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DANG - Q1 2014 E-commerce China Dangdang Inc. Earnings  
Conference Call

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## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by, and welcome to the first quarter E-commerce China Dangdang Inc. earning conference call. (Operator instructions). I must advise you that this conference is being recorded today, Thursday, May 15, 2014. I would now like to hand the conference over to your first speaker today, Ms. Sophia Zhou. Thank you, ma'am, and please go ahead.

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

Thank you, and welcome to our first quarter 2014 earnings call. With me today are Peggy Yu Yu, Executive Chairwoman, and Susan Zhang, the Financial Reporting Director 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 measure.

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

I am delighted to turn the call over to our Executive Chairwoman, Peggy Yu Yu.

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

Thank you. Good morning and good evening, everyone. I'm very pleased to report Dangdang continued its path to profitability in the first quarter of 2014. We began the year on a positive note. Our hard work brought us strong top line growth, the highest gross margin since the second quarter of 2011, and the second consecutive quarter of our return to profitability.

More important than our revenue growth target of 30%, we continued to make good progress in transforming Dangdang from an online bookstore into an integrated online shopping mall with prominent destination categories.

Combined general merchandise sales of RMB1.7b from both principal and marketplace surpassed books and the media for the sixth consecutive quarter, growing at a rate of 71% year over year.

We remain focused on developing our destination categories with positive results. Sales of books and the media were RMB1.15b in the quarter, and the growth 33% year over year.

In fashion and apparel we added a number of well-known men, women and children's brands for marketplace. Fashion and apparel accounted for nearly half of marketplace GMV and continued to outpace the growth of the overall marketplace at Dangdang.

Our increased scale across all categories with Dangdang's stronger buying power and our growth margin extended to 18.2%.

While marketing spending increased by 55% year over year to support our branding efforts for new -- for younger, new destination categories, Dangdang's total operating expense as a percentage of net revenue in the quarter, came down significantly over the same period last year. Our investment in technical applications in areas of merchandising, logistics and customer service and our focus on operating efficiency are gradually paying off.

Now, let me update you on some key operational achievements. In fulfillment we saw strong gains in the efficiency of our warehouse operations. We wrote off the CTRF, the collaborative trading for costing and replenishment process in all our warehouses. So a CPR -- sorry. Through a CTRF we're able to replenish inventory faster than before and fulfil more orders at local distribution centers.

In March we began trial operation at our Tianjin distribution center. This newly constructed facility is approximately 100,000 square meters, which includes a 40,000 square meter front delivery center, or FDC. We now have four FDCs in use to receive and allocate inventory to support the ramp of our distribution centers. The number of orders shipped for the same day (inaudible) marketing spend in this quarter compared with same period last year to build a brand image of our relatively newer categories, including apparel.

In addition to heavy advertising for branding, we also spent more on low-cost channels, Dangdang's affiliate programs.

We acquired 2.8m new customers this quarter and order size growth 38% year over year.

On the technical front, our big data applications are helping both our customers and our internal operations. For Dangdang customers the personalized recommendation for them are more relevant than before because the enhancement recommendation takes into account of brand attribute, customers' preferred price range, input from similar orders and the previous buying history.

For our internal merchandising activities, machine learning is helping us with better online space allocation for different products.

During this quarter our algorithm key was successful in bridging more traffic from books to apparel and other general merchandise. We continue to optimize our mobile application to improve the customer experience, and so mobile orders increased to nearly 14% of total orders during the quarter. We intend to invest more in mobile Dangdang going forward.



At Dangdang we want our customers to feel confident that they are getting the best price. On March 24 we emphasized our commitment to low prices with the launch of double payment for any price difference. If a customer finds an identical product at a lower price on another website we'll reimburse our customer with a payment equivalent to twice the price difference.

We also amend our free shipping policy to be more friendly to customers in faraway provinces such as Gansu or Tibet. Customers in these areas are required to meet different basket sizes in different product categories to qualify for free shipping before. They only need to spend RMB59 to qualify for free shipping. For customers in other areas, we'll lower the free shipping threshold as well.

In summary, in the first quarter of 2014 we had solid revenue growth, enhanced growth margin and realized strong bottom line improvement. We will continue to drive growth through both marketplace and principal business with a strong emphasis on our destination categories.

Let me now turn the call over to Susan Zhang, our Financial Reporting Director, for the financial review. Susan, all yours.

