



# ZTO Express

## Q1 of Fiscal Year 2019

### Investor Relations

### Presentation

May 16, 2019



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 2019, our management quotes and our financial outlook for 2019

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 2019 are preliminary, unaudited and subject to audit adjustment. In addition, we may not meet our financial outlook for 2019 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.

# Why ZTO

## Market Opportunity

- Significant growth opportunity driven by strong growth of China e-commerce
- Favorable government policies and industry regulations supporting growth
- Largest market share in terms of parcel volume of 18.6% by Q1 2019

## Strategy

- A scaled platform with superior efficiency supporting nationwide outlets that are grassroots yet highly profitable

## Business Model

- Owned and operated sorting & transit network/platform integrated with network-partner outlets
- “Shared-success” system provides fairness by aligning interests and equalizing disparities
- Scale, automation and lean management enabling operational efficiency and cost leadership

## Team/People

- Highly experienced team with thought leadership and long-term vision
- Effective execution and empowering organizational structure
- Stable partner network connecting millions of courier entrepreneurs

## Scale Innovation

- Highest nationwide coverage with flagship presence in strategic locations
- Early-mover investments in infrastructure and innovative automation and digitization
- High barriers to entry, and solid track record of economies of scale

## Operational Excellence

- Centralized planning and monitoring and real-time data analytics
- Leading I.T. capabilities in automation, ecosystem connectivity
- Result-oriented KPIs driving performance and results

## Financial Performance

- Superior profitability on back of robust growth
- Industry-leading margins and strong cash generation
- Value investment opportunity with strong upside potential

# Our Competitive Advantages



## Shared Success System

- ✓ Key regional managers are also shareholders of ZTO
- ✓ ZTO provides a well-established network partner entry and exit mechanism
- ✓ Accountability and high level of decentralization at sorting hubs

## Early Built-out Infrastructure

- ✓ Highest capital expenditure among peer players in past 5 years securing land use rights & constructing to unique designs
- ✓ Early investments and innovation in sorting automation and IT solutioning



## Superior Service Quality

- ✓ Industry leading service quality in overall customer satisfaction<sup>1</sup>, 72-hour punctuality rate<sup>2</sup> and customer complaint rate<sup>2</sup>



## Stable Network

- ✓ Sophisticated last-mile delivery fee and transit fee mechanisms tailored to local market to balance and counter-balance profit among network partners in different regions
- ✓ The highest last-mile delivery fee among peer players to ensure competitive rates for couriers



## Operating Efficiency

- ✓ Standardized design and layout of sorting hubs to accommodate high capacity vehicles
- ✓ Increasing use of cost advantageous self-owned fleet, particularly large capacity trailer trucks

### Notes :

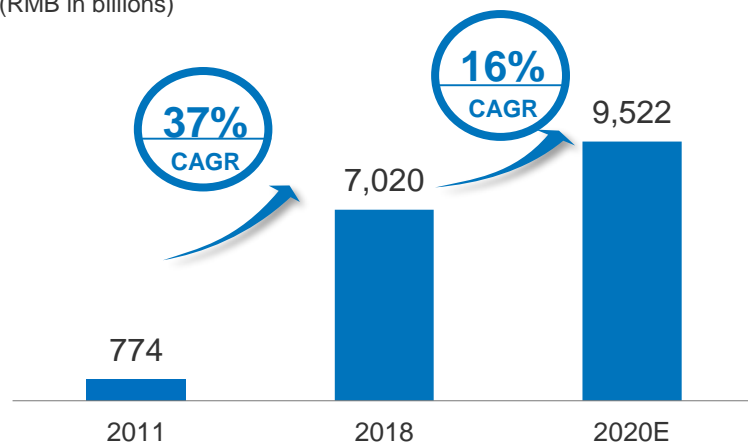
1. According to Horizon Consulting Group and State Post Bureau for 2016, 2017, 2018 and 2019

2. According to State Post Bureau for 2016, 2017, 2018 and 2019

## Market Opportunities

### Online Retail Sales (GMV) in China Maintaining Robust Growth

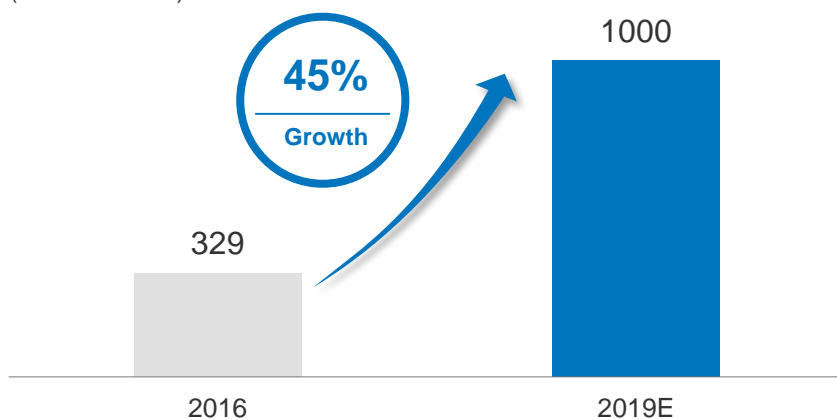
(RMB in billions)



Source: CNNIC, National Bureau of Statistics

### China Micro Merchants<sup>(1)</sup> Market Demonstrating High Growth Potential

(RMB in billions)

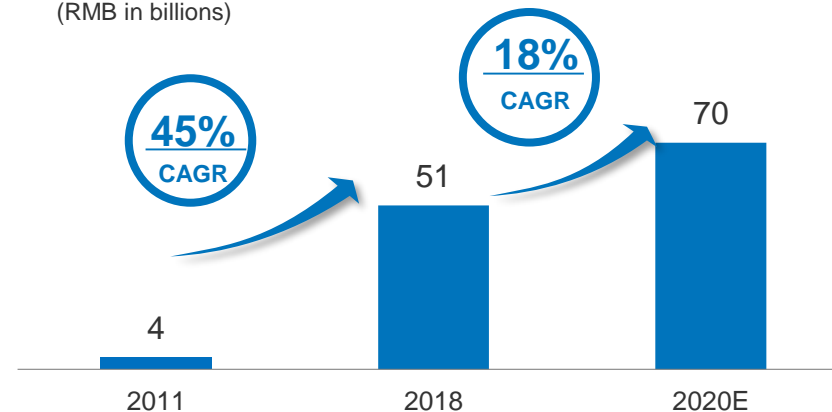


Source: iResearch

## Express Delivery Industry

### Express Delivery Parcel Volume in China Benefiting from E-Commerce Growth

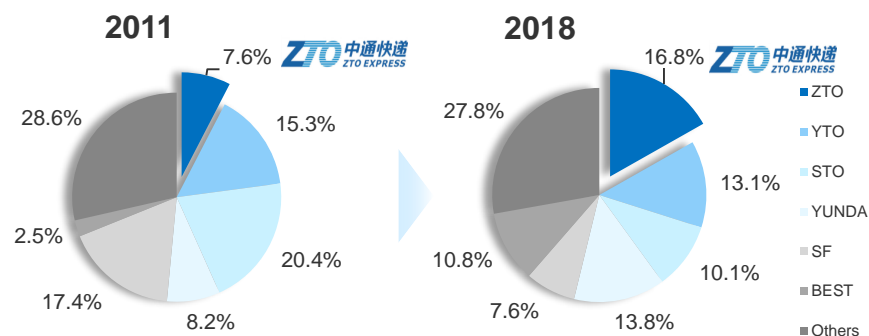
(RMB in billions)



