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PRESENTATION

Operator

Hello, ladies and gentlemen. This is Shue. I will be your operator for this conference call. I would like to welcome everyone to E-Commerce China Dangdang third-quarter 2013 earnings conference call. (Operator Instructions). I must advise that this conference is being recorded today, Thursday, November 14, 2013. Now I would like to turn the call over to Ms. Sophia Zhou of Dangdang. Please proceed.

Sophia Zhou - *E-commerce China Dangdang Inc. - IR Director*

Thank you, and welcome to our third-quarter 2013 earnings call. With me today are Peggy Yu Yu, Executive Chairwoman, and Jun Zou, the CFO of the Company.

Before we continue, I refer you to our Safe Harbor statement in our earnings press release, which applies to this call as we will make forward-looking statements.

Also, this call includes discussions of certain non-GAAP financial measures. Please refer to our earnings release, which includes a reconciliation of non-GAAP measures to the most directly comparable GAAP measures.

Finally, please note that unless otherwise stated, all figures mentioned during the call are in renminbi.

I would now like to turn the call over to our Executive Chairwoman, Peggy Yu Yu.



Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

Thank you. Good morning and good evening, everyone.

During the third quarter of 2013, we made a meaningful improvement to our bottom line by moving certain low-margin general merchandise from self-procurement to the marketplace and achieving better operating efficiency. While this impacted our top line growth, the end result was an increase in gross margin and the best bottom-line performance since the second quarter of 2011.

Dangdang's net loss margin for the third quarter narrowed to 1.8% from 7.8% a year ago.

We continue to enjoy our leadership position in the online book and media market, achieving sales growth of 23% year over year. Our marketplace delivered another quarter of strong performance and growth. Marketplace general merchandise value rose 184% year over year, faster than our expectations.

Combined general merchandise sales from both principal and marketplace surpassed those of books and media for the fourth consecutive quarter, an increase by 88% year over year. Fashion and apparel performed very well, accounting for nearly half of the marketplace GMV and growing at a faster rate than the overall marketplace.

We increased the number of products available, to provide our customers with a growing assortment of quality brand name goods across multiple categories. We are closer to achieving our goal of transforming Dangdang from an online bookstore into an integrated online shopping mall, targeting it to high-end customers.

Let me update you on some other key operational achievements. In fulfillment, we enjoyed operating leverage and benefited from more efficient operations. We enhanced our warehouse operations and upgraded our warehouse management and quality control systems.

As an added convenience to our customers, we have given them the option of shortening delivery time by shipping packages separately or waiting for their entire order to be consolidated and shipped from one central location. The end result of this upgrade was a reduction in fulfillment cost per order to about RMB11, which we believe is one of the lowest in the industry. We also saw quarter-over-quarter and year-over-year improvements in inventory turnover.

We continue to invest in marketing activities to build awareness of the Dangdang brand and support our transformation from an online bookstore into an integrated shopping mall for mid- to high-end customers. We conducted online advertisements, as well as offline campaigns. We recently hosted a fashion show designed to promote Dangdang's apparel and showcase our platform as an online fashion shopping mall.

Dangdang acquired close to 2.9m new customers in the third quarter, and this is a record number for us. With strong increases in both order size and contribution per customer, Dangdang is strengthening our capacity to acquire customers at a low cost, retain them with our broader product selection and grow our business in a very healthy manner.

We made a number of enhancements in technology this quarter. We refined our personalized recommendation system and streamlined our customer review function. We also augmented the platform with features that make it easier for merchants to achieve -- to service their customers on a real-time basis, such as instant messaging.

In summary, in the third quarter of 2013, we are closer to our goal of transforming our Company into an integrated online shopping mall. We generated another quarter of solid revenue growth, enhanced gross margin and operational improvements that yield our best financial performance since the second quarter of 2011.

Going forward, we plan to better utilize our customer base by developing strategies to tap into their purchasing power through cross-category sales and enhancements to the overall customer experience. In the near term, we will seek to balance revenue growth and bottom-line performance.



Let me now turn the call over to Zou Jun, our CFO, for the financial review.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Thank you, Peggy. Ladies and gentlemen, I would like to discuss with you the third-quarter result in more details.

Our total net revenues reached RMB1.53b in the third quarter of 2013, a year-over-year increase of 19%. Book and media product revenue was RMB1.05b, which was up 23% on a year-over-year basis. General merchandise revenue was RMB422m, up 6% year over year. Other revenue, which is commission based net revenue mainly from marketplace, was RMB58m, a year-over-year increase of 44%.

At the end of the third quarter, we continue to strategically adjust certain general merchandise categories between self-procurement and marketplace. This quarter, we focused on transitioning lower-margin products in the marketplace which, as Peggy noted, resulted in slower self-procurement sales growth but contributed favorably to our gross margin. We'll continue to adjust our general merchandise categories going forward, as we believe there is still more room for margin improvement.

Meanwhile, GMV of the marketplace in the third quarter was RMB970m, up 184% year over year, above our guidance of 165% growth. On a consolidated basis, our overall general merchandise sales, combining both self-procurement and marketplace, grew at 88% year over year, compared to 86% growth in the second quarter of this year, and exceeded books and media product sales for the fourth consecutive quarter, demonstrating our continued success for execution in transforming our Company from an online bookstore into an integrated online shopping mall.