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**Susan Zhang** - *E-commerce China Dangdang Inc. - Financial Reporting Director*

Thank you, Peggy. I will now discuss the first quarter results in more detail.

Our total net revenues reached RMB1.74b in the first quarter of 2014, a year over year increase of 30%. Media revenue was RMB1.15b, which was 33.3% year over year. General merchandise revenue was RMB570m, up 26% year over year. Other revenue, which is commission-based net revenues, mainly from our third party merchants, was RMB67m, a year over year increase of 16%.

The GMV of the marketplace in the first quarter was RMB1.19b, up 103% year over year and above our guidance of 100% year over year growth.

We grew the number of new customers by 17% year over year to about 2.8m. Active customers increased by 16% year over year to around 8.6m.

The average contribution per customer grew 33% to RMB333, up from RMB250 in the same period last year.

Total orders in the first quarter were around 16.4m, up 11% year over year.

Gross margin was 18.2% in the first quarter, an increase from 17.2% in the same period in the last year and 17.6% in the fourth quarter of 2013. The year over year and the quarter over quarter increases resulted from strong gross margin contribution from our books and media, and the increase in other revenue representing the sustained scaling of the marketplace.

Gross profits were RMB317m, a year over year increase of 38%, only up 0.4%, and a quarter over quarter decrease of 9%, which was the result of a seasonal decline in revenue in the first quarter which is traditionally an off-peak season for e-commerce in China.

Fulfillment expenses in the first quarter, which include warehousing and shipping expenses were RMB171m, a decrease of 7.5% year over year. Fulfilment expenses were 9.8% of total revenues compared to 13.8% in the same period last year and 9.4% in the fourth quarter of 2013. The year over year decrease in fulfilment expenses as a percentage of total revenues was primarily due to the more efficient warehousing operation and lower shipping costs. The quarter over quarter increase as a percentage of total revenues was the result of a seasonal decline in revenue in the first quarter, which is mentioned above.

Marketing expenses was about RMB67m, representing 3.9% of the total net revenues compared to 3.2% one year ago and 4.2% in the fourth quarter of 2013. The year over year increase as a percentage of total revenues was due to the increased investment in marketing programs to build awareness of Dangdang's fashion and apparel destination category. The quarter over quarter decrease as a percentage of total revenues was the result of lower expenditures for marketing programs relating to the fourth quarter, which is the peak season for e-commerce in China.

Technology and content expenses were RMB44m, which was 2.5% of total revenues compared to 3.7% in the same period in the last year and 2% in the fourth quarter of 2013. The year over year decrease in technology and content expenses as a percentage of total revenues was primarily due



to the operating leverage and a reduction in IT headcount. The quarter over quarter increase as a percentage of revenues was primarily due to the higher IT staff cost and a seasonal decline in revenue in the first quarter.

G&A expenses were RMB37.6m, which represented 2.2% of total revenues compared to 2.4% in the same period in 2013 and 2.3% in the fourth quarter of 2013. The year over year decrease in G&A as a percentage of total revenues was primarily due to the larger scale and improved management efficiency. The quarter over quarter decrease as a percentage of total revenues was primarily due to the year-end bonuses accrued in the fourth quarter of 2013.

Share-based compensation expenses, which were allocated to related line items were RMB3.2m in the first quarter compared to RMB2.6m in the first quarter of 2013, which was a 23% increase.

Income from operations was about RMB10.1m compared to an operating loss of RMB80.4m in the same period last year, primarily due to our efforts to increase gross profits and the operating leverage.

Operating margin was 0.6%, up from a negative 6% in the first quarter a year ago, and 0.4% in the fourth quarter of 2013, which represents improving operating margin from -- for the fifth quarter in a row.

Foreign exchange loss and the loss of forward foreign currency contracts was RMB17.4m compared to a gain of RMB2.7m one year ago and RMB17.4m in the fourth quarter of 2013, which was largely attributable to the depreciation of the Chinese RMB against the US dollar in the first quarter in 2014.

So far, -- so based on the expectation that Chinese RMB would further appreciate against US dollar in 2013 and 2014 we entered into a one-year forward foreign currency contract in June last year to hedge the exposure to foreign currency risk primarily related to the time deposits we held in US dollars. And under US GAAP, the forward foreign currency contracts are measured using forward rates in open markets as of the date of the balance sheet. We recognize relative gain in the fourth quarter of 2013 based on the valuation using the marking price as of December 31, 2013. But, due to the depreciation of the Chinese RMB, we recognized a loss in this quarter.