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

### 18.6% Market Share by 1Q2019

In terms of parcel volume



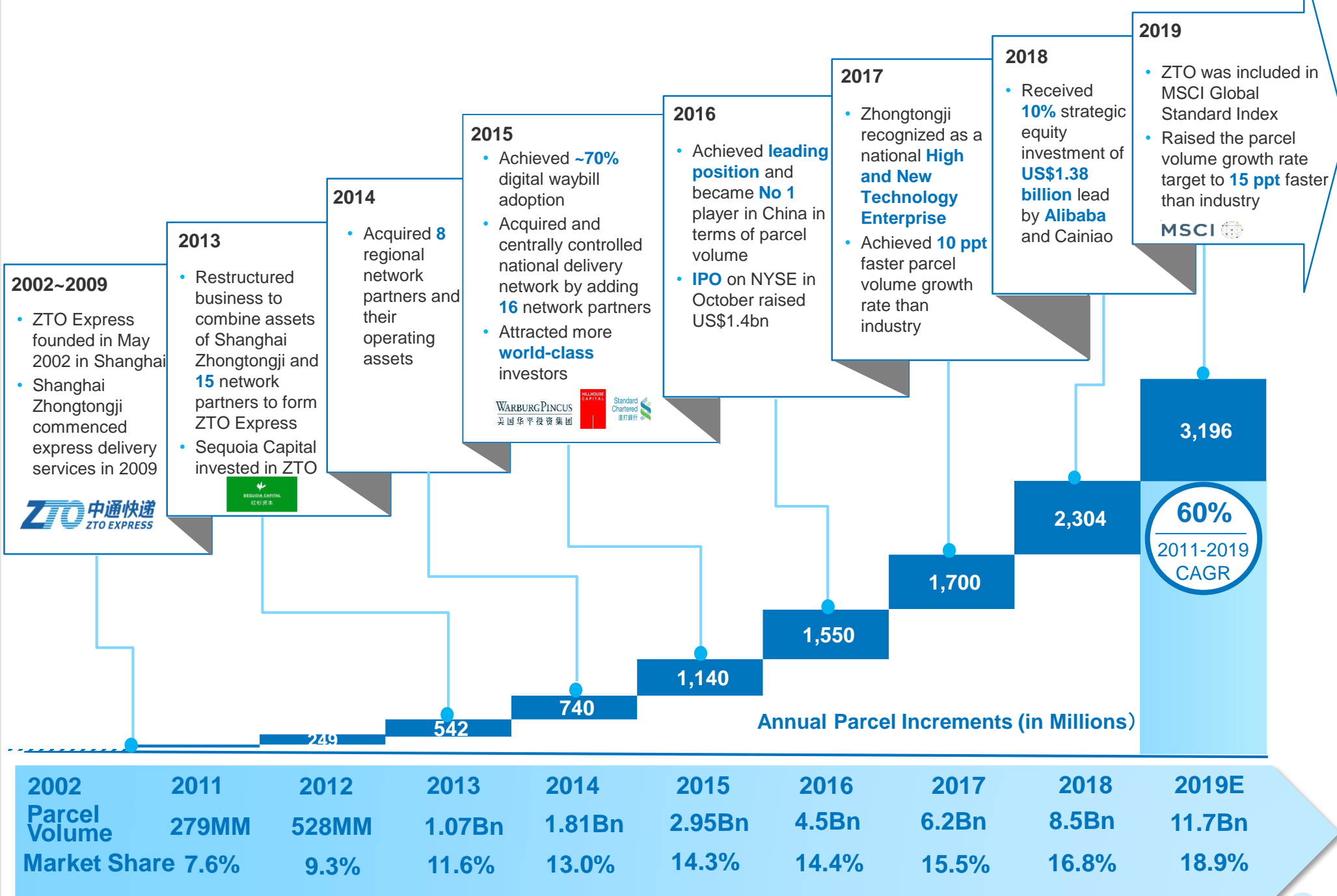
Source: Companies' annual report

Note:

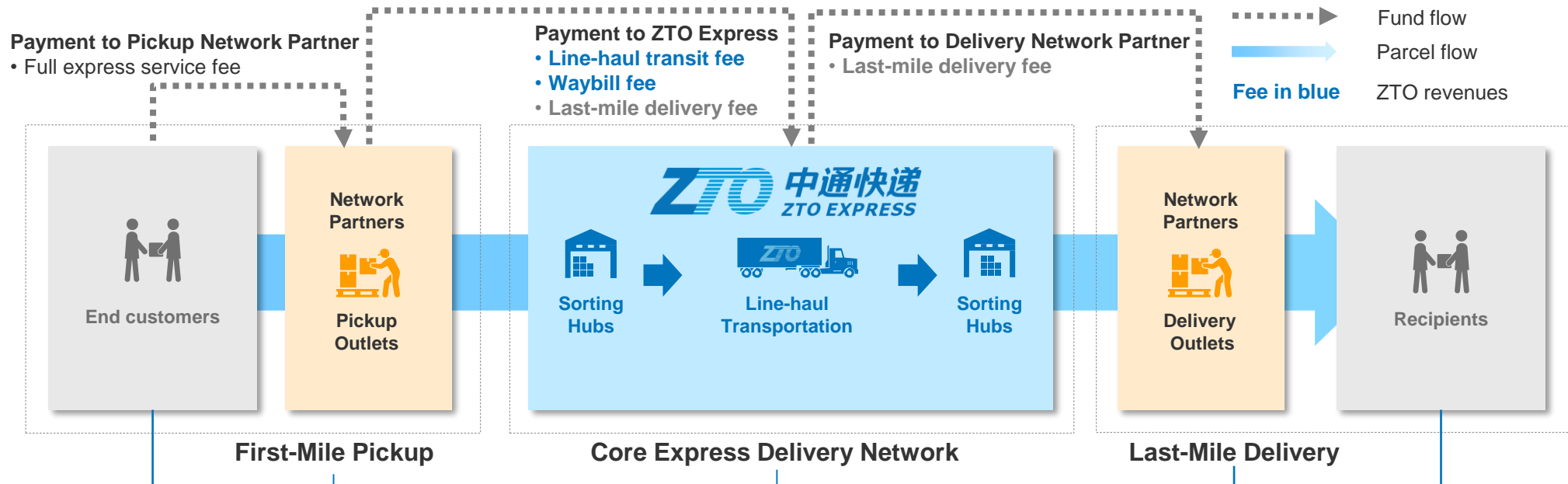
1. Micro merchants refer to online merchants who promote and sell merchandise on social networking and other mobile platforms



# Our History and Key Milestones



# Our Distinctive Network Partner Business Model (“NPM”)



## Our End-Customers

- E-Commerce merchants
- Enterprise clients
- Individual consumers

## Our Network Partners

- Our network partners provide pickup and last-mile delivery services
- Our network partners are also our direct customers, paying us a fee for each parcel transited through our network
- ~4,500 Direct Network Partners<sup>1</sup>
- ~29,800 Pickup/Delivery Outlets

## Our Core Network

- 87 Sorting Hubs<sup>2</sup>
- 5,700+ Line-haul Vehicles<sup>3</sup>
- 2,200+ Line-haul Routes<sup>4</sup>
- >98% Cities and Counties Covered

## Our Business Scale

- The largest express delivery company in China by market share since 2016
- 2,264M Parcels<sup>5</sup> in 1Q 2019

### Notes :

- Includes over 4,500 direct network partners as of March 31, 2019 ; Conduct business relationship through corporation agreement
- Includes 78 self-operated sorting hubs, and 9 sorting hubs operated by our network partners
- Includes over 4,850 self-owned vehicles and over 850 vehicles owned and operated by Tonglu Tongze Logistics Ltd., an entity majority owned by our employees
- Only includes line-haul routes between sorting hubs as of March 31, 2019
- “Parcel volume” in any given period is defined as the number of parcels collected by our network partners using our waybills

# Network Partner Model Widely Adopted

- Explosive growth of e-commerce in China demands scalability and flexibility
- Network partner players gaining market share from direct model players;
- ZTO network partner model offers the most stability than peers

