Jianpu Technology Inc. [JT]
Q3 2017 Earnings Conference Call
Tuesday, December 12, 2017, 8:00 AM ET

Company Participants:
Qiuya Chen; IR Manager
David Ye; Co-Founder, Chairman and Chief Executive Officer
Oscar Chen; Chief Financial Officer

Analysts:
Piyush Mubayi; Goldman Sachs
Richard Xu; Morgan Stanley
Ella Ji; China Renaissance

Presentation

Operator: Good day, and welcome to the Jianpu Technology third-quarter 2017 earnings conference call. Today's conference call is being recorded. At this time I would like to turn the conference over to Qiuya Chen, Jianpu's Investor Relations Manager, Please go ahead.

Qiuya Chen: Thank you, Operator.

Please note the discussion today will contain forward-looking statements relating to future performance of the Company. They are within the meaning of the safe harbor provisions of the US Private Securities Reform Act. Such statements are not guarantees of future performance and are subject to certain risks and uncertainties, assumptions and other factors. Some of these risks are beyond the Company's control and could cause actual results to differ materially from those mentioned in today's press release and this discussion. A general discussion of the risk factors that could affect Jianpu's business and financial results is included in certain filings of the Company with the Securities and Exchange Commission. The Company does not undertake any obligation to update this forward-looking information, except as required by law.

During today's call management will also discuss certain non-GAAP financial measures for comparison purposes only. For a definition of non-GAAP financial measures and a reconciliation of non-GAAP to GAAP financial results, please see the 2017 third-quarter earnings release issued earlier today via wire services, and is also posted in the Investor Relations section of our website.

As a reminder, this conference is being recorded. A webcast replay of this conference call will be available on Jianpu's website at ir.jianpu.ai.

Joining us today on the call from Jianpu's senior management is Mr. David Ye, Co-Founder, Chairman and Chief Executive Officer, and Mr. Oscar Chen, Chief Financial Officer. I will now turn the call over to Mr. Ye, who will provide an overview of the company, as well as performance highlights of the quarter. Mr. Chen will then provide details on the Company's financial results and business outlook, before opening the call for your questions. I will turn the call over to our CEO, Mr. David Ye. Please go ahead.

David Ye: Hello, everyone, and thank you for joining our quarterly earnings conference call today.

First of all, I want to thank and welcome our new shareholders, who supported our successful listing on the New York Stock Exchange in November. Today marks another milestone for Jianpu. We are pleased to present robust financial and operating results for our first quarterly reporting as a public company.

As the leading independent open platform for discovery and recommendation of financial products in China and a market leader in our industry, we continue to experience growing demand from our users for financial products and the financial service providers for our solutions and services in the third quarter. This is clearly demonstrated by our solid third-quarter results as the number of loan applications in our platform increased 496% year over year to 28.2 million and our credit card volume reached approximately 1.1 million, up 197% year over year, during the third quarter. Oscar Chen, our CFO, later will also provide you with the guidance on our Q4 financials.

Our business model is to connect users with financial service providers. We believe our ability to leverage our strong data and technological expertise to gain deep footholds across the value chain is our core competency and positions us well to capture the growing market opportunities in our industry.

Our third-quarter results continue to demonstrate our robust growth trajectory. We noticed the recent regulatory developments in respect to cash loan in China, and we believe a regulatory framework with more clarity will benefit both consumers and financial service providers in the long run. Our view is that the tightening regulation does not intend to eradicate the cash loan industry entirely, but aims to better regulate it, set high barriers to entry and prevent systematic financial and social risk.

As an independent open platform, we think of ourselves as everyone's financial partner. Jianpu does not offer its own financial products and does not take any credit, liquidity or market risks. This enables us to provide impartiality and transparency for our users and financial service providers. Thus, we take a constructive view on the changes in the regulatory environment and believe our established market leadership will better position us to serve market participants by helping them improve sales and marketing efficiency and enhance data and risk management capabilities, and consequently benefit us in the long run.

In summary, we have strong belief in Jianpu's business model and strong network of financial service providers. The online consumer finance market in China remains underpenetrated, with significant growth potential in the long run. It is our strategy to evolve our offerings within the regulatory framework, while at the same time providing our customers with the best-in-class service, which will enable us to fully unlock our potential and maximize long-term shareholder value.