Net income was RMB2m compared to a net loss of RMB72.7m in the same period in 2013. And net margin was 0.1% compared to a negative 5.5% in the first quarter in last year to represent the second consecutive quarter of making profit.

Now let's move to the balance sheet. As of March 31, 2014 we had cash and cash equivalents, short-term debt time deposits, available for sale investments and held to maturity investments totaling RMB1.39b as compared to RMB1.21b as of December 31, 2013. We had no short-term bank loans as of 31 -- as of March 31, 2014. Additionally, we generated cash flow from operations of about RMB250m in this quarter.

Turnover days for accounts receivable were 2.3 days in the first quarter of 2014 compared to 4.3 days in the corresponding period in last year since more customers chose various online payment methods instead of cash on delivery.

Turnover days for inventory in the first quarter of 2014 were about 115 days as compared to 120 days in the first quarter of 2013 due to improved inventory management and better product selection.

Turnover days for accounts payable were 137 days in the first quarter of 2014 compared to 139 days in the corresponding period in 2013.

Our CapEx in this quarter for 2014 were RMB35.8m, primarily related to the investment in changing warehouse construction.

Finally, our outlook for the second quarter of 2014 is as follows. We expect our total net revenues in the second quarter to be around RMB1,942m, representing a year over year growth of around 30%.

We also expect our GMV from our marketplace to grow at a rate of 80%.



Okay, we will now open the call to questions. Please go ahead. Thank you.

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

Operator, please go ahead. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator instructions). Dick Wei, Credit Suisse.

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**Dick Wei** - *Credit Suisse - Analyst*

Hi. Thank you for taking my questions. I've got two questions. The first question is that if management can share about more product mix in the general merchandise in marketplace now, and how should we expect the churn is going to be like?

And secondly, if you can comment on the progress with the Yihaodian and other strategy -- and other more strategic relations or partnership that you have in mind. Thank you.

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

Okay. In terms of product mix, the combined sales of our general merchandise surpassed that of both the media for the sixth consecutive quarter. And so we are selling more apparel, baby, maternity and other stuff than books on Dangdang today. And inside the general merchandise, our apparel is the leading category. It accounts for more than half of the GMV from the marketplace. And following our apparel, baby and the maternity are also performing very strong and are followed by household items like bedroom lines and bathroom lines, things like that.

And we expect this product mix to -- we expect the destination category to outperform the competitive or common categories going forward.

And to your second question of relationship and the cooperation with Yihaodian, we -- our technical team are still working on this system, because both companies are B2C company and having its own very strong technical-oriented solution. So our engineers and their engineers are working on ERP and some other things. We expect this cooperation to move forward in the second quarter.

And our relationship with PMO continues to perform. We get orders for our books media mostly from PMO customers from smaller cities. So that's pretty much in a nutshell our cooperation with our strategic partners.

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**Dick Wei** - *Credit Suisse - Analyst*

That's great. Thank you very much, Peggy. Thank you.

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

Thank you.



**Susan Zhang** - E-commerce China Dangdang Inc. - Financial Reporting Director

Thank you.

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**Operator**

Chi Tsang, HSBC.

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**Chi Tsang** - HSBC - Analyst

Great. Good evening. Thank you for taking my question. I have two questions. My first question is you're lowering your free shipping threshold and you're doubling -- and you have this double payment strategy. I'm wondering if you can talk about what's driving the change in those tactics? My first question. Thank you.

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

It's more of a customer-friendly move than anything else. We've had free shipping, different free shipping threshold for different types of product in different areas. Someone needs to buy RMB39 worth of books or RMB59 worth of baby, maternity in order to qualify for free shipping in a given area. And then we realized from our interaction and our customer survey, consumers are complaining that our free shipping threshold are a little bit complex for them to figure out how much they need to buy from different product category and based on where they live. So, in order to make this free shipping threshold more transparent and easy to use, we lowered the threshold for the most part and then streamlined and meaning, you know, take away the difference between different product categories in some areas. So that's what's behind the extended and more user-friendly free shipping policy.

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**Chi Tsang** - HSBC - Analyst

In terms of the double payment, then?