## Network Partner Model Best Suited to Enable E-commerce Growth



**Network Scalability**



**Network Flexibility**



**Cost and Capital Efficiency**

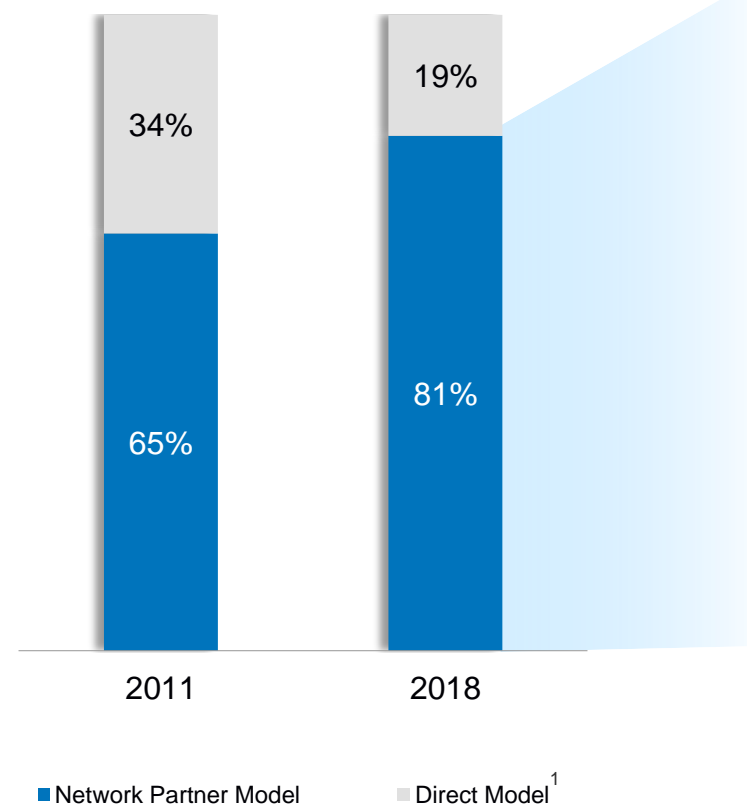


**Network Value Appreciation**



## Network Partner Model Has Become a Predominant Model in Industry

In terms of parcel volume



Source: iResearch Report

Notes:

1. Include SF, EMS, JD and other express delivery companies that use direct model. EMS market share based on assumptions



# Our Experienced Management Team



**Meisong Lai**

*Founder, Chairman  
& Chief Executive  
Officer*

- 17 years of experience in express delivery industry
- Deputy chairman of the China Express Delivery Association



**Jianfa Lai**

*Co-founder,  
Director and Vice  
President of  
operations*

- 17 years of experience in express delivery industry
- Former executive director of ZTO Supply Chain Management Co. Ltd.



**Jilei Wang**

*Director and Vice  
President of  
Infrastructure  
Management*

- 12 years of experience in infrastructure management
- Former deputy general manager of ZTO's network partner in Beijing



**Huiping Yan**

*Chief Financial  
Officer*

- Over 27 years of experience in corporate and financial management
- 11 years at GE in US and Asia, 8 years in public accounting and tax consulting
- 5 years in large Chinese hotel chain management and 3 years in TMT/logistics



**Renqun Jin**

*Vice President of  
Development  
Research Center*

- 26 years of experience in express delivery industry
- Former vice president of TTK Express and STO Express



**Technology  
Innovation**



**Shared  
Success**



**Strong  
Execution**



**Lean  
Management**

# Our Superior Service Quality

## Superior Service Quality Indicated by Cainiao Index



Overall rating top ranked<sup>1</sup> by Cainiao Index, a highly regarded set of metrics in express delivery industry



### Speed

- Completion rate and certainty of Next Day Delivery
- Completion rate of Third Day Delivery
- Timely pick-up rate



### Evaluation

- Rating of delivery service
- Rating of negative delivery review
- Refund rate of delivery



### Complaint

- False receipt complaint rate
- Percentage of complaints resolved by next day
- Cainiao complaint rate



### Information

- Timeliness of information feed
- Completeness of information provided
- Accuracy of information

## Consistent High Level of Customer Satisfaction

**# 1** Overall Customer Satisfaction Score (2014 – 2019Q1)<sup>2</sup>

Highest  
Among Tongdas<sup>4</sup>

Monthly average  
effective complaint rate  
< 1 per million

**Customer Complaint Rate**  
(2017 – 2019Q1)<sup>3</sup>

## Comprehensive Quality Control Framework

- ✓ Call centers in 28 provinces with 1,100+ customer service representatives across China
- ✓ Local hires with relevant knowledge of distinctive local market conditions
- ✓ 7 days/week real-time access to customer service during business hours with mobile app. assistant after business hours
- ✓ Constant monitoring of KPIs, such as response time, customer complaint rate
- ✓ Performance-based reward system and comprehensive training & operational support

#### Notes :

1. According to Cainiao Index 1Q 2019 ranking
2. According to Horizon Consulting Group
3. According to State Post Bureau
4. Tongdas refer to ZTO Express, YTO Express, STO Express and Yunda Express, all of which are major express delivery companies in China that adopt the network partner model

# Scale and Nationwide Network Create High Entry Barriers and Strong Network Effects

**98%+** County-level city coverage

**87** Sorting hubs<sup>1</sup>

**29,800+** Service outlets



- ✓ **Nationwide** Network Coverage
- ✓ Critical Scale at Right Locations Leads to **High Barriers** to Entry
- ✓ **Network Effect** Reducing Unit Costs
- ✓ **Standardized** Customer Services at the Last Mile
- ✓ **Global** Connectivity Capturing **Cross Border e-Commerce** Demand

Notes:

1. 78 self-operated sorting hubs and 9 network partner-operated sorting hubs as of March 31, 2019

## Centralized IT System

- Integrated IT system to monitor each service outlet
- Customized IT solutions to equip network partners and outlets with the best management practice
- Tailored mobile app to connect all delivery personnel

## Performance-based Incentives

- Comprehensive and results-driven KPIs based on parcel volume, service quality and profitability
- Well established rewards system
- Elimination of weak performers to ensure the competitiveness of service outlets

## Quality Control and Monitoring

- Over 1100 customer service representatives across the country to ensure service quality
- Real-time monitoring and analysis of parcel volumes
- Frequent reviews with regional management

## Training and Advancement

- Comprehensive training to improve operational efficiency and service quality of network partners
- Consistent training on new systems and products for service outlets
- Field visits to help service outlets improve operational management

**Stable Network**  
*Network partner turnover rate less than 5.0% in 2018*

# Sustainable R&D capabilities enabling end-to-end digitization of processes and user experience

## Connectivity & Visibility



- Real time data **synchronized** at **centralized** data repository
- **Connecting all users** through digital devices, mobile apps and desktop suits:
  - Pickup & Delivery personnel
  - Network partners & outlets
  - Vehicles and drivers
  - Senders & recipients

## Integrated IT R&D Platform

## Automation & AI Solution

- **Proprietary AI algorithm** for addresses recognition, codification and location-based computing
- Deployed **automatic sorting equipment** with integrated embedded **sensory system** to record weight and size



## Progressive & Transformative



- **In-house R&D capability** with nearly 1,000 tech. talents
  - 49 software copyrights as of 1Q 2019
- **Cutting-edge technologies** e.g. facial recognition & machine learning

## Openness & Empowerment

- Customer-centric data-driven open platform enabling **operational ease & fair allocation of profits**, e.g.:
  - For network partners: proprietary SaaS customized with data analytics against **best practice benchmark**
  - For couriers: transparent pickup & delivery fee, verified for competitiveness



# Our Strong Operational Efficiency and Cost Leadership

## Continued Operational Improvements



### Self-owned Line-haul Fleet

- Approximately 4,850 self-owned vehicles with approximately 3,000 high capacity 15-17 meter trailer trucks
- Increase in the use of cost efficient, high capacity, self-owned line-haul fleet



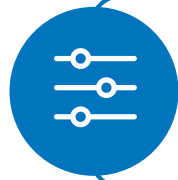
### Centralized Route Optimization

- Prioritize efficiency of the entire network
- Centralized line-haul route planning by HQ



### Expansion and Automation of Sorting Hubs

- 87 sorting hubs, of which 78 are self operated
- 130 sets of automated sorting equipment