We grew the number of new customers by 19% year over year to approximately 2.9m. Active customers increased 21% year over year to around 8.4m. The average contribution per customer grew 27% to RMB289 up from RMB227 in the same period last year. Total orders in the third quarter were approximately 15.7m, up 13% year over year.

Gross margin was 17.6% in the third quarter, an increase from 15.2% in the third quarter of last year and an increase of 50 basis points from the second quarter of this year. The year-over-year increase resulted from strong gross margin contribution from books and media and the growth in other revenues, representing the sustained scaling of our marketplace business.

Gross profit was RMB268.4m, a year-over-year increase of 36.8% and a quarter-over-quarter increase of 5%.

Fulfillment expenses in the third quarter, which include warehousing and shipping expenses, were RMB179m, down significantly from last year. Fulfillment expenses were 11.7% of total net revenue in the third quarter, compared to 14.4% in the same period last year and 12% the quarter before. The year-over-year and quarter-over-quarter decreases in fulfillment expenses as a percentage of revenue were primarily due to economies of scale, more efficient warehousing management and lower shipping costs.

Marketing expenses were RMB58m, representing 3.8% of total net revenues, compared to 3.6% in the third quarter of 2012 and 5.1% in the second quarter of 2013. The year-over-year increase in marketing expenses as a percentage of revenue was primarily due to increased investment in online marketing programs to build awareness of our fashion apparel business. The quarter-over-quarter decrease in marketing expenses as a percent of revenue was due to reduction of offline advertising including television advertising.

But in the meantime, our data mining and target marketing programs generated strong growth in new customers at a much lower acquisition cost.

Technology and content expenses were RMB44.6m, which was 2.9% of our total net revenue, compared to 3.2% in the third quarter of last year and 3.1% in the second quarter of this year. The decrease in technology and content expenses as a percentage of revenue was primarily due to our operating leverage.

G&A expenses were RMB36m, which represents 2.4% of revenue, compared to 2.6% in corresponding quarter last year. The decrease in G&A expenses as a percentage of revenue was primarily due to larger scale and improved management efficiency.



Share-based compensation, which were allocated to related expense lines, were RMB2.7m in the third quarter, compared to RMB2.8m in the third quarter of last year.

Net loss was RMB27.9m, compared to a loss of RMB100m and RMB64m in the third quarter of last year and the second quarter of this year, respectively, primarily due to a strong execution on margin expansion and operating efficiency.

Net margin was negative 1.8%, narrowed from negative 7.8% in the third quarter a year ago and negative 4.3% in second quarter of this year, which represents improving margin for the fifth quarter in a row and the best since the second quarter of 2011, demonstrating management's determination and commitment to improve our financials.

Now, moving to the balance sheet, as of September 30, 2013, our cash and equivalents, short-term time deposits and held-to-maturity investments totaled to RMB1.43b, as compared to RMB1.63b, including RMB709m in restricted cash at the end of last year. Meanwhile, short-term bank loans decreased from RMB6m (sic - see report "RMB600m") at end of last year and RMB200m in the third quarter of last year to zero at the end of this quarter.

Additionally, we generated RMB158m operating cash flow in the third quarter, improved from negative RMB106m in the same period last year, reflecting narrowed net loss and better working capital management.

Turnover days for accounts receivable were 4.3 days in the third quarter of this year, compared to 4.9 days in the corresponding period last year, due to improved payment terms for our advertising business.

Turnover days for inventory in the third quarter of 2013 were 101 days, a reduction of 33 days as compared to 134 days in the third quarter of last year, due to improved inventory management, better product selection and clearance of aging general merchandise inventory.

Turnover days for accounts payable were 145 days in the third quarter of this year, 12 days shorter than the corresponding period in 2012.

Capital expenditures for the third quarter of this year were RMB16.9m, including RMB9.0m spending on Tianjin warehouse construction.

Finally, our outlook for the fourth quarter of 2013 is as follows. We expect total net revenue in the fourth quarter of 2013 to be around RMB1.938b, representing a year-over-year growth of around 20%. We also expect GMV from our marketplace to grow at a rate of around 150%.

I will now open the call to questions. Operator, please go ahead. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Dick Wei, Credit Suisse.

Dick Wei - Credit Suisse - Analyst

Hi. Thank you for taking my questions. I have two questions. The first question is for the fourth-quarter guidance, if you can give us directionally which of the sub-segments is going to grow faster, so we get a sense of how each segment is going to trend next quarter?

And secondly, as far as the marketing expense growth, I think that we probably -- this quarter, we'll probably have more of a normalized range of around RMB20 per new customer. I wonder, what is the plan going forward, as far as accelerating the number of new customer growth down the road as we are seeing better monetization on both the marketplace as well as the media side? Thank you.



Jun Zou - E-commerce China Dangdang Inc. - CFO

Hi, Dick. Thanks for your questions. Well, according -- your first question, I think in the fourth quarter of this year we will see a strong growth in the books and media sector to continue, and also our marketplace is -- our marketplace business will continue to grow at a very strong pace. You understand that our general merchandise self-procurement businesses are still undergoing some necessary adjustment, so we will see probably some smooth, let's say, growth in this sector.