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

Oh, the double payment, yes. Sorry, I forgot about that. The double payment is at Dangdang we promise our customers that we offer three long-term value to them, which is better price, better selection and more convenience. And for the better price, we want our customers to be very confident they are getting the absolutely lowest price. So if they can show us like some total (inaudible) that they found something on another website, it's identical product with a lower price, and now we'll reimburse them the price difference on a double payment. In that way we assure our customers that Dangdang day in day out, year in year out, give them the best price. It's also a customer-friendly move.

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**Chi Tsang** - HSBC - Analyst

That's great. And my second question is just in terms of marketing costs. So you're saying marketing costs up a lot year on year. How shall we -- what's the outlook, A, what kind of stuff are you spending it on and B, what's the outlook for marketing expense for this year? Thank you.

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

Okay. We -- because our -- let me first talk about what we spend on. We spend mostly on branding activities and advertisement. And those are efforts to promote our new and younger categories like certain types of fashion and apparel and things like that. So, we spend those marketing dollars on branding activities for young and new categories. And the outlook for marketing this year we think is probably similar to what we've spent before, but can be somewhat higher. We feel very confident that our Dangdang's margin is very strong and our operating expense is very



well controlled. So, we're at the stage that we can spend for branding, we can spend for new category, and we have a lot of spending leverage these days.

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**Chi Tsang** - *HSBC - Analyst*

And just to be clear, so last year you spent RMB43m in marketing. Are you saying that you're going to spend the same RMB43m or more than that?

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

Our first quarter spending marketing this year went up by more than 50% over what we'd spent 2013. That's what I was referring to. We spent more than 60 -- I think we spent something like 67, 68, something like that. 67, yes.

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**Chi Tsang** - *HSBC - Analyst*

Okay. Thank you very much.

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**Operator**

Jiong Shao, Macquarie.

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**George Meng** - *Macquarie - Analyst*

Hi. Good evening, everyone. This is George calling for Jiong Shao. Thank you very much for taking my question. I have two questions.

The first one is related to your marketplace. I notice that the GMV of your marketplace was up more than 100% year on year but the revenue was only up by 16%. So, the take rate actually decreased from like 10% a year ago to about 5.7%. I understand that's related to the renminbi mix, or the product mix in your marketplace. I just wonder what's the trend going forward? Do you see at some point the take rate should bottom and should start to recover? That's my first question. Thanks.

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

I think the other revenue line I'm referring to will pick up again going forward. And, in addition to lower take rate, given different product mix than what we had a year ago, there are particular reasons that the other revenue is lower in last quarter. In the first quarter a year ago we had a large proportion of other revenue coming from delivery services with referred to merchant -- marketplace merchants.

And later we realized that some merchants preferred to stick with Shun Feng or (inaudible) the courier company they used to work with rather than using our own delivery network. And in order to make it very easy for the merchants to make their delivery to our customers easy, we give the option to our merchants that they can either use Dangdang delivery courier network or they can use somewhere else. So, as a result, cash on delivery and other courier services, we used to charge an income from our merchants, went down, this year. So, because -- so the coming down of the other revenue was largely attributed to this reason. And other revenue as a percentage of our general GMV upmarket sales going forward, we think it's going to pick up again.

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**George Meng** - *Macquarie - Analyst*

Okay, I see. And can you quantify what the delivery-related other revenue is say a year ago? Like in first quarter 2013 it's like RMB58m --





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

We do not give that kind of -- yes, we do not give that kind of detailed fiscal order. But it's a very large proportion.

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**George Meng** - *Macquarie - Analyst*

Okay. Cool. And a follow-up question now on the double payment and also the free delivery threshold change. So, I understand that's definitely a very user-friendly move. But just in terms of the quantitative impact on your expenses, can you quantify that?

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

We think the impact of both double payment for any price difference and there's a free shipping fulfilment cost and our marketing expense will be very small. And we are gaining a lot of operation leverage in our logistic and fulfilment. And the kind of free shipping that we can afford through this phase is very large.

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**George Meng** - *Macquarie - Analyst*

Okay. Cool. And finally, just can you give us any update on the flash sales business? Any color will be very helpful. Thanks.

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

Our flash sales continue to perform very well. It is a significant part of our general merchandise and also marketplace activity.

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**Unidentified Participant**

Okay, that's very helpful. Thanks.

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

Thank you, George.

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**Operator**

Yang Zhung, CICC.

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**Unidentified Participant**

Hello. This is Julian on behalf of Yang Zhung. And I have two questions. The first is on the VAT exception. Could you quantify us the impact of VAT on our gross margin and our revenue growth? and I have a follow-up question.