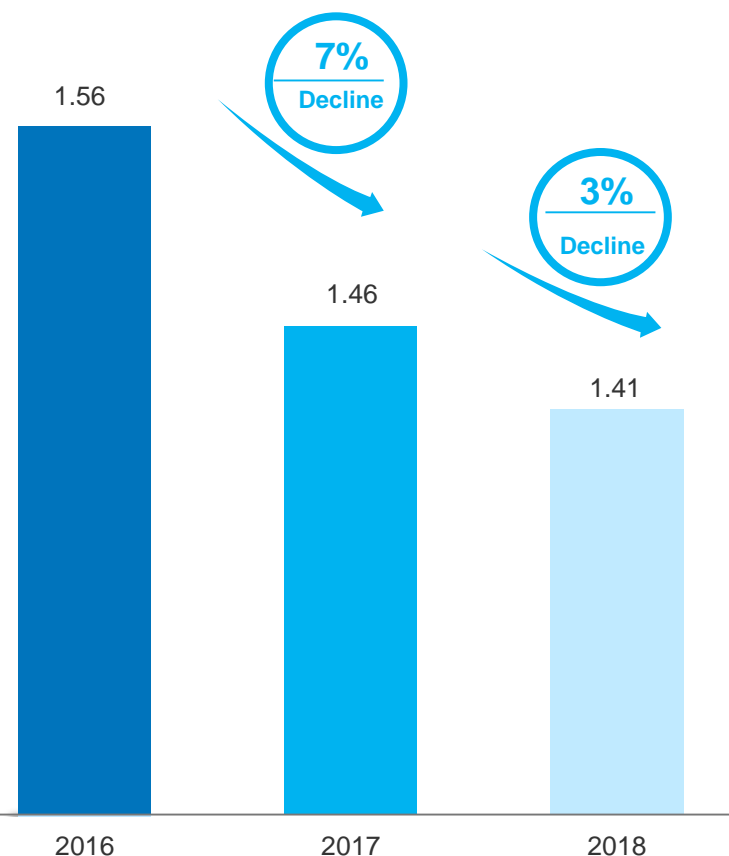
### Waybill Digitization and Technology Focus

- Digital waybill adoption rate 99.8% in 1Q19
- Increased investment in technology and data initiatives

IT Support

## Significant Cost Productivity

Unit cost <sup>(1)(2)</sup> (RMB per parcel)

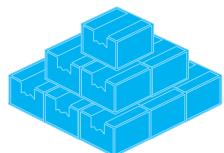


#### Notes:

1. Sum of cost of revenues and total operating expenses of the applicable period divided by total parcel volume during the same period
2. Excluding COE business which was acquired by company in 4Q 2017



## Robust Growth



**2,264m** parcel volume  
**+41.6%** outpace  
industry growth of 22.5%<sup>1</sup>  
**18.6%** market share



**RMB4,574m**  
revenue,  
**+29.0%** in Q1  
2019



**RMB760m**  
operating profit,  
**+8.8%**

## Superior Profitability



**RMB682m**  
net income,  
**+22.3%**, with net  
margin rate of  
**14.9%** in Q1 2019



**RMB966m**  
Adjusted net income,  
**+27.6%**,  
beat Q1 2019 guidance,  
with margin rate of  
**21.1%**



**RMB0.87**  
basic earnings per ADS,  
**+11.5%**

## Significant Scale



**5,700+**  
Line-haul Vehicles<sup>2</sup>



**~29,800**  
Pickup/Delivery  
Outlets<sup>3</sup>



**87**  
Sorting Hubs<sup>4</sup>

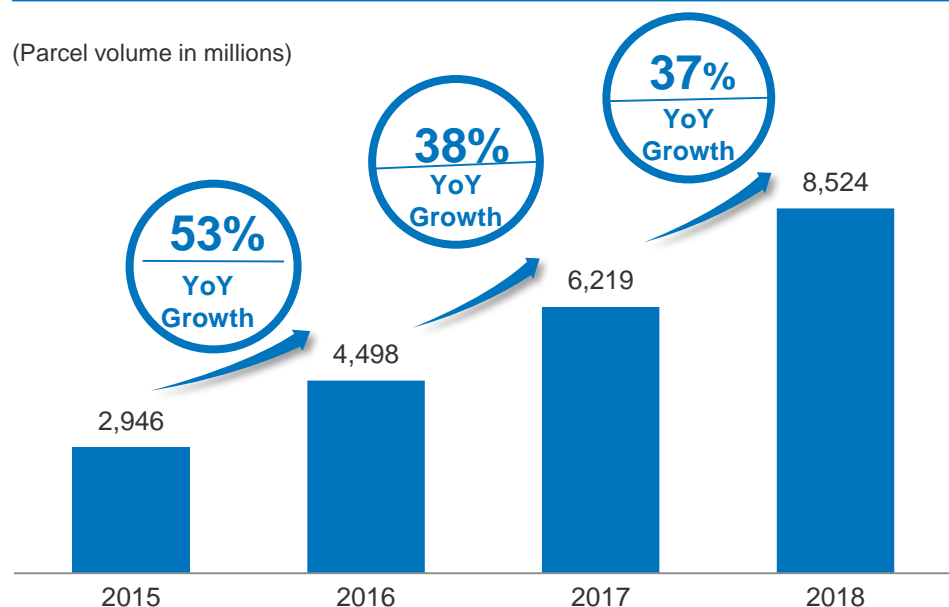
### Notes:

1. Average industry parcel volume growth rate for 1Q 2019 according to State Post Bureau
2. Includes 4,850 self-owned trucks (increased from 4,500 as of December 31, 2018) among which 3,000+ were high capacity 15-17 meter long models, compared to over 2,800 as of December 31, 2018
3. Number of total service outlets across entire network as of March 31, 2019, a decrease from about 30,100 service outlets as of December 31, 2018 mainly as a results of outlet upgrade
4. Includes 78 self-operated sorting hubs and 9 sorting hubs operated by our network partners

# Strong Revenue Growth Driven by Robust Volume Growth

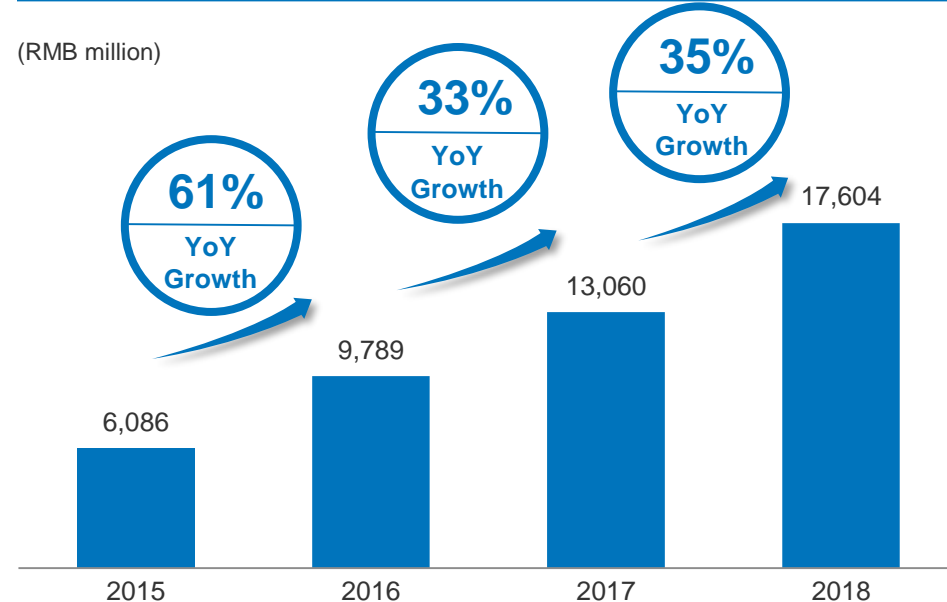
## Parcel Volume

(Parcel volume in millions)



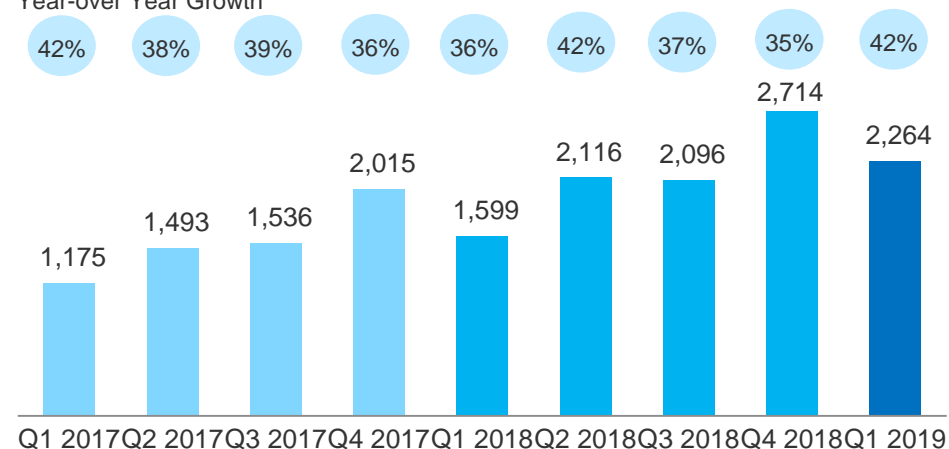
## Total Revenue

(RMB million)