But overall, I think we'll still maintain a reasonable and decent growth rate, maintaining our leadership in our destination categories, such as fashion apparel and books and media, while continuing to improve our financials.

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

Yes, and let me address the marketing expense question, the second one. We spent about 3.8% of our sales in marketing, and our customer acquisition cost was about RMB20 per customer. And going forward, we are going to continue to grow new customers by both monetization of our existing customer base, particularly those from media segment to other categories, very important for us.

We think that Dang -- we want Dangdang to grow in a very healthy manner, meaning that we have a lot of cross-category sales and we groom customers from one category to another. Since our number of active customers is very high, I think it's over 8m, close to 9m this quarter, and this is very good for a company like Dangdang, we should utilize that strength. So probably between driving growth from existing customers takes higher priority, and the marketing expense we adjust accordingly.

Dick Wei - Credit Suisse - Analyst

Thank you. Peggy, I wonder, is there any plans maybe to further accelerate the growth as far as the new customers, as far as page views is concerned to our site? Visitors to our site, is that one of the priorities for the Company?

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

One of our -- in our growth strategy, one thing we want to do is we want to make sure that we grow traffic slower than revenue, and because that way it means we're having better quality products. So customer acquisition pace and traffic growth and everything, we look at how much revenue we are growing and at what kind of expense ratio. So we would like to derive more sales dollars per click, per customer or per order, and that's the direction we had.

Dick Wei - Credit Suisse - Analyst

Got it. Thank you, Peggy, and thank you, Jun.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Thank you.

Operator

Binnie Wong, Bank of America Merrill Lynch.



Binnie Wong - BofA Merrill Lynch - Analyst

Hi, Peggy and Jun. Thanks for taking my questions. On the marketplace platform, we noticed that the percentage of take rate, the other revenue as a percentage of the GMV on the marketplace is actually trending down again this quarter to 6%. So I'm just wondering what are the reasons for the decline. And can we get a breakdown of the -- the take rate includes the commission and how much is related to the fulfillment and advertising, and how should we see the trend going forward?

And the second question is on the user traffic. How is it trending this quarter? Thank you.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Binnie, thanks for your questions. Yes, we actually in this quarter again recruited some new merchants to our platform and we offered a promotional advertising rate, and this is the first reason why you see a declined take rate. And number two, we also start to adopt a progressive rebate or progressive commission for top sellers on our platform, so this is the second reason.

But overall, I think still we see more than 50% of total, actually, other revenue coming from, let's say, the commission and store rental, and the rest coming from advertising and COD services for our merchants.

Binnie? Hello?

Binnie Wong - BofA Merrill Lynch - Analyst

Yes. And my second question is on the user traffic, how is it trending this quarter?

Jun Zou - E-commerce China Dangdang Inc. - CFO

User traffic, well, actually, I think in the third quarter our average daily UV was 3.5m per day, and that's a 20%-plus growth compared to -- actually, a 30%-plus growth compared to the same period last year, I think. And roughly, I guess again close to 40% of the traffic are from mobile.

Binnie Wong - BofA Merrill Lynch - Analyst

Okay. Thank you.

Operator

Jiong Shao, Macquarie

Jiong Shao - Macquarie - Analyst

Thanks for taking my questions. First we just want to follow up on a previous question on the take rate. Your other revenue growth declined to 91% Q2, 44% Q3. You talked about some of the reasons for the lower take rate in Q3. Could you talk about is this the bottom? Do you expect it to snap back up?

And the reason you had to offer promotions, etc., was that due to competition intensifying? Any additional color would be helpful. Thank you.



Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

No, not really. Some of the merchants are very new and some of them are transformed from offline merchants, offline retail stores to online, and we want to give those merchants adequate cycle time to begin to perform. And since our other revenues growth line I think is very healthy, so I think low rates during certain periods of time or promotional activities are very good incentives for merchant customers to grow their business on Dangdang.

Jiong Shao - *Macquarie - Analyst*

So, Peggy, do you think this rate of take rate is going to be here for a while, or do you think actually it may go down further from here?

Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

It's very difficult actually to judge, because the mix of sales, because the take rates from different types of merchants vary so drastically, zero -- 5% for some consumer electronics and more than 10% for some apparel or maybe 12% for some shoe merchants. And given the availability of their products and how well they're using Dangdang traffic, their fluctuation and their performance are just quite new on Dangdang.

So, overall, I think we see monthly fluctuation of product mix performed by those merchants as a group, so I think we are going to see some fluctuation. But there's no what you would term as a concern, as far as I look at it.

Jiong Shao - *Macquarie - Analyst*

Okay. Thanks. The second question is related. I think you talked about the fashion and apparel is about 50% of the marketplace GMV. Could you talk about the other major verticals and what's a rough mix for those verticals?

Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

Maternity and infants, another very major category for us. Dangdang traditionally had a very strong young mother following from the pregnancy or early childhood development media segment, and we probably have more than one-third of that segment in media. So, from those customers, they brought with us very strong buying for maternity and infants and young baby following from marketplace. And after that, we also see a scattering around general merchandise, like bedding and home and lifestyle items and consumer electronics.

