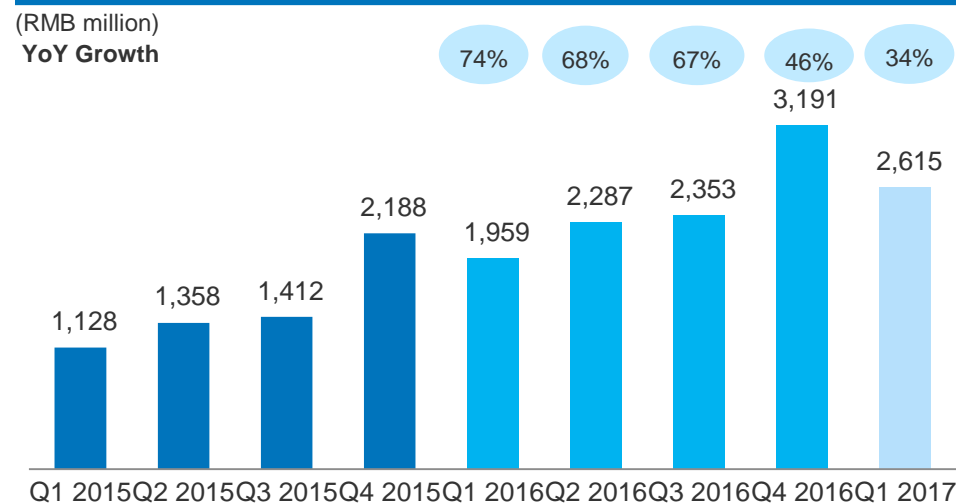
## Total Revenue



## Quarterly Parcel Volume

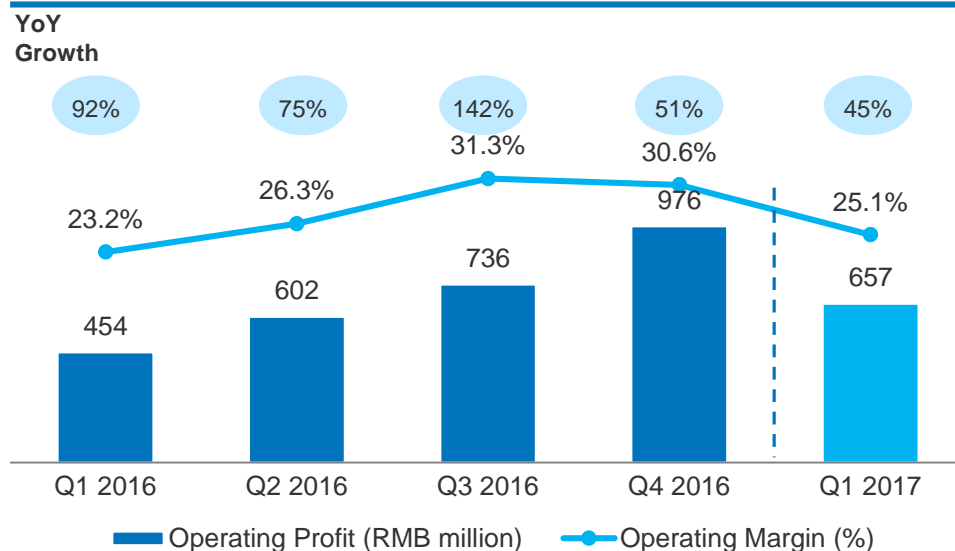


## Quarterly Revenue

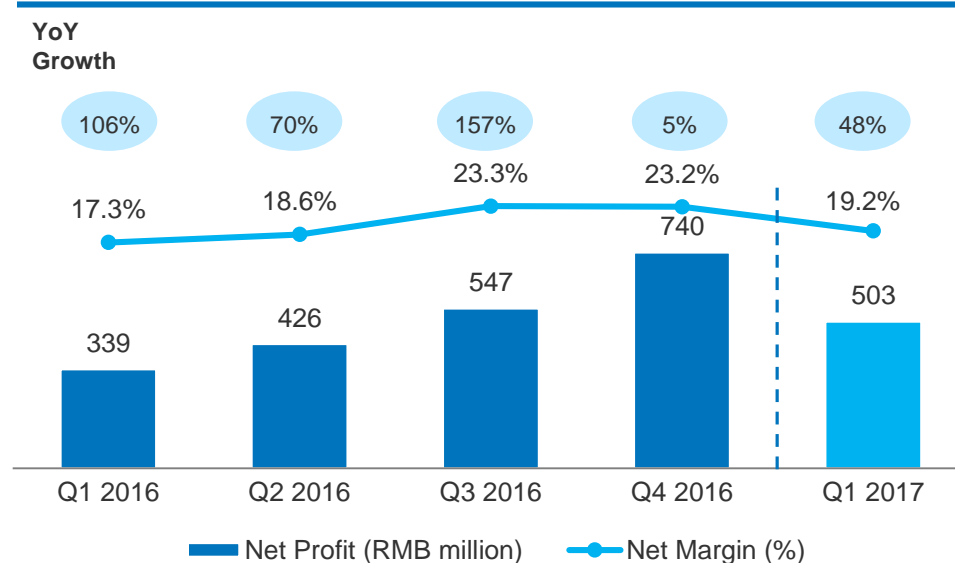


# Strong Profit Growth and Improved Margins

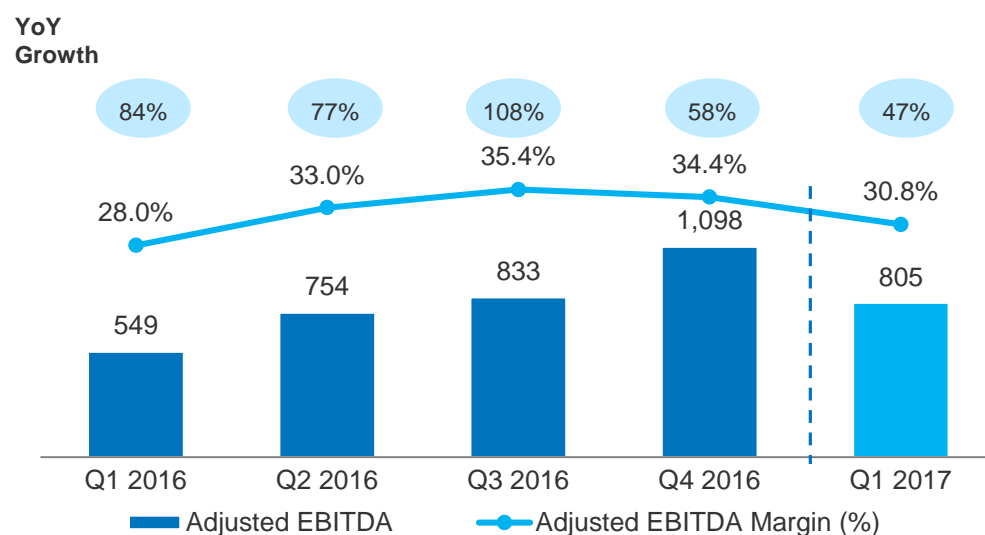