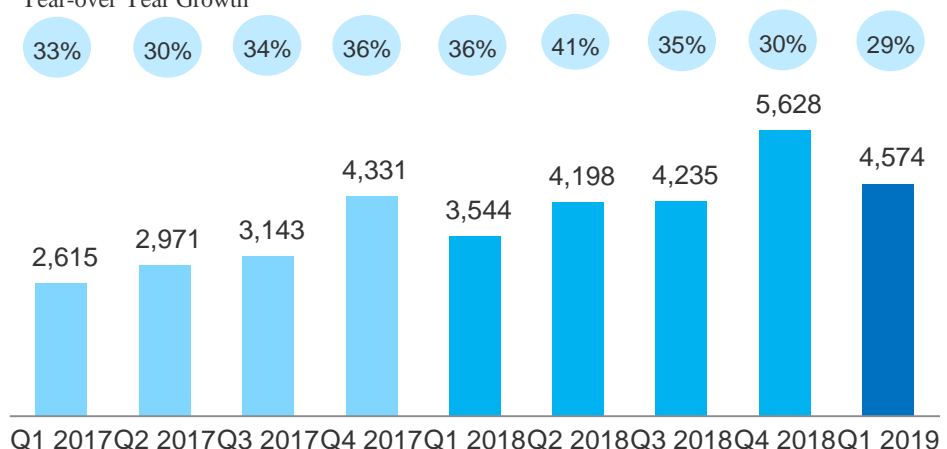
## Quarterly Parcel Volume

(Parcel volume in millions)  
Year-over Year Growth



## Quarterly Revenue

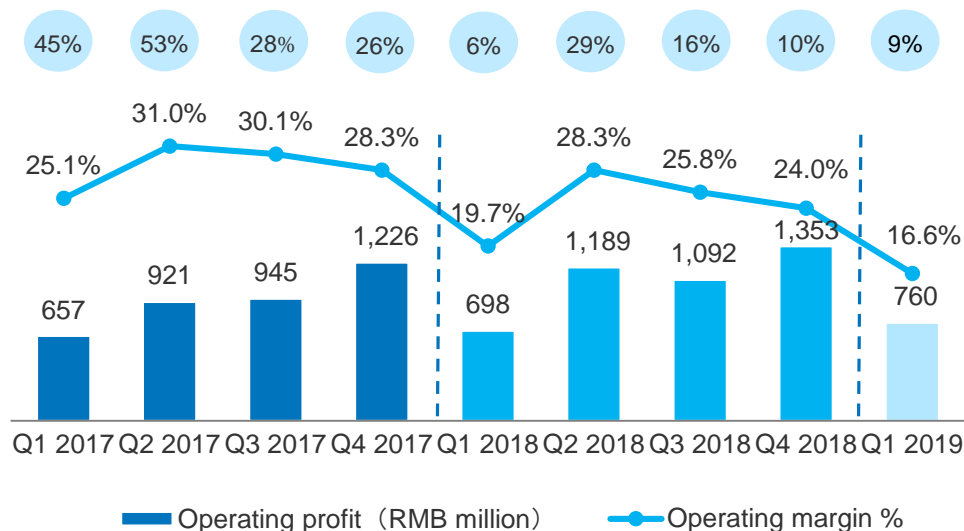
(RMB million)  
Year-over Year Growth



# Strong Profit Growth and Healthy Margins

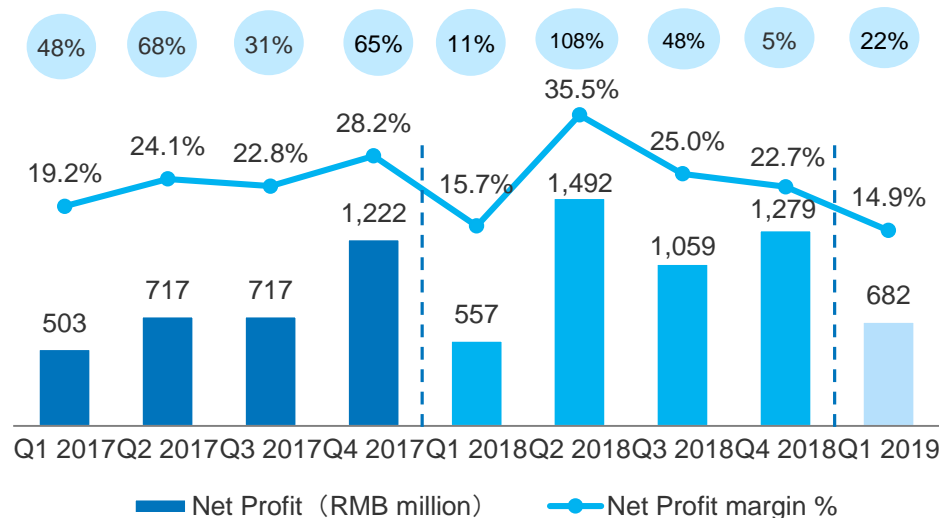
## Income from Operations and Margin

Year-over Year Growth



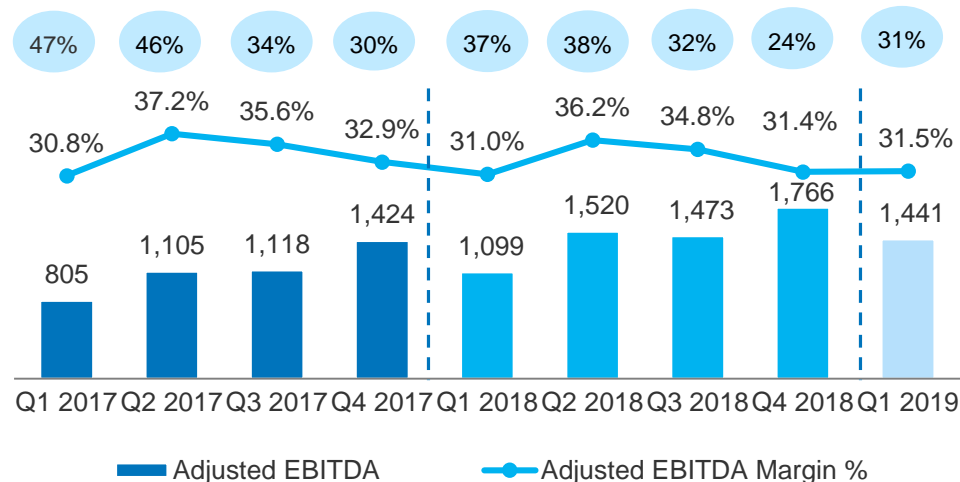
## Net Income and Margin

Year-over Year Growth



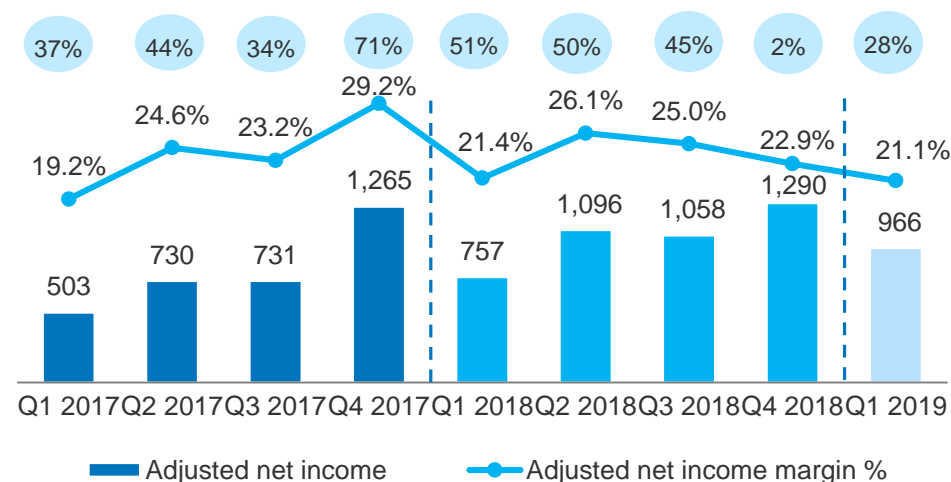
## Adjusted EBITDA<sup>1</sup> and Margin