Jiong Shao - *Macquarie - Analyst*

Okay. Thanks. And my last question, is there anything you can share with us on what you saw November 11, what kind of promotions you did, how that -- what I see are post-sale events, in terms of the sales on your [buyer] side. Thank you.

Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

Talking about November 11, for a single-day event we think it's very good for us and our sales doubled. And more importantly, a very big difference from what we did last year was our customer experiences were very good. Most of our parcels were shipped very quickly. And we took a count last night and we see that more than 50% of Dangdang customers got their parcels by last night, which is a whole lot better than some other e-commerce companies.

So, with this kind of -- as I say, it's a one-day sales event, and the production and delivery network of Dangdang's team performed very well. And we think, going forward, I'd like to see more of a -- how do I say -- normalized shopping behavior, because this really creates a huge jam in web



traffic, in road traffic, in air traffic. And to truly give customers a very good shopping experience, I really believe in an all year round good and satisfying shopping experience.

Jun Zou - E-commerce China Dangdang Inc. - CFO

And, Jiong, just to add some more color -- one more color to your first question, usually fourth -- fourth quarter is always the peak season for advertising, so usually our merchants will actually put in more advertising dollars in the fourth quarter, so there will be seasonality. That's what I'd imply.

Jiong Shao - Macquarie - Analyst

Okay. Thanks. I just want to have a quick follow-up on the single-day events. Some may argue that the big sales or single-day is nothing but borrowing from the future. Could you tell us what did you see on the following two days? Did you see a sharp drop off in sales? Any kind of insight you can share with us would be great.

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

For us, this single day really jumped. And for the following days, we see that shopping behavior normalized to our annual growth rate and nothing negative, so on and so forth. But I also saw on the news today that some e-commerce companies will ship parcels like 10 days after November 11, and that's going to result in a huge customer return. I think that's going to leave a bad taste in customers' shopping experience as a group.

Jiong Shao - Macquarie - Analyst

Okay. Great.

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

So I'd like to see the whole industry to smooth things around.

Jiong Shao - Macquarie - Analyst

That's very helpful. Thank you so much.

Operator

Thomas Chong, BOCI

Thomas Chong - BOCI - Analyst

Hi. Good evening, everyone. I have one question in terms of the mobile Internet. Can management share about how much of your GMV coming from mobile and how much of your mobile traffic coming from mobile, and within that how much are coming from your apps and how much are coming from the website? Thanks.



Jun Zou - E-commerce China Dangdang Inc. - CFO

Yes. This quarter, I guess very close to 10%, almost 10% of total orders are coming from mobile. And within them -- as I mentioned, almost 40% of total traffic are coming from mobile in this quarter. The focus in this quarter is actually not to increase the percentage of traffic coming from mobile, but to increase the customer experience on mobile, increase conversion rate on mobile. So we added quite a few things, such as voice search function on mobile and a personalized front page of mobile to improve user experience.

And at this stage, of course, we still have more mobile traffic coming from WAP than app. And one thing we're doing in this quarter is actually again transitioning from WAP to app, instead of just increase mobile traffic as a total number. Yes.

Thomas Chong - BOCI - Analyst

I see. Thanks.

Operator

Maria Hsin, China Renaissance.

Maria Hsin - China Renaissance - Analyst

Thank you for taking my questions and good evening, Peggy and Jun and Sophia. My first question is regarding how's the management view of China online book market growth in next year? And what's the strategy on self-procurement general merchandise in next year?

And my second question is, I'm wondering, so if the management can share with us, how about the pricing competition in the fourth quarter this year?

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

The media segment for Dangdang grow -- Jun, can you remind me of the media segment growth?

Jun Zou - E-commerce China Dangdang Inc. - CFO

Yes, actually (multiple speakers).

Maria Hsin - China Renaissance - Analyst

So, 23%.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Yes.

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

I pretty much look at the rate for next year close to this, but somewhat slower. Dangdang's market share, I think it's ever strong compared with other companies, but this is a highly penetrated market. So Dangdang will remain to be the leading -- market share leader of this segment. And



so we think that what we saw this year is somewhat what we're trying to do next year and with the high penetration rate somewhat slower. So, that's the direction we're heading.

And for self-procurement general merchandise, I think we are going to continue to see shifting between self-procurement and marketplace. Given the supply chain reality, I think it's going to -- that's going to be the trend. For instance, someone was asking me the November 11 event, one of the important reasons Dangdang's customer experience is so good during this event is for two things. One is Dangdang's production capacity. We simply can just add capacity a lot more efficient than a lot of other companies, so we can produce, procure the parcels in a timely manner.

And after that, for routing, Dangdang's customer model is multiple points to multiple customers. If someone from Guangzhou -- if someone from Hubei ordered something from Guangzhou, the parcel can move around from Guangzhou maybe to another regional depot of Dangdang like Wuhan, Chengdu or Beijing, then reroute to Hubei, so the Hubei customer can have very fast shipping speed. But most other online companies, their parcel can only move one way from Guangzhou trying to reach Hubei.