With that, I will now turn the call over to our CFO, Oscar Chen, who will discuss our financial results.

Oscar Chen: Thank you, David, and hello, everyone.

We are delighted that our strong third-quarter results continue to affirm our market leadership and support our growth thesis. We had a 384% year-over-year revenue growth for the third quarter of 2017 and the revenues from our core recommendation services grew by 429%. Within that, revenues from our loan recommendation services increased by 477%, while revenues from credit card services grew by 251% year over year.

On the bottom line, our net loss decreased by 52% year over year to RMB17 million, or about USD2.5 million, for the third quarter of 2017. Our strong performance gives us the confidence that we are on track to execute our business strategy and realize our growth potential.

Now I would like to walk you through more details of our third-quarter 2017 financial results.

Our total revenues in the third quarter of 2017 reached RMB468 million compared to RMB97 million in the third quarter of 2016, largely due to the increase in total revenues from recommendation services, driven by a huge increase in loan applications on our platform.

Total revenues for the third quarter of 2017 increased by 384% to RMB468 million from RMB97 million for the prior-year period, primarily due to increase in revenues from recommendation services. Total revenues from recommendation services increased by 429% to RMB438 million in the third quarter of 2017 from RMB83 million in the prior-year period.

Revenues from recommendation services for loans increased by 477% to RMB377 million in the third quarter of 2017 from RMB65 million in the prior year period, primarily due to the significant increase in the number of loan applications on our platform. The number of loan applications was approximately 28 million in the third quarter of 2017, representing an increase of approximately 496% from the prior-year period.

Revenues from recommendation services for credit cards increased by 251% to RMB62 million in the third quarter of 2017 from RMB18 million in the third quarter of 2016, due to an increase in the credit card volume. Credit card volume for recommendation services reached approximately 0.7 million in the third quarter of 2017, representing an increase of approximately 188% from the prior-year period. Our average fee per credit card increased from CNY74 Yuan in the third quarter of 2016 to CNY90 Yuanin the third quarter of 2017.

Revenues from advertising and marketing services and other services increased by 114% to RMB29 million in the third quarter of 2017 from RMB14 million in the prior-year period, primarily due to the increase in revenues from big data and risk management solutions, as well as an increase in the credit card volume for advertising services.

Cost of revenues increased by 212% to RMB42 million in the third quarter of 2017 from RMB13 million in the prior-year period. The increase was primarily attributable to the increase in traffic acquisition costs related to advertising and marketing services, data acquisition costs and short-message service fees.

Gross profit increased by 412% to RMB426 million in the third quarter of 2017 from RMB83 million in the prior-year period. Gross margin was 91% in the third quarter of 2017, compared with 86% in the prior-year period. This increase was primarily attributable to our revenues from recommendation services continuing to grow more rapidly than our revenues from advertising, marketing and other services, as the former has higher gross margin than the latter.

Sales and marketing expenses increased by 313% to RMB388 million in the third quarter of 2017 from RMB94 million in the prior-year period. This increase was mainly due to growth in marketing and advertising expenses and payroll-related costs, which were in turn attributable to the rapid developments of recommendation services.

Research and development expenses increased by 78% to RMB35 million in the third quarter of 2017 from RMB20 million in the prior-year period, primarily due to the increase in payroll costs.

General and administrative expenses increased by 268% to RMB15 million in the third quarter of 2017 from RMB4 million in the prior-year period, primarily due to the increase in professional fees as the Company prepared for its IPO.

Loss from operations decreased to RMB12 million in the third quarter of 2017 from RMB34 million in the prior-year period.

Income tax expenses were RMB5 million in the third quarter of 2017, compared with nil in the prior-year period.

Net loss decreased by 52% to RMB17 million in the third quarter of 2017 from RMB34 million in the prior-year period. Non-GAAP adjusted loss, which excluded share-based compensation expenses from net loss, decreased by 51% to RMB16 million in the third quarter of 2017 from RMB33 million in the prior-year period.