## Income from Operations and Margin



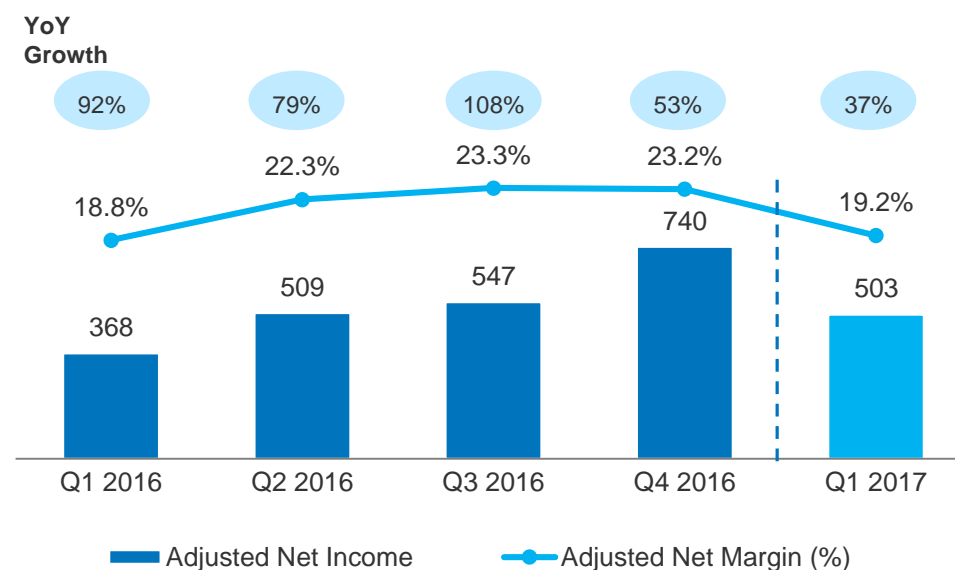
## Net Income and Margin



## Adjusted EBITDA<sup>1</sup> and Margin



## Adjusted Net Income<sup>2</sup> and Margin



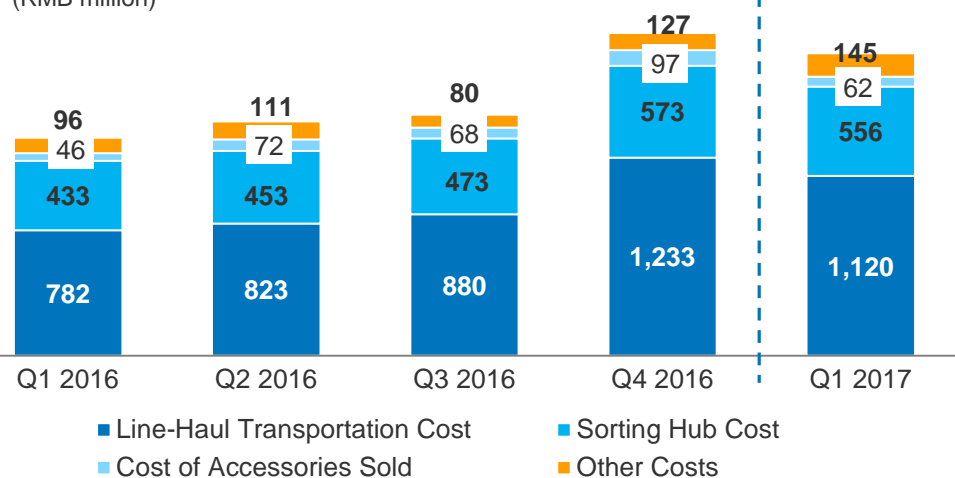
### Notes

- 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; and (ii) gain on deemed disposal of equity method investments.. See slide 17 for GAAP reconciliation.
- Adjusted net income is a non-GAAP financial measure, which is defined as net income before (i) share-based compensation expense and (ii) gain on deemed disposal of equity method investments. See slide 17 for GAAP reconciliation.