So Dangdang's regional depot, which is really from the self-procurement capacity, are very helpful in giving customers very fast delivery and a very good customer experience. So I think this shifting will come backwards and -- forward and backward. There's no one single clear answer saying marketplace is better or self-procurement is better. It all depends, the types of things and the supply chain, and also who does a better job handling it.

Jun Zou - E-commerce China Dangdang Inc. - CFO

And, Maria, to your question about pricing competition, I think in this quarter what we are seeing is it's much more rational compared to what we have seen last year.

Maria Hsin - China Renaissance - Analyst

Okay. Thank you. I have one follow-up question. How many merchants on Dangdang's marketplace are using Dangdang COD services?

Jun Zou - E-commerce China Dangdang Inc. - CFO

Actually, more than two-thirds of our merchants sign up for our COD services. And within the apparel and fashion sector, more than 85% of the merchants sign up.

Maria Hsin - China Renaissance - Analyst

More than -- sorry?

Jun Zou - E-commerce China Dangdang Inc. - CFO

85% of the merchants --

Maria Hsin - China Renaissance - Analyst

More than 85%. Okay. Thank you.



Jun Zou - *E-commerce China Dangdang Inc. - CFO*

Yes, in the fashion apparel segment.

Maria Hsin - *China Renaissance - Analyst*

Okay. Thank you.

Operator

Chi Tsang, HSBC.

Chi Tsang - *HSBC - Analyst*

Hi. Good evening. Thank you very much for taking my question. Congratulations on some very, very strong financial performance. I had a couple of questions. Just firstly, just in terms of the marketplace, that's growing very well and the guidance is also very strong. You're doing very well in apparel. I was wondering if you can give us a little bit more color, specifically as it relates to apparel. Is a lot of it coming from flash sales or what are you -- why is your apparel sector doing so well within marketplace? Thank you.

Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

I think it's mostly because of customer attributes. And Dangdang traditionally has a very strong female or feminine -- female shoppers. And compared with some other companies our percentage of female shoppers are larger, and they also have, relatively speaking, more purchasing power. So I think that customer attributes is a very important reason.

And secondly, I would say apparel itself is a huge -- it's a kind of category that has a huge potential. And I think it's probably 10 or even more times the size of media, so the addressable market for apparel is much larger. And among Dangdang's apparel segment, I see apparel targeted for young office ladies are stronger than what I saw for, say, male shoppers.

So, going forward, growing other sub-segments inside apparel are very important for us. And having customers to buy online versus they buy from shopping mall, offline, is also very important for us.

Jun Zou - *E-commerce China Dangdang Inc. - CFO*

And, Chi, you're right; our flash sales segments are also growing at a very strong pace. And I think it's not only generating more page views per user, but also the order number coming from flash sale already contributes more than 40% of total orders in the fashion apparel segment.

Chi Tsang - *HSBC - Analyst*

And in terms of flash sales, what are you folks doing that's different from VIP shops?

Jun Zou - *E-commerce China Dangdang Inc. - CFO*

We actually use a marketplace model, instead of, let's say, the VIP shop model that requires suppliers to put inventory into their warehouses. It's a light model, okay?



Chi Tsang - HSBC - Analyst

I see. And just my second question, you guys lost just \$4m in the quarter on a non-GAAP basis. Now, I'm wondering, given the dynamics of the fourth quarter for online shopping, you're guiding to a very nice Q-on-Q pickup in revenue. What might cause you not to reach breakeven in the fourth quarter? Thank you.

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

Trying to break even or make a profit in a given quarter I think is very tricky and is something that I try to avoid to do. And I think grow our customer base, grow our revenue, at the same time delivering gross margin, and operational efficiency takes high priority.

Chi Tsang - HSBC - Analyst

Fantastic. Thank you.

Operator

Philip Wan, Morgan Stanley.

Philip Wan - Morgan Stanley - Analyst

Hi. Good evening, Peggy and Jun. Thanks for taking my question. My first question is about your gross margin. Given the change in product mix, should we expect a similar seasonality for gross margin going into 4Q? And then I have a follow-up. Thank you.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Well, again, as you know, right now our focus is on improving our product mix and improving our strong position in both books and media and marketplace. And also, what you can see is that we are -- even though we're continuing to adjust our, let's say, product selection in general merchandise, the margin has stabilized there as well. So, yes, we won't see a lot of fluctuation. Generally speaking, we will focus on actually improving our financials.

Philip Wan - Morgan Stanley - Analyst

Just to clarify, you mean improving in the sequential basis for 4Q gross margin?

Jun Zou - E-commerce China Dangdang Inc. - CFO

Well, for sure improving on a year-over-year basis. And on a Q-on-Q basis --

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

On a Q-on-Q basis, you always see some kind of fluctuation. Jun, can you remind me of our GP --



Jun Zou - E-commerce China Dangdang Inc. - CFO

Last year?

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

-- this year, for the three quarters this year. I think it's about 7%, 7.6%.

Jun Zou - E-commerce China Dangdang Inc. - CFO

17.5%, 17.1%, 17.6%.

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

Yes.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Yes.