Non-GAAP adjusted EBITDA, which excluded share-based compensation expenses, depreciation and amortization, and income tax expenses from net loss, for the third quarter of 2017 was a loss of RMB10 million, representing a decrease of 69% from a loss of RMB32 million for the prior-year period.

Net cash provided by operating activities was RMB18 million for the third quarter of 2017, compared with net cash used in operating activities of RMB35 million for the prior-year period.

As of September 30, 2017, the Company had cash and cash equivalents of RMB319,000 and working capital of approximately RMB67 million. As of November 13, 2017, the Company had cash and cash equivalents of RMB1.8 billion, including IPO proceeds and cash received from Rong360 Incorporation as part of capital contribution.

Our network is highly diversified and comprised of many institutions, including large, reputable commercial banks that are already fully licensed and the smaller consumer finance and other CBRC-licensed institutions. Most of these groups should feel minimal to no impact from the proposed regulatory change. We are the only fintech company in China that holds strong positions across all product segments and this is our clear differentiation from other market participants.

The majority of our revenue comes from our recommendation services and we believe the proposed regulations will offer new opportunities to expand our credit card business as some consumers will shift from cash loans to alternative sources of financing. We believe the regulatory change will also help to increase the number of users that attracted to our independent and open platform.

Finally, we are actively analyzing marketing trends, to launch additional products and services to meet the evolving needs of our users.

We will have continued growth in the fourth quarter. We expect to see fourth-quarter revenue to be around RMB545 million, representing a year-over-year growth of 379%.

While we do anticipate we will deal with short-term headwinds, we remain well positioned to capitalize on the new market opportunities. As such, we are confident in our long-term outlook for both the industry and our company. Despite some near-term pressure, we are prudently monitoring shifting market trends and will provide you with additional updates as appropriate.

One final note is that our quarterly progression during the year reflects some seasonality in our business, with our first quarter historically representing the softest quarter of the year. The result follows the Chinese New Year where many banks and other financial service providers are closed for one to two weeks during the China New Year national holiday, and most consumers are on leave.

With that, I conclude our remarks. We will now open our call to questions. Operator, please go ahead.

Questions and Answers

Operator: Thank you, Mr. Ye and Mr. Chen. We will now begin the question-and-answer session. (Operator Instructions) The first question will come from Piyush Mubayi of Goldman Sachs.

Piyush Mubayi: David, Oscar, congratulations on the listing and your first quarterly announcement. I have two quick questions. Could you talk about the revenue split for Jianpu between banks, nonbanking licensed FSPs and the non-licensed ones and how the regulations might impact these three revenue sources? I realize you don't -- it might not be prudent to be specific, but any color you could give us around how that mix has been and how that might change in 2018, that would be helpful.

And also any feedback you may have gotten from the FSPs that are on your platform with regard to the timeframe for the compliance would be most helpful for us to understand how the business is proceeding. Thank you.

Oscar Chen: Thank you, Piyush. I will answer your question first. Regarding the revenue split, according to the new regulations published on December 1st, we did do some analysis of our revenue compositions, particularly for recent months. So we would like to share this information regarding our revenue composition. So from our revenue we see our revenue is just like the distribution following the overall China financial services landscape.

At the top part there are the banks and also other CBRC regulated financial institutions.

And the second part will be the nonbanking licensed financial institutions, that including the consumer finance company, the trust company, and also the licensed micro-lending companies. This part also can be break into two categories. One is the ones with local microlending licenses, who are doing business in a certain region. And the other part will be the internet micro-lending companies, which can extend loans, we expect, to nationwide.

And the third part at the bottom of the pyramid will be the non-licensed financial providers, this including the P2P companies and also other non-licensed FPSs.

Currently, given our understanding of the regulatory evolving, we view P2P will get registered in the near future. So this part of financial institutions can also be deemed as kind of licensed company. When they get registered from the provincial or municipal local financial offices, they can continue doing the lending business and also online lending products. So I think the bottom part of the other, non-licensed financial institutions, probably will be the most risky part that will impact our revenue in the future.

So we did some analysis on revenue of November. We found that part is around 12% of our total revenue in November. So if these non-licensed financial institutions cannot get their license or find their way to cooperate with other licensed financial institutions in the future, probably this part will be materially negatively impacted for revenue down the road.