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

VAT gives us more growth. It doesn't impact our gross margin as a percentage. When we -- at the same time we don't need to pay VAT tax to the government revenue we also move the benefit of making a deduction from the tax payments. So percentage-wise, it does not impact the gross margin line. But even with -- but with larger top line, the absolute RMB amount from gross margin grows.

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**Unidentified Participant**

Okay. Thanks. And --

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

Go ahead.

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**Unidentified Participant**

And the other thing -- question is about our fulfillment costs. We noted that the fulfillment costs as a percentage of our total revenue has declined it seems in the fourth quarter in 2013? Is that sustainable in the future and how will Dangdang to maintain our strategy in fulfillment infrastructure?

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

Our strategy in fulfillment is to have a very scalable and also best practice tack of fulfillment and logistics operations. So we operate our warehouse and we make many, many improvements.

And for shipping, our network and the technology we provide for network partners are also helping. So you can see the result that as a percentage of the total revenue on logistics has come down consistently because the largest proportion of logistics goes to pay shipping costs which is -- has very little room to go down. So we think the total percentage costs for logistics has limited room to move downward. But, at the same time, we believe Dangdang is the most operational efficiency provider among e-commerce companies in China.

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**Unidentified Participant**

Okay. Very helpful. Thanks.

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**Operator**

Thomas Chong, BOCI.

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**Unidentified Participant**

Thanks. This is Celine calling on behalf of Thomas Chong. So the first question is a follow-up on fulfillment cost. So, the fulfillment cost per order decreased to RMB10 in Q1. So, shall we expect it to possibly decrease in the following quarters or will it stabilize at a certain level and what is this stable level, at around RMB10? Thanks. This is my first question.

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

I think the fulfillment cost has some room for improvement, but very limited.

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**Unidentified Participant**

So the stable level is around RMB10, right?



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

It may be lower, but not a whole lot.

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**Unidentified Participant**

Thanks. My second question, so I heard there is 14% of orders coming from mobile side. So, is there any update on order size on mobile and orders per user in this first quarter? Thanks.

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

The 14% mobile orders from Dangdang is the quarterly result. And it is up a lot over a year ago, but we think we have significant room for improvement to do in the future.

Our mobile traffic now is close to 40%. And we think that right now we are seeing some of the applications, but we haven't seen really, really revolutionary applications like what Internet did to offline shopping as we witnessed 40 years ago. So for mobile application we are making gradual progress along the line. And we don't see much big difference between mobile orders versus PC orders, but we do see mobile users to access that for real products and reviews and other things more frequently than PC customers.

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**Unidentified Participant**

Thank you very much.

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**Operator**

Henry Guo, JG Capital.

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**Henry Guo** - *JG Capital - Analyst*

Hi. Thanks for taking my questions. A very quick one. So again on the gross margin, so quite room in here. So my question is what is the potential here for continuing to expand margin? So what is the long-term level? Any color would be helpful. Thank you.

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

The long-term gross margin area Dangdang looks forward to is I think in the neighborhood of low 20%. And now our gross margin is 18.2% I think we're on track of making progress toward our long-term goal. And the improvement of gross margin this quarter is really great. We see gross margin improvement in books, media, in other revenue from our marketplace, commission-base and we think that it's really very nice progress that we saw this quarter.

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**Henry Guo** - *JG Capital - Analyst*

Thank you.



**Operator**

Philip Wan, Morgan Stanley.

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

Philip are you there? I didn't hear the question. Is he there?

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**Operator**

(Operator instructions). Tian Hou, TH Capital.

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**Tian Hou** - *TH Capital - Analyst*

Thank you for taking my question, Peggy.

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

Tian, I can't hear you.

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**Tian Hou** - *TH Capital - Analyst*

Can you hear me now?

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

Tian we can't hear you, can --

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**Tian Hou** - *TH Capital - Analyst*

Yes. Can you hear me?

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

Can you speak a bit louder.

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**Tian Hou** - *TH Capital - Analyst*

Yes I can now. Can you hear me? Can you hear me?

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

Yes now I can hear you.

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**Tian Hou** - TH Capital - Analyst

Okay, good.

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

Yes.

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**Tian Hou** - TH Capital - Analyst

Good. Yes. So the question is related to the general merchandise. So, in Q1 the revenue from general merchandise showed a very healthy growth. So, I wonder how much that is due to the tax -- the new tax policy, or there is a tax policy applied to this sector at all? So if there isn't a new tax policy impact, a positive impact, so what's the trend of the growth throughout rest of 2014?