Philip Wan - Morgan Stanley - Analyst

Okay. Thank you. And just to follow up on your earlier remark about strategies to improve cross-category sales, I wonder if you could elaborate a little bit more on this. What are you going to do differently as you have done before? Thank you.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Well, I guess in the past what we have done is cross-sell when customers come to our website. We'll tell them that we have other things that you may want. If we see maybe a view of baby book or baby products, we may tell them that we have baby products.

But what we have been doing recently is that we start to actually push message or send different messages to those people that have bought books before that we are now selling other things that you may want. And we also start to build up brand awareness, so that our target customers know that they come to Dangdang for products other than books and media. They come for fashion apparel, they come for their maternity, instead of hard-sellers that come to their house.

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

And it's also very obvious from our website and -- or our app site. If you log on, you probably see more apparel, baby products, than you see a movie, a CD or a book. That's another way of redirecting our customers or readdressing their attention in a different manner with the product assortment.

Another thing that we want to do is we are keeping to increase the number of merchants on our marketplace. We believe with more merchants in more regions and with broader selections, there's something out there for different people, and that's another way to give our customers broader product availability and increase cross-selling.



Philip Wan - Morgan Stanley - Analyst

Okay. That's helpful. Thank you.

Operator

Kevin Kopelman, Cowen Group. Please ask your question.

Andrew Merrick - Cowen Group - Analyst

Hi. This is Andrew Merrick on for Kevin. I was wondering if you guys are seeing any difference in the competitive environment in mobile versus desktop, and was just wondering how you are seeing -- how you saw the macro environment in Q3 and what you're seeing into Q4. Thank you.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Well, of course, I guess most of the e-commerce companies are enhancing their efforts on mobile. But up till now, I think we are still one of the leading mobile platforms in terms of traffic coming from mobile or business coming from mobile. And now we have been running the business for 14 years and we have collected a lot of customer demographic data and user behavior data, which helps us to do data mining, which helps us, as I mentioned, to provide such products as personalized front page, personalized recommendation.

And also, our user base are -- those book readers tend to be better educated, with a higher and medium income in China, or white collar. And they tend to have more smartphones or more high-end terminals, which also helps our users to actually get used to mobile commerce ahead of some of other players in China.

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

I also noticed something in the last quarter or more recently. I don't have any hard data on it, but I have seen very good positive customer praise or reviews on the Weixin payment. And this is very young, and the customers are saying really glorifying things about how Weixin payment is easy to use and saves a lot of clicks.

So I think that with a better mobile payment provided both by companies like Tencent or Merchant Bank and to be used by companies like Dangdang, shopping experience and the payment option, payment easiness for our customers will improve in general.

Andrew Merrick - Cowen Group - Analyst

Got it. Thanks. And are you seeing any -- anything you're seeing in terms of trends and average order size or purchase habits on mobile?

Jun Zou - E-commerce China Dangdang Inc. - CFO

Yes. Well, actually, of course, purchase order sizes are smaller on mobile than on fixed line, because maybe people are using more fragmented time. But overall, our revenue per order actually increased to RMB155 compared to RMB114 a year ago. So, on mobile, we see the same trend as well.

And you also asked about, I guess, macro in Q4 and Q3. What we've been seeing is, of course, maybe the offline retailers have seen some impact from the overall economic growth, but we see the offline to online transitions are accelerating in China. So, yes, it's generally speaking good for e-commerce in China.

Andrew Merrick - Cowen Group - Analyst

Got it. Thank you.

Operator

Andy Yeung, Oppenheimer.

Andy Yeung - Oppenheimer - Analyst

Thank you. I just have a couple of quick questions. One is just a follow-up on the mobile user behavior. Have you guys seen the mobile users have different purchase preferences in terms of the type of merchandising that they purchase and the time when they use the mobile device to make online purchases? And then I have a follow-up question.

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

I don't see any particular difference from types of products they buy online versus mobile. But for mobile, they access service features a lot more frequently than they access products and other things. They access self-help and our customer service department with their mobile.

I think probably that's because they're using their time to wait for elevator or the time they're stuck in the subway to finish those kind of boring chores. So, other than mobile users' service use is very heavy, I don't see other major shifting from types of things they buy, mobile versus desktop.

Jun, do you have anything to add?

Andy Yeung - Oppenheimer - Analyst

Okay.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Yes. Sometimes, when they buy big-ticket items such as TV or a cellphone, electronic items, they may use mobile to compare price instead of place the order. But that should have a limited impact to us, because we don't sell much of those kind of products. Most of our products are actually different from those products. So, yes, Peggy was right that we don't see much different behavior for us.

Andy Yeung - Oppenheimer - Analyst

Okay. Okay. So, okay, got it. And then my follow-up question is also about mobile. So for a mobile device right now, what's your way of distributing your applications to the consumers? And have you seen the distribution costs for mobile applications going up or going down recently?

Jun Zou - E-commerce China Dangdang Inc. - CFO

Well, we actually see a lot of the mobile app traffic are organic traffic, and the percentage is quite high. And other than this organic traffic, we work with a lot of affiliated marketing sites which can help us distribute our application. We also, of course, work with the normal suspects, such as app stores, all the browsers, so on and so forth. But the overall organic installations are quite high.



Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

Yes. We pretty much will rely heavily on organic growth from our mobile users, because we believe in the very strong product selection and the competitive pricing that Dangdang offers. So I think that Dangdang's service and product pricing quality really holds water.

And the customers, whether they use mobile to access, they come from a mobile user to a desktop user or desktop user to mobile user, they are familiar with Dangdang, and in our marketing and other things we try to utilize combined or integrated sort of approach to target customers that is good for Dangdang and then don't really spend very heavily one channel versus another channel.

Andy Yeung - *Oppenheimer - Analyst*

Got it. Thank you.

Operator

Hou Tian, TH Capital.

Tian Hou - *TH Capital - Analyst*

Hi, Peggy and Jun. I have a question related to your preannouncement. So you preannounced -- the reason you preannounced, because you suspend some low-margin self-procured product. So I wonder, what is the margin profile on those low-margin goods? And after you get rid of them or you suspend them, how much could that help you in terms of your gross margin? So when those -- a positive impact could kick in, in your business? So that's my number one question.

And the number two question, I wonder, in your expenses lines, where could we look for room for further margin expansion? That's the two questions.

Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

Yes. Our revenue was probably RMB62m short of our guidance, which was -- what's the percentage, 4%, 3%?

Jun Zou - *E-commerce China Dangdang Inc. - CFO*

4%, yes.

Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

Yes, 4% less than the guidance we gave before, and it is indeed caused by the low margin. And in terms of how low it is, I would say it's very low single digit. And when we decided not to make those sales, we pretty much made a business decision based on the fact that we for sure lose money on those given types of products. And so, rather than sacrificing our bottom line, we'd rather forgo those RMB62m or RMB60m in sales. So that's a decision we made.

I'm not very sure, as a percentage, it helps in bottom line because when we made that decision, we pretty much looked at the incremental costs versus the incremental margin contribution. Then we just said, okay, we're not going to make those sales, and then we move forward.



Then your second question, you talk about margin improvement or expense control. For margin improvement, I think we see marketplace increasing and also our general merchandise margin restoring. So I think the product margin itself will improve in the general direction. And if you talk about expense ratio, I think that we have somewhat room in each type of expense category, G&A or logistic.

Jun Zou - *E-commerce China Dangdang Inc. - CFO*

Yes. Tian, just to give you a few more color, I think in T&C and G&A we'll continue to of course achieve operating leverage. In fulfillment, basically the increase in revenue size or order size will naturally help us see a lower percentage of fulfillment and marketing expense.

And then we continue to improve our efficiency in terms of fulfillment operation. For example, in this quarter we rolled out a function that allows users to choose to combine orders, which will not only help improve user experience but also help us reduce delivery costs.

We also actually optimized our warehouse operation in the middle of the quarter. Now, we used to have pick, inspect and pack, three legs in the warehouse operation. Now we cut that down to two. We now have only actually pick and inspect. The inspector will also do the packing. So there are always rooms for us to continue to improve different parts of our operation.

Tian Hou - *TH Capital - Analyst*

Okay. That's very helpful. So I have one small question, which is in terms of the book business, so now people more and more they're using mobile devices to do the reading, and I know you have a reader or your reading machine. So I wonder what's the change between the book reading and the machine reading? So, from your end, what do you see?

Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

From our end, we see the number of people doing what you call the machine reading increasing. But very comforting phenomena we've been seeing for over a year is the download or digital reading on Dangdang has helped us to get an even higher market share for books, for paper book sales. I think people are doing the cross-reading between machine reading and paper reading, and one device reminds them of another. So, for us, we are actually seeing that digital content has been very helpful to our paper book sales.

Tian Hou - *TH Capital - Analyst*

That's very helpful. Thank you, Peggy and Jun. That's all my questions.

Jun Zou - *E-commerce China Dangdang Inc. - CFO*

Thank you.

Operator

Alex Yao, JPMorgan.

Alex Yao - *JPMorgan - Analyst*

Hi. Good evening, everyone. Thank you for taking my question. My first question is on the normalized margin outlook in the medium to longer term. How do you guys think about the normalized margin? I guess the key variable is how do you think about the revenue mix between marketplace model versus the self-procurement model? Any thoughts would be helpful. Thank you.



Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

Before this crazy pricing war or selling below procurement cost craziness started, Dangdang's gross margin was like 20%, 21%. So that's the direction we are trying to move as a general trend, and we see a different mix of revenue between self-procurement and marketplace. I think it's a very different accounting method. And for self -- for marketplace, we only record the commission we get from the merchants. So I think that's like a very big add-on to the margin line. Jun, maybe you can elaborate more on this.

Jun Zou - *E-commerce China Dangdang Inc. - CFO*

Sure. At this stage, of course, you can see that our marketplace are growing at a much faster pace than books and media, and probably in the near future we'll continue to see this kind of growth. As Peggy mentioned, since we book only net revenue, and right now it contributes less than 4% of our revenue.

But in terms of total transaction value, in this quarter it's already close to 40%. It's 39.6% of our total GMV. And it's continued growing. We don't see -- there's a lot of headroom for us to continue to grow.