# Cost Improvement Driven by Economies of Scale and Operational Efficiency Enhancement

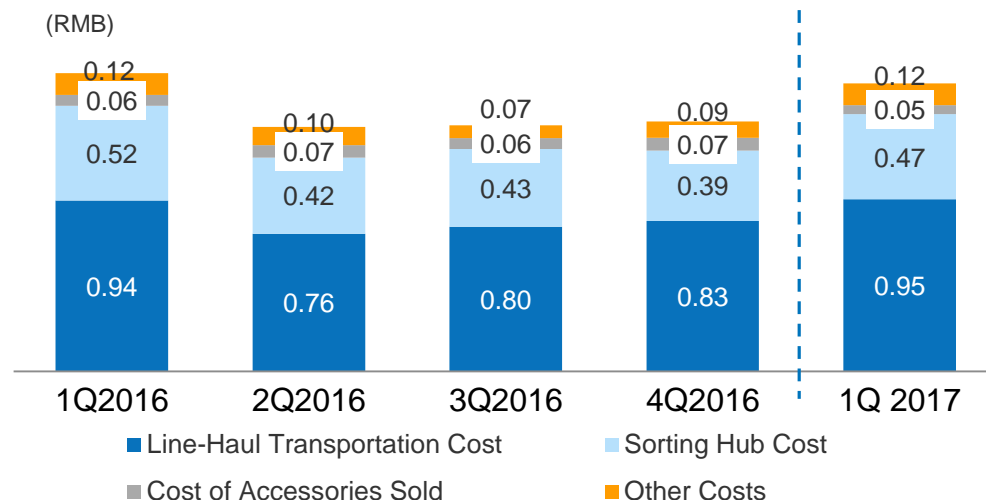
## Cost of Revenues - Breakdown

(RMB million)



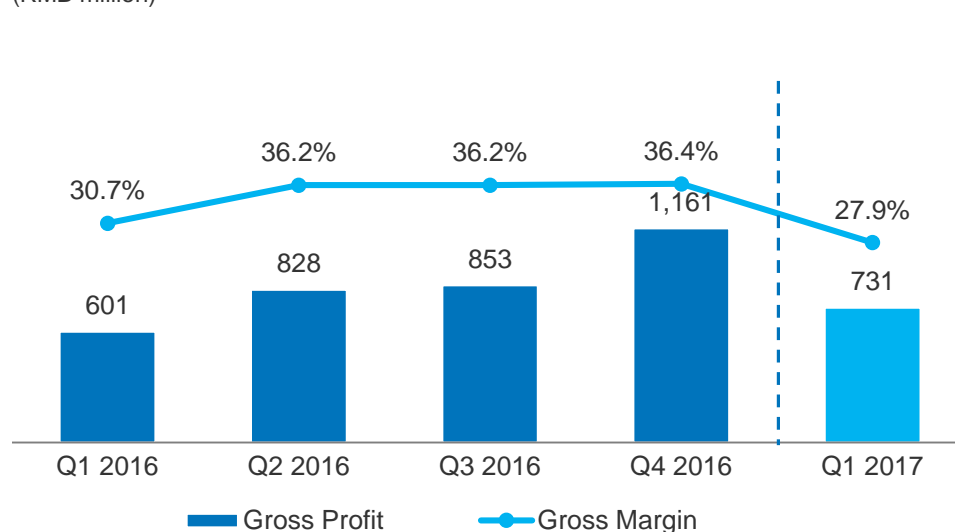
## Cost of Revenues per Parcel<sup>(1)</sup>

(RMB)



## Gross Profit and Margin

(RMB million)



## Key Observations on Q1 2017 Results

- **Line-haul transportation cost per parcel** increased yoy mainly due to an increase in fuel prices, depreciation and higher than expected outsourced transportation costs
- **Sorting hub cost per parcel** decreased yoy mainly due to economies of scale and efficiency improvement from increased use of automated equipment in sorting hubs
- **Cost of accessories sold per parcel** decreased yoy mainly due to operating leverage
- **Gross margin** decreased to 27.9% from 30.7% in the same period last year, mainly attributable to the impact of downward adjustment in service charge in Q2 2016 and the increase of line-haul transportation cost