And in this general merchandise, I assume the gross margin on this area is higher than your media product. If so, how much higher? Can you talk about that?

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

Okay. A couple of clarifications. One is the VAT tax policy only applies to media, books and media and does not apply to other types of products such as apparel. That's number one clarification.

Number two clarification is the VAT tax benefit does not improve gross margin because, at the same time, we do not pay VAT tax to the government, we also lose the tax payment deduction from the merchants which -- when we used to. So if it was [17% before, it is 17%] (corrected by company after the call) now.

But at the same time, because our revenue base is much larger, even with the same gross margin percentage, the absolute amount of gross profit goes up. Do I make myself clear? The margin as a percentage stays the same with tax benefit or without tax benefit. The gross profit amount, because bigger top line it gets bigger. Okay.

So in terms of general merchandise margin difference versus that of book and media, general merchandise carries lower gross margin than book and media. Book and media have higher gross margins.

And for your question regarding to gross margin trend for the rest of 2014, we expect the gross margin to continue its improvement for the 2014. There could be quarterly fluctuations, but the general trend is our gross margin is going up.

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**Tian Hou** - TH Capital - Analyst

Okay. That's very helpful, Peggy. The next question is related to competition. So from March to April we saw some advertisements from VIPShop and Jumei, Jingdong, Suning, a lot of the international e-commerce vendors. So it seems like the competition is likely to be more intensive than easy. So, what's the strategy from Dangdang's point of view to deal with such kind of a competitive landscape?

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

I think that the advertisement war you refer to you really has not impact on Dangdang's business. And I think that the worst time is that no one has much financial disciplinary. That's what I'm referring to, like still hit money burning stage was two years ago. And now with e-commerce



companies going public, I think it's very good because everybody will be in the open air, under the same book and I think the public market enforced financial disciplinary will make spending under many things more shareholder focused and more disciplined. So that's my outlook.

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**Tian Hou** - *TH Capital - Analyst*

Okay. Thank you. That's all my question.

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**Operator**

Philip Wan, Morgan Stanley.

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**Philip Wan** - *Morgan Stanley - Analyst*

Hi. Can you hear me? Hello?

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

Yes. Yes, we can hear you.

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**Philip Wan** - *Morgan Stanley - Analyst*

Sorry, there is something wrong with my phone. So my question is about the apparel category. It's a big category and also seems to be more competitive. So for Dangdang, since it's going to be a material category for your Company, so in the merchants' perspective what is Dangdang doing better for them to use your platform instead of other platforms? Thank you.

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

Yes, apparel, it is a very big category. And it is also very competitive. And for merchants Dangdang are doing them a couple of things. One is Dangdang are bringing them very mature customers with higher spending power. And Dangdang customer concentration, based on our strength of being a bookseller for more than 10 years, they are very well educated. They are office workers. They have high income and the concentration of their spending power is one thing our customer -- our merchant participants like very much.

And also, we think in apparel itself Dangdang has deep growth to build because so far we are only strong in a small segment of apparel which is semi-office wear for young workers and for casual wear for weekends and for clothing for men and for other family dressing needs. There are many categories that we are very small and we are going to make further investment and bringing more progress and sales.

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**Philip Wan** - *Morgan Stanley - Analyst*

All right. Thank you. And then my next question is about your payments. You mentioned in the call prepared remark that there are more customers choosing online payment method. So could you share with us the percentage of contribution? And then, if that's the case, what is the impact to your margin? Thank you.



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

The impact to our margin is -- it's very small. The payment that we -- the charges we pay to such as China Merchant Bank or China Industrial and Commerce Bank is 0%. So for the expense-wise it doesn't make a lot of difference.

And in terms of breakdown of online payment versus cash on delivery, I don't have that number on hand now. And I will check with Philip, we need to check on that number and get back to you later.

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**Philip Wan** - *Morgan Stanley - Analyst*

Okay. No worries. Thank you Peggy and Sophia.

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**Operator**

Alicia Yap, Barclays.

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**Alicia Yap** - *Barclays Capital - Analyst*

Hi. Good evening Peggy, Sophia and everyone. Thanks for taking my questions. I have a little bit more broader industry questions. So I think given, Peggy, your experience in the industry, when we look at the e-commerce product categories, what are some of the products' categories that are not already selling on the online platform that you think may have a lot of opportunities to grow? And then that is something maybe like new areas we can expand into.