Alex Yao - *JPMorgan - Analyst*

So 4% of total revenue from this marketplace model, that will translate to 4% margin improvement, right?

Jun Zou - *E-commerce China Dangdang Inc. - CFO*

Roughly, yes. Gross margin improvement, yes.

Alex Yao - *JPMorgan - Analyst*

Okay. I see. The second question is on the previous comments on Weixin payment. What kind of a unique value does Weixin payment offer you guys? Is it more on the PC side or is it on the mobile side? Compared to other available payment channels such as Alipay or online banking, what is the unique value they can offer? And I don't know if you guys can share with us the percentage of transaction that is procured by the Weixin payment.

Peggy Yu Yu - *E-commerce China Dangdang Inc. - Executive Chairwoman*

It's very early and -- yes. Weixin payment is very young. Because I follow customer reviews and customer feedback very closely, so I saw the qualitative appraisal or qualitative good things customers are saying about Weixin payment. They say it's a lot easier than other types of online payment, and they say that it's very smooth and it takes them less steps to complete.

Given how widespread Weixin is, I think that's another feature that online customer -- online shoppers will enjoy going forward. But I think, given how young this Weixin payment is, it's difficult to come up with a percentage. I don't even look at a percentage. I read the customer reviews and see they're saying very, very good things about it.

Alex Yao - *JPMorgan - Analyst*

Got it. For you guys, is it economically more better to use a Weixin payment or use the other channels?



Jun Zou - E-commerce China Dangdang Inc. - CFO

Actually, I think WeChat, as Peggy mentioned, is just starting. And the fee WeChat charges is basically very similar to what TenPay will charge. And there are other functions, express payments, express checkout functions like WeChat, but it's just WeChat is so widely spread that people are more used -- more comfortable using it. Yes. But overall, I think it's quickly picking up, but it's only like three, two months down the road, so it's less than 0.5% of our total, let's say, orders.

Alex Yao - JPMorgan - Analyst

Got it. Thank you very much.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Yes.

Operator

Alicia Yap, Barclays.

Alicia Yap - Barclays - Analyst

Hi. Good evening, Peggy and Jun. Thanks for taking my questions. I have a question on your other revenue line. So I think your marketplace GMV actually grew about 184% year over year, versus the second quarter it was only 178%. But I think the revenue that you booked on the other revenue lines, 3Q is actually lower than 2Q. So I just wanted to understand what are the reasons. Is it because the commission rates are changed or lower, or is it because of a change of the advertising revenue contribution?

Peggy Yu Yu - E-commerce China Dangdang Inc. - Executive Chairwoman

A lot of it comes from the fact that we're adding on a lot of new merchant customers, and as we expand we are getting new merchant customers into our marketplace. And for those new customers, we give them promotional period and we also give them some other incentives, so that they like to open their shop on Dangdang and they see their revenue grow before they incur significant costs.

So I think it has something to do with the phases of how mature the customers -- the merchant customers are on Dangdang's marketplace. So I think that's the main reason for the quarterly fluctuation.

Jun, do you have anything to add on?

Jun Zou - E-commerce China Dangdang Inc. - CFO

Yes. Alicia, as we mentioned in the beginning of the call, we also introduced a progressive commission rate for some of the top sellers. The commission rates are progressive. The more you sell, the lower your commission rate. And for some certain large stores that enter into our platform, we may also give introductory reduced store rental fee. And those are some of the reasons.

But basically, as Peggy has mentioned, it's more like we help the new entrants to pick up their business quickly on our platform and get a decent ROI from beginning.



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Alicia Yap - Barclays - Analyst

I see. And then, so how should we look at this line, given your guidance for 4Q is about a 150% increase? And is some of this trend also continue, given that you're probably attracting a lot more new merchants as well?

Jun Zou - E-commerce China Dangdang Inc. - CFO

Discussed this question also in earlier question. We believe fourth quarter usually is a seasonally good quarter for -- or peak season for advertising in China. So usually in the quarter we'll see higher investment in advertising from our merchants, but that's of course the normal trend.

Alicia Yap - Barclays - Analyst

And then, just to follow up on this 4Q seasonally strong quarter, I apologize if I missed it earlier, but I wanted to ask, in terms of the sales and marketing spend, so how should we actually expect the spend to be trending in the fourth quarter, given it's a heavy promotion period? And what should we be looking at in terms of percentage of sales, because I think previously 4Q has been a little bit higher?

Jun Zou - E-commerce China Dangdang Inc. - CFO

Yes. Actually, Peggy talked about this earlier. And we are pursuing a balanced growth in terms of customer number as well as revenue per order. And what we are seeing is that we already have fetched 2.9m new customers in the third quarter.

Revenue per order also grew to RMB155 compared to RMB114 a year ago, which means we will not like spend money relentlessly just to pursue new customers. We're going to pursue both customer growth at a reasonable rate, as well as a bigger basket size from every customer. And we do not expect, actually, extraordinary heavy spending in this quarter.

Operator

Thank you. We have come to the end of the question-and-answer session. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

Jun Zou - E-commerce China Dangdang Inc. - CFO

Thank you.

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