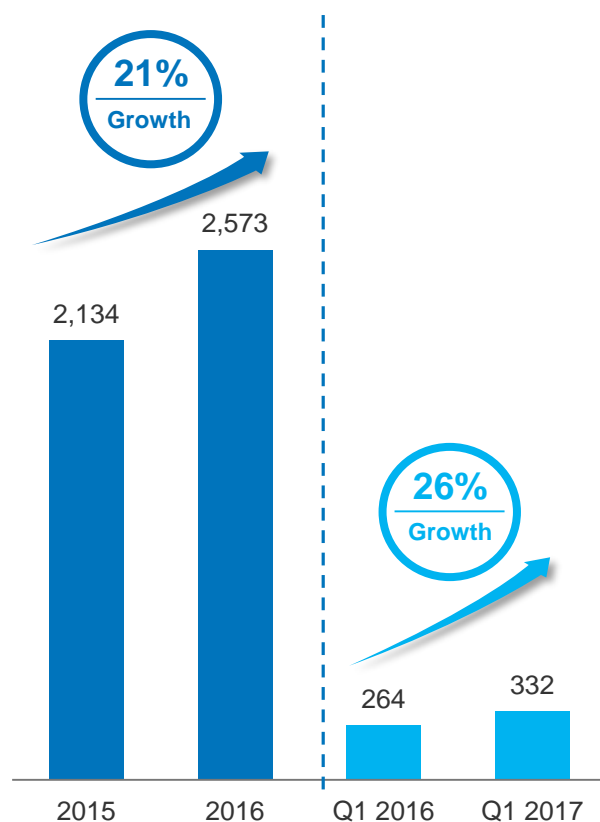
Note

(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

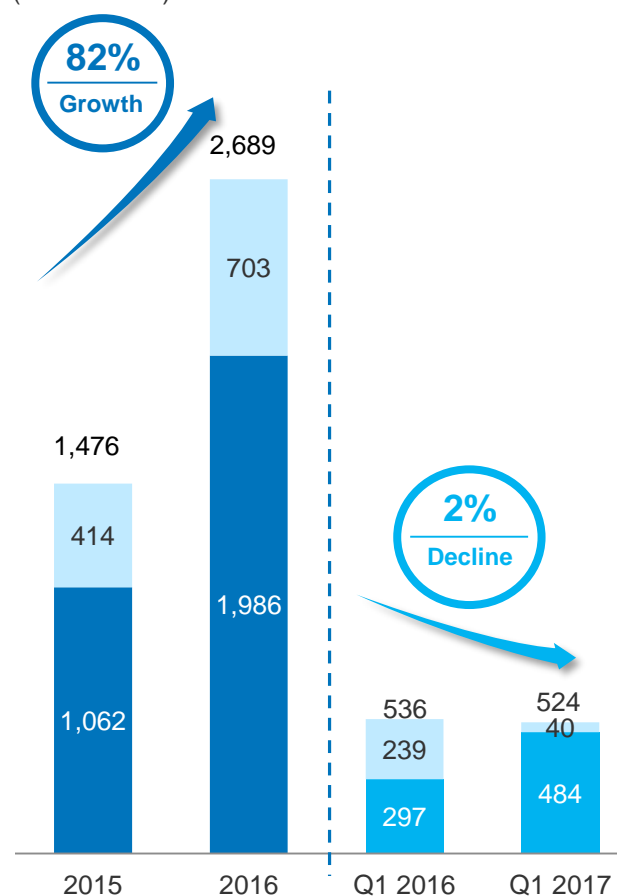
## Operating Cash Flow <sup>(1)</sup>

(RMB million)



## Capital Expenditure

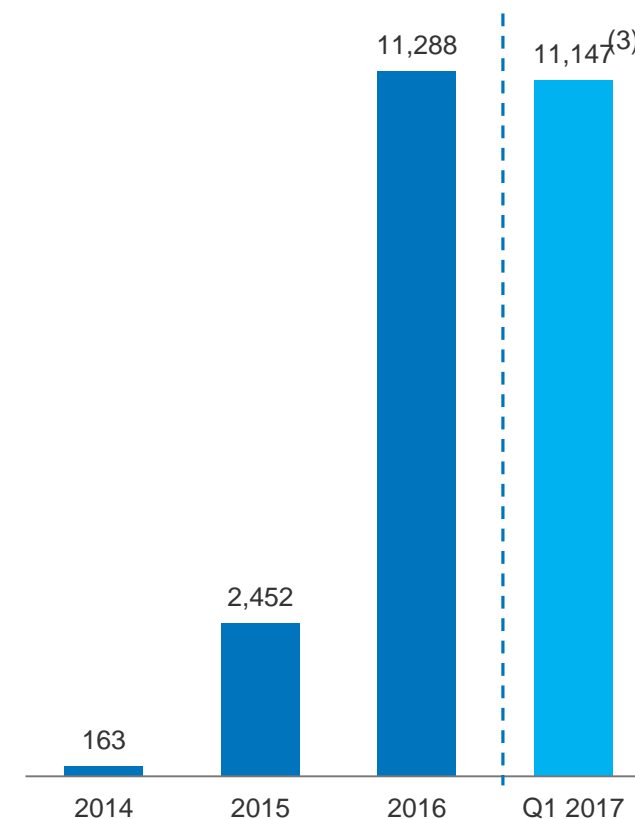
(RMB million)