And then in relations to that, can you maybe share with us your view on let's say the growth rate and also the penetration rate for each of the major categories. For example, like the books, we're probably close to 50% market share in all that. And then given -- would that be more offline to online transition that will be happening and continue to support the growth rate for the online books?

And then for apparels and baby products and all that, can you give us your opinions, or your view, what is the current online sales accounting for the total retails for these product category and what are the market shares and the growth rate.

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

Okay. To your first question, what product is not yet sold online which tends to grow faster in the future, I think most products and even services in China today are sold online. It's just the difference of the percentage. As you mentioned, certain categories such as book and media, the online shopping penetration rate is very high so the upward growth room is a lot more limited than younger, newer categories.

And for different types of growth -- of product categories, I think they are going to carry very different growth pattern going forward. And I think things like home -- how do I say -- furniture, furnishings, those are not very standardized and very often merchants and shops are far away from customers. Those types of product categories have bigger growth rates to deliver. I think they have less online penetration these days.

And in addition to high penetration of book and media, consumer electronics is another area that has very high penetration. In this category we see JD, wish451, we see Suning, we see Amazon, we see Gome. So consumer electronics is crowded.

And the less crowded are less standardized products. And to some extent a lot of local services are not -- have high online penetration rate to deliver.



**Alicia Yap** - *Barclays Capital - Analyst*

And in terms of apparel, I know it's very fragmented still, do we get a sense how much is our market share in terms of the overall online retailer that sells or participate on the apparel?

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

I would be really -- I would not be shocked if we are very low single digit, yes. It is so fragmented and that we've been in this business for over a year and we are performing well. But relatively to what the market can contain, we are very young.

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**Alicia Yap** - *Barclays Capital - Analyst*

Sure. I understand. And then second on the gross margin's improvement trend, can we assume is that more will be driven by the product mix on the general merchandise category, or is it more the mix between the marketplace which is the net of the commissions versus the direct sales model?

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

We are seeing higher gross margins from all categories we are in, meaning books and media we are seeing higher -- or we are delivering higher gross margin. And to compare marketplace commission versus gross margin from principal sales, marketplace is delivering more gross margin power.

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**Alicia Yap** - *Barclays Capital - Analyst*

Okay. Great. Thank you Peggy.

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**Operator**

Long Lin, Brean Capital.

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**Long Lin** - *Brean Capital - Analyst*

Hi. Good morning. Thank you for taking my question. I just have a follow-up on the mobile. So you mentioned that you will invest, continue to invest on mobile. So can you just elaborate on that, like what are some of the areas that you plan to invest in?

And also just wondering if have you formed or plan to form partnerships with leading mobile players on the mobile Internet? If you can share some color on that.

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

Okay. For our investment in mobile, most of the investment will be in engineering staff and to invest in our talented programmers. And mobile are very application driven and they need to be parted out by our engineers and then fill our customer needs and also fits our product category very well. So Dangdang customers can have very quick -- very slick experience in using different mobile applications, whether it's tablets or it's smartphone, or it's regular, it's a smaller speed application. So most of the mobile technology investment will be in the area of more engineering to be hired, to be brought up by our staff. So that's to your first question.

And to your second question, I think mobile Dangdang will be mostly organic growth from our own customers. And we are seeing Dangdang customers are using both their PC and their mobile applications to access us, to buy from us, and to get service from us. So, we believe that this





trend is a long-term trend that is going to continue. So deliver very strong mobile applications for new customers as well as for existing customers who migrate from PC are mighty important to Dangdang.

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**Long Lin** - Brean Capital - Analyst

Okay. So just wondering if for mobile you said 40% of total orders, mobile orders -- I mean total orders from mobile. So what percentage of your revenue is from mobile and what percentage of your new customers are actually acquired from mobile?

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

We do not give -- provide further breakdown other than the percentage of orders coming from mobile. But we've observed that our mobile customers, in terms of their shopping behavior, they are very similar to our existing Dangdang customers. And their viewing behavior is somewhat different. And they view and look at and they check our product reviews and compare products and compare prices more frequently than PC Dangdang customers.

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**Long Lin** - Brean Capital - Analyst

Okay. That's been very helpful. Thank you. That's all my questions.

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**Operator**

Kevin Kopelman, Cowen & Company.