Year-over Year Growth



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

Year-over Year Growth

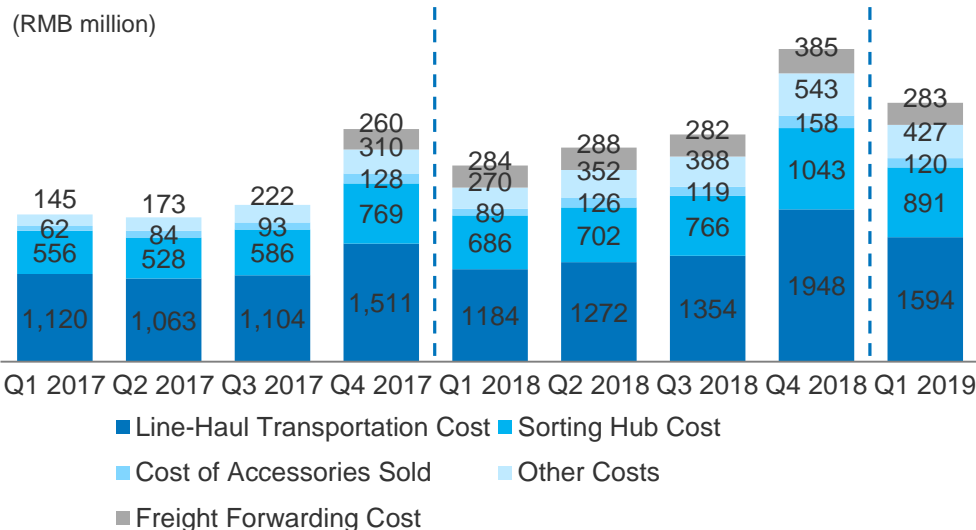


Notes :

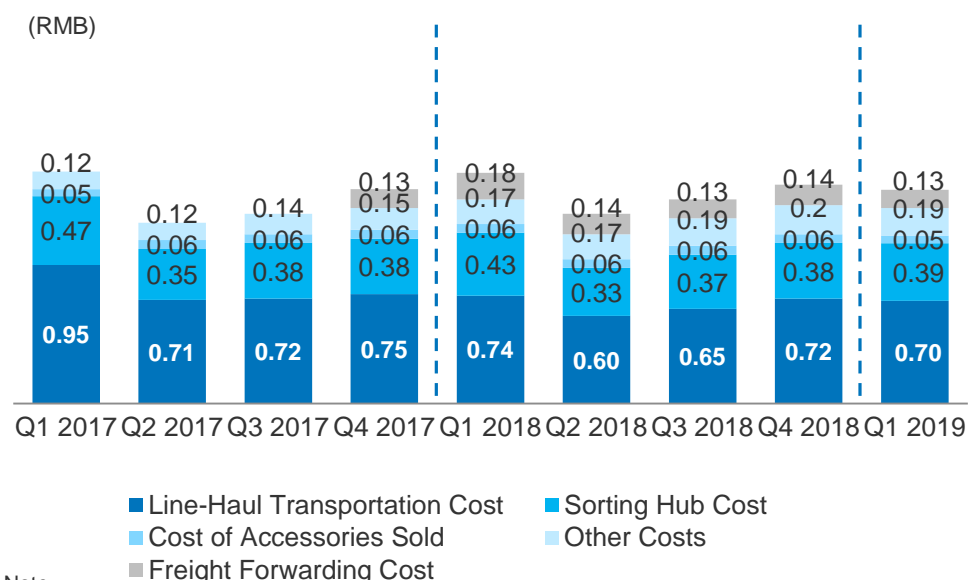
- Adjusted EBITDA is a non-GAAP financial measure, which is defined as net income before depreciation, amortization, interest expenses and income tax expenses, and further adjusted to exclude (i) shared-based compensation expense; (ii) gain on disposal of equity investees, and (iii) impairment of equity investments
- Adjusted net income is a non-GAAP financial measure, which is defined as net income before (i) share-based compensation expense, (ii) gain on disposal of equity investees and (iii) impairment of equity investments

# Cost Efficiencies and Productivity

## Cost of Revenues - Breakdown



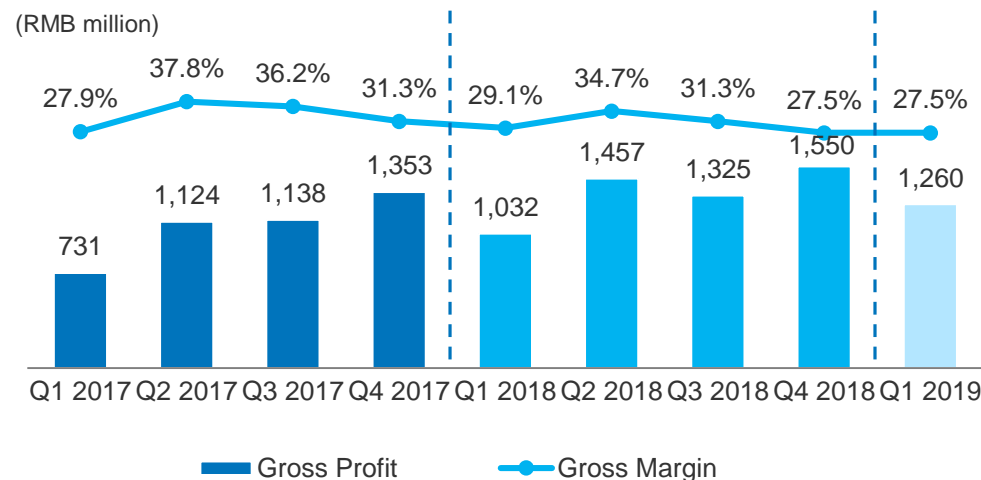
## Cost of Revenues per Parcel<sup>1</sup>



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

## Gross Profit and Margin



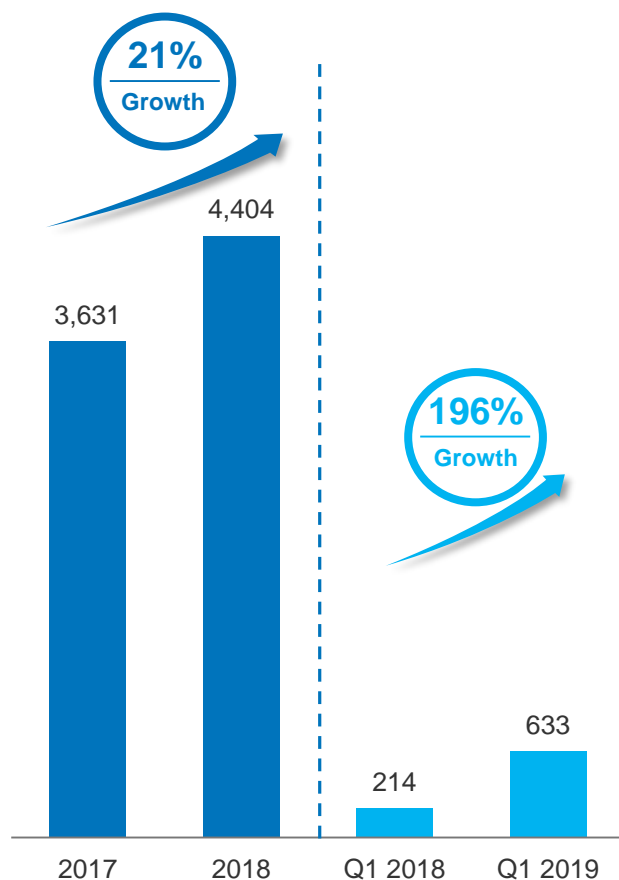
## Key Observations on Q1 2019 Results

- **Line-haul transportation cost efficiency –**
  - ✓ Increased use of high-capacity trailer trucks
  - ✓ Proper mix of self-owned trucks and third-party utilization
- **Sorting hub cost efficiency –**
  - ✓ Ramp up of automation equipment with improved utilization
  - ✓ Better use of temporary workers
- **Cost of accessories sold per parcel**
  - ✓ increased in line with increases in digital waybill utilization (up to 99.8%)
- **Gross margin decrease** due to (i) a decrease in unit price per parcel due to competition, (ii) freight forwarding business with lower gross margin of 2.1%, (iii) an increase in service to larger enterprise customers at a relatively lower margin, and (v) an increase of RMB57.8 million in IT related costs