■ Purchases of Land Use Rights  
■ Purchases of Property, Equipment and Vehicles

## Cash and Cash Equivalents & Time Deposits <sup>(2)</sup>

(RMB million)



### Note

(1): The operating cash flow in 2015 and 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): Cash and cash equivalents as of December 31, 2016 included net proceeds of about RMB9.2bn from the initial public offering.

(3): Time deposits were about RMB4,818m as of March 31, 2017.

# Reconciliation of GAAP to Adjusted / Non-GAAP Measures



For the Three Months Ended

Mar. 31, 2016      Mar. 31, 2017

Adjusted EBITDA	RMB million	RMB million
<b>Net Income</b>	<b>339</b>	<b>503</b>
Add: Depreciation	51	122
Add: Amortization	5	8
Add: Interest Expenses	4	6
Add: Income Tax Expenses	122	167
<b>EBITDA</b>	<b>520</b>	<b>805</b>
Add: Share-based Compensation Expense	39	0
Less: Gain on Deemed Disposal of Equity Method Investments	-10	-
<b>Adjusted EBITDA</b>	<b>549</b>	<b>805</b>
<b>Adjusted EBITDA margin</b>	<b>28%</b>	<b>31%</b>
<b>Adjusted Net Income</b>		
<b>Net Income</b>	<b>339</b>	<b>503</b>
Add: Share-based Compensation Expense	39	0
Less: Gain on Deemed Disposal of Equity Method Investments	-10	-
<b>Adjusted Net Income</b>	<b>368</b>	<b>503</b>
<b>Adjusted Net Margin</b>	<b>19%</b>	<b>19%</b>

Note: Numbers may not add up due to rounding



# Reconciliation of GAAP to Adjusted / Non-GAAP Measures



	2015				2016				2017
	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Mar 31, 2017
Adjusted EBITDA	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
<b>Net Income</b>	164,773	250,647	213,147	703,051	338,814	425,802	547,177	739,811	502,870
Add: Depreciation	33,290	35,356	39,217	37,413	51,008	62,453	89,174	99,032	122,011
Add: Amortization	2,744	2,854	3,026	4,156	4,688	5,349	6,310	6,963	7,595
Add: Interest Expenses	4,142	4,294	4,293	3,663	3,644	4,742	3,766	834	5,708
Add: Income Tax Expenses	65,836	97,626	90,323	166,214	122,018	171,954	186,468	251,547	166,609
<b>EBITDA</b>	270,785	390,777	350,006	914,497	520,172	670,300	832,895	1,098,187	804,793
Add: Share-based Compensation Expense	27,136	33,927	50,141	5,596	38,634	83,366	251	251	251
Less: Gain on Deemed Disposal of Equity Method Investments	-	-	-	(224,148)	(9,551)	-	-	-	-
<b>Adjusted EBITDA</b>	297,921	424,704	400,147	695,945	549,255	753,666	833,146	1,098,438	805,044
<b>Adjusted EBITDA margin</b>	26.40%	31.30%	28.30%	31.80%	28.00%	33.00%	35.40%	34.40%	30.79%
Adjusted Net Income	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
<b>Net Income</b>	164,773	250,647	213,147	703,051	338,814	425,802	547,177	739,881	502,870
Add: Share-based Compensation Expense	27,136	33,927	50,141	5,596	38,634	83,366	251	251	251
Less: Gain on Deemed Disposal of Equity Method Investments	-	-	-	(224,148)	(9,551)	-	-	-	-
<b>Adjusted Net Income</b>	191,909	284,574	263,288	484,499	367,897	509,168	547,428	740,062	503,121
<b>Adjusted Net Margin</b>	17.00%	21.00%	18.60%	22.10%	18.80%	22.30%	23.30%	23.20%	19.24%

Note: Numbers may not add up due to rounding



**NYSE Ticker: ZTO**

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