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**Andrew Merrick** - Cowen & Company - Analyst

Hi. This is Andrew Merrick on for Kevin. Continuing on mobile, are you seeing any differences between your smartphone and tablet users? And I'm just wondering are you seeing any differences in the competitive environment on mobile versus PC. Thank you.

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

Tablet versus smartphone, tablet users tend to have larger size. We think it's because they're richer customers and so that's something we saw.

And for competition itself, I think e-commerce itself is competitive and the competition is driven by products and the categories and the prices. So if -- there's no really -- no division between mobile e-commerce versus regular e-commerce. And that's what I see.

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**Andrew Merrick** - Cowen & Company - Analyst

Okay. Thank you.

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**Operator**

Philip Wan, Morgan Stanley. Wendy Huang, SCB.



**Betty Dai** - *Standard Chartered Bank - Analyst*

Hi. This is Betty calling on behalf of Wendy. Thank you for taking my question. I have a quick question regarding your M&A strategy. Given the dynamic change in China's e-commerce space and the line-up of several e-commerce IPOs, what's management's thoughts about potential M&A opportunities in the market and are we open to any investment from those platform Internet companies, those that are on traffic aggregators? Thank you very much.

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

Yes, there is a conventional wisdom going if you want to make it strong in e-commerce you need to be part of either the B or A or the T of -- one needs to be either of these three families. And I think, I understand people think that traffic is very important.

And our point of view is, number one, Dangdang is -- has a very open mind. We like to work with any partners that brings us good traffic, quality traffic. And at the same time having operated in e-commerce industry for such a long time, we definitely understand traffic does not translate into e-commerce sales. If traffic can translate into e-commerce sales, then Tencent does not need to sell its e-commerce company to another e-commerce company.

So, we think that e-commerce company needs to have its own core competence to be a vital and important player in the long run. And, at Dangdang we deliver that in the form of pricing, in the form of product selection and in the form of convenience for customers to shop. So that's why Dangdang can continue to grow at a very reasonable cost because we are truly attractive to Dangdang customers.

And for vertical categories, the younger categories we are in, we actively look for potential M&A targets that we can get their expertise, beef up our staff and get our product knowledge. And, so far we are still at this looking age, certain age.

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**Betty Dai** - *Standard Chartered Bank - Analyst*

Thank you very much. That's very helpful.

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**Operator**

Ella Ji, Oppenheimer.

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**Fiona Zhang** - *Oppenheimer & Company - Analyst*

Hi. Good evening management. Thank you for taking my questions. This is Fiona calling on behalf of Ella. I just have a very quick follow-up question regarding your flash sales. So I was wondering are you planning to add more categories going forward? And what is your strategy in competing with other solo flash sale players in the market? Thank you.

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

Our strategy for our flash sales channel will include adding more categories. And, in addition to apparel, we also have products from baby, maternity, books and media and household items such as bedding. And we intend to enlarge product selection as well as product category to our flash sales channel.

And I think flash sales is a mode that applies to certain type of shopping behavior that certain group of customers like a lot given on a given day the 10 or 40 brands and with any number of products and the -- most price markdown can be 80%. So certain customers just like this idea of snapping up things in 10 minutes or in two hours.

And for the -- and so I think flash sales applies to a certain group of Dangdang customers. And we intend to give them more surprises and more products. And our sales of other categories, like new season sales of apparel and not last season's sold out which we sell at flash sales channel, we intend to grow them as well. And adding brands and adding SKU in a certain brand and that goes with our category strategy with baby, maternity, apparel and the other categories we operate.

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**Fiona Zhang** - *Oppenheimer & Company - Analyst*

Okay. Got it. That's very helpful. Thank you. And just wondering, I understand that the revenue contribution from flash sale is very small. So just wondering do you have the expectation for its revenue contribution in the long-term? Thank you.

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

Flash sale is a meaningful portion of our total GMV. And the commission we get from flash sales are pretty much similar to what we get from other marketplace participants.

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**Fiona Zhang** - *Oppenheimer & Company - Analyst*

Okay. Got it. Thank you. That's all my questions.

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**Operator**

Thank you. (Operator Instructions). There are no further questions at this time. I will now like to hand the conference back to today's presenter. Please continue.

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

Operator, you can conclude this con call.

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**Operator**

Thank you. Ladies and gentlemen that does conclude our conference for today. Thank you for participating. You may all disconnect.

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