# Strong Cash Flow and Continued Investment in Capacity Expansion

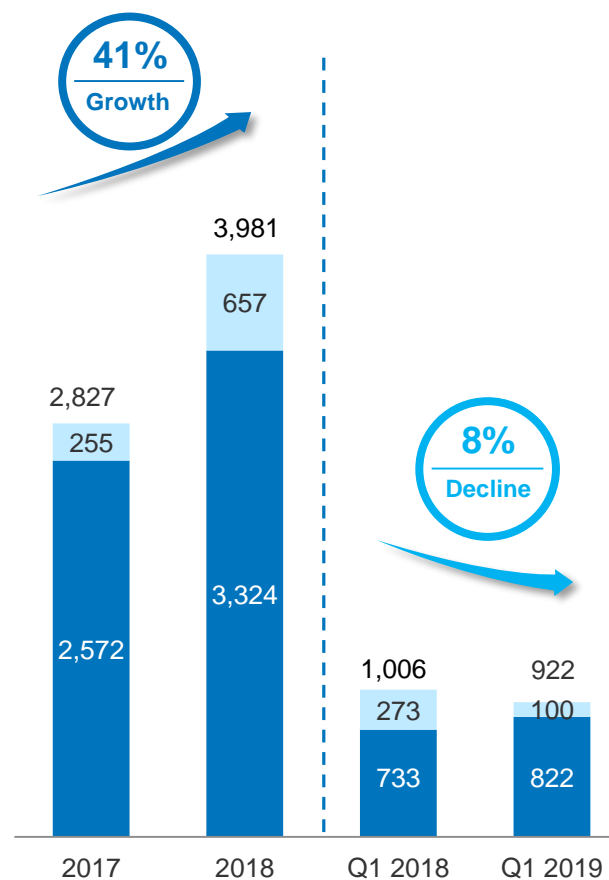
## Operating Cash Flow

(RMB million)



## Capital Expenditure

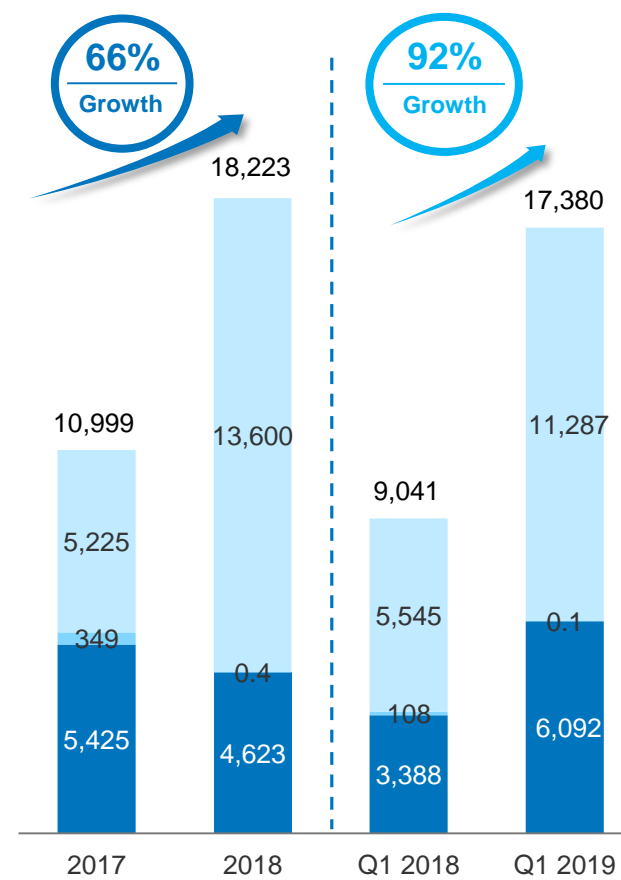
(RMB million)



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

## Cash and Cash Equivalent<sup>1</sup>

(RMB million)

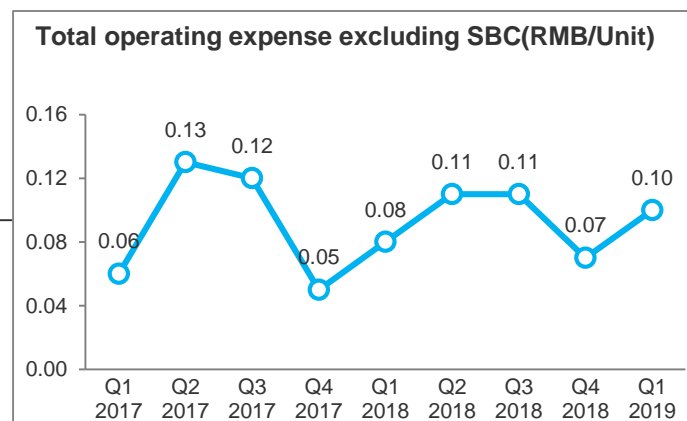
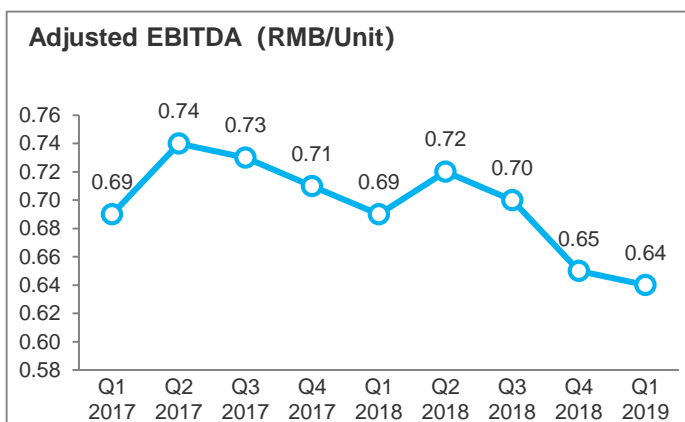
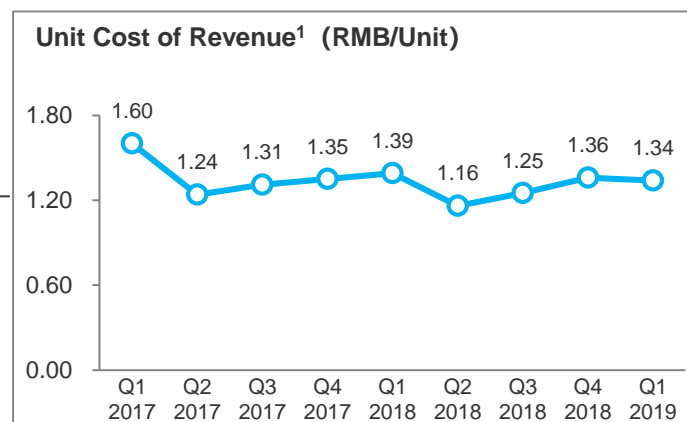
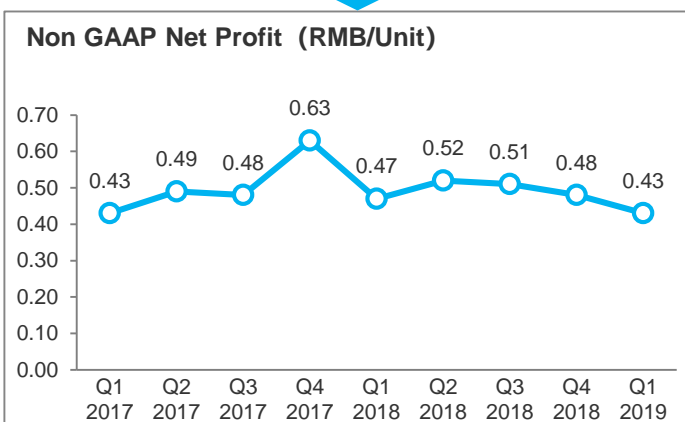
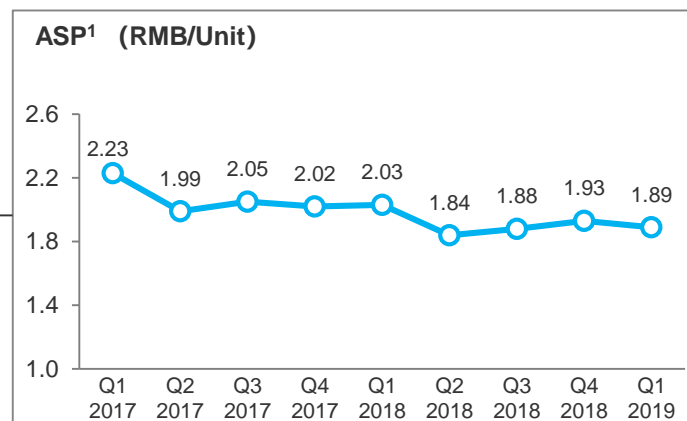
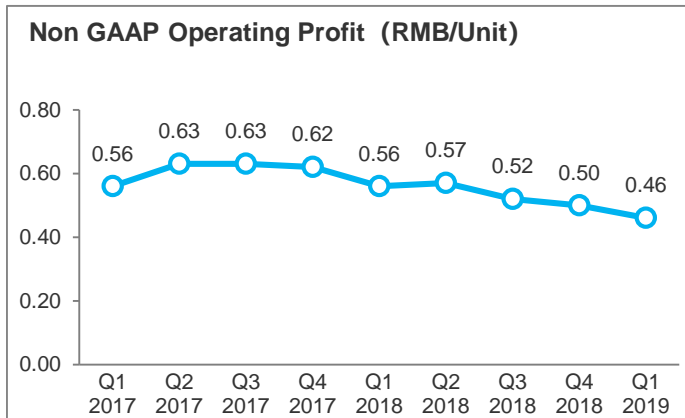


■ Cash and cash equivalents  
■ Restricted cash  
■ Short-term investments

Note :

1. Including cash and cash equivalents, restricted cash and short-term investment. Received strategic equity investment of US\$1.38 billion lead by Alibaba and Cainiao at May 2018

# Per Parcel Unit Economics



Note:

1. Excluding freight forwarding business
2. Numbers may not add up due to rounding



# Reconciliation of GAAP to Adjusted / Non-GAAP Measures



For the Three Months Ended

	Mar 31, 2018	Mar 31, 2019
	RMB million	RMB million
<b>Adjusted EBITDA</b>		
<b>Net Income</b>	<b>557</b>	<b>682</b>
Add: Depreciation	176	271
Add: Amortization	11	11
Add: Interest Expenses	1	-
Add: Income Tax Expenses	154	192
<b>EBITDA</b>	<b>899</b>	<b>1,156</b>
Add: Share-based Compensation Expense	200	284
Impairment of investment in equity investee	-	-
Less: Loss on deemed disposal of equity method investments	-	-1
<b>Adjusted EBITDA</b>	<b>1,099</b>	<b>1,441</b>
<b>Adjusted EBITDA margin</b>	<b>31.0%</b>	<b>31.5%</b>
<b>Adjusted Net Income</b>		
<b>Net Income</b>	<b>557</b>	<b>682</b>
Add: Share-based Compensation Expense	200	284
Impairment of investment in equity investee	-	-
Less: Loss on disposal of equity investees and subsidiary, net of income taxes	-	-1
<b>Adjusted Net Income</b>	<b>757</b>	<b>966</b>
<b>Adjusted Net Margin</b>	<b>21.4%</b>	<b>21.1%</b>

Note: Numbers may not add up due to rounding

# Reconciliation of GAAP to Adjusted / Non-GAAP Measures



For the Three Months Ended

	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019
<b>Adjusted EBITDA</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>
<b>Net Income</b>	338,814	425,802	547,177	739,811	502,870	716,923	717,230	1,221,874	557,455	1,492,226	1,059,375	1,278,854	681,647
Add: Depreciation	51,008	62,453	89,174	99,032	122,011	127,083	138,757	135,002	176,197	186,200	202,669	243,940	271,423
Add: Amortization	4,688	5,349	6,310	6,963	7,595	8,702	8,455	12,760	10,670	12,693	11,709	9,641	11,293
Add: Interest Expenses	3,644	4,742	3,766	834	5,708	5,029	2,479	2,452	773	3	4	-	-
Add: Income Tax Expenses	122,018	171,954	186,468	251,547	166,609	233,323	237,670	8,759	154,280	350,858	201,355	222,639	191,858
<b>EBITDA</b>	<b>520,172</b>	<b>670,300</b>	<b>832,895</b>	<b>1,098,187</b>	<b>804,793</b>	<b>1,091,060</b>	<b>1,104,591</b>	<b>1,380,847</b>	<b>899,375</b>	<b>2,041,980</b>	<b>1,475,112</b>	<b>1,755,074</b>	<b>1,156,221</b>
Add: Share-based Compensation Expense	38,634	83,366	251	251	251	13,492	13,492	13,492	199,744	27,983	10,876	10,876	284,264
Add: Impairment of the investments	-	-	-	-	-	-	-	30,000	-	-	-	-	-
Less: Gain on Deemed Disposal of Equity Method Investments	-9,551	-	-	-	-	-	-	-	-	-549,733	-12,904	-	-529
<b>Adjusted EBITDA</b>	<b>549,255</b>	<b>753,666</b>	<b>833,146</b>	<b>1,098,438</b>	<b>805,044</b>	<b>1,104,552</b>	<b>1,118,083</b>	<b>1,424,339</b>	<b>1,099,119</b>	<b>1,520,230</b>	<b>1,473,084</b>	<b>1,765,950</b>	<b>1,441,014</b>
<b>Adjusted EBITDA margin</b>	<b>28.00%</b>	<b>32.96%</b>	<b>35.40%</b>	<b>34.40%</b>	<b>30.77%</b>	<b>37.17%</b>	<b>35.57%</b>	<b>32.89%</b>	<b>31.01%</b>	<b>36.21%</b>	<b>34.80%</b>	<b>31.38%</b>	<b>31.50%</b>
<b>Adjusted Net Income</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>	<b>RMB '000</b>
<b>Net Income</b>	338,814	425,802	547,177	739,881	502,870	716,923	717,230	1,221,874	557,455	1,492,226	1,059,375	1,278,854	681,647
Add: Share-based Compensation Expense	38,634	83,366	251	251	251	13,492	13,492	13,492	199,744	27,983	10,876	10,876	284,264
Add: Impairment of the investments	-	-	-	-	-	-	-	30,000	-	-	-	-	-
Less: Gain on disposal of equity investees and subsidiary, net of income taxes	-9,551	-	-	-	-	-	-	-	-	-424,521	-11,756	-	-529
<b>Adjusted Net Income</b>	<b>367,897</b>	<b>509,168</b>	<b>547,428</b>	<b>740,062</b>	<b>503,121</b>	<b>730,415</b>	<b>730,722</b>	<b>1,265,366</b>	<b>757,199</b>	<b>1,095,688</b>	<b>1,058,495</b>	<b>1,289,730</b>	<b>966,440</b>
<b>Adjusted Net Margin</b>	<b>18.80%</b>	<b>22.27%</b>	<b>23.30%</b>	<b>23.20%</b>	<b>19.24%</b>	<b>24.58%</b>	<b>23.25%</b>	<b>29.22%</b>	<b>21.36%</b>	<b>26.10%</b>	<b>25.00%</b>	<b>22.92%</b>	<b>21.13%</b>

Note: Numbers may not add up due to rounding



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