If you read the regulations you may find there could be some potential impacts for the P2P companies and also the internet micro-lending companies. The P2P companies, or the P2P guys, firstly we want to emphasize again we are working with the top P2P companies in China to provide lending products to our users. So for the P2P companies, that segment probably what they need to do is to offer the lending products online lower than the 36% APR.

And for the internet microlending companies, probably you noticed that there's a new regulation came out yesterday. So there's a suspension of granting new internet micro-lending licenses. For the existing ones probably potential – the CBRC and local finance offices will do a round of review of existing license.

So the impact on these two categories I think they probably need to adjust their products. For microlending, change at the internet micro-lending companies is that they go through the review conducted by the CBRC and the local financial offices. And also at the same time they need to go through the review by the government. So for these two parts there will be some short-term impact down the road.

There will be a grace period from the beginning of December probably to the mid next year. So during that period there will be some short-term pressure to us. Beyond that, we're still confident of the overall consumer finance industry and the internet lending part in the long run.

Did that answer all your questions?

Piyush Mubayi: That's very clear. And then if you could just talk about any feedback you may have from the FSPs on your platform so far?

David Ye: Okay. So, Piyush, I will talk about the feedback from the financial service providers. So there was -- let me first summarize what happened the last two weeks in terms of with People's Bank of China, China Banking Regulatory Commission, they just basically suspended the issuing of internet microfinance license.

They also had a joint release on December 1st in terms of ratification of the cash loan business in a couple of categories. The first one is basically licensing is required for all the lending activities. And number two is there's basically an APR cap on loans for all durations. And there are a couple of other ones, basically, like, limitations on the funding sources, institutional funding sources. And also PBOC and CBRC requires consumer loans need to have a specific purpose during the underwriting process. So that's -- and also the couple of other ones, like, the collection practices, data security, etc.

The feedback from financial service providers, we definitely have seen, in the last two weeks we have seen, number one, for the licensed institutions, or registered institutions, like P2Ps, they have changed their product. And they're basically -- they're lengthening or extending loans with longer durations and lower APR. And also the FSPs, now they're starting to request the borrowers to state the purpose of the loan upon either the drawdown, or sometimes even before the underwriting process.

We also have seen some of the FSPs introducing third-party guarantee company or third-party insurance agencies basically to comply with the law if they don't have a license. So there are a couple of ways the companies, the FSPs, are adopting those changes.

And also, we do expect the actual interpretation and the implementation of those rules and regulations will be handled at provincial level or municipal level. Keep in mind the rules and regulations are from the central government, which is PBOC and CBRC. And the implementation or interpretation will be handled by local -- in that case could be a city or municipal finance office or the provincial finance office.

So this process is similar to what happened for peer-to-peer lending and peer-to-peer companies like a year and a half ago. A year and a half ago also the PBOC and the CBRC they offered a one-year grace period for P2P companies to fully comply with the law. Actually later, late last year -- actually, this August PBOC and CBRC also extended full compliance to one more year, to August of 2018. So as Oscar just said, we do expect a period of one quarter, maybe two quarters, shorter or longer in some provinces, to put in compliance with the key rules and regulations we just mentioned.

So overall, we have seen some of the FSPs not impacted at all, like the credit card company, consumer finance company, and the licensed, like banks. Banks are not impacted at all. Some of the middle-tier microfinance company or internet microfinance company, they have adjusted their product by APR or -- and they may have some pressure on the funding side. But, again, give them some time they will able to have some ways to get fundings.

And also, lastly, these rules and regulations actually have less impact for peer-to-peer lenders compared to the micro lending company. Because a P2P company, funding sources are from the retail, like the investors, basically they have unlimited leverage in terms of funding source. They don't have to comply with leverage ratio of 2 or 3 for micro lenders. So that's actually good news for peer-to-peer lender. This is the part actually better than we expected compared to two or three weeks ago.

So lastly, we found out that close to 200 internet microfinance company has been issued in about 10 provinces in the past -- actually is more than a month ago. Now it's close to 200. But, again, CBRC issued notice yesterday they're going to review the licenses, make sure that the licenses -- the companies with license, they'll be fully compliant with that. So there are some more clarity on that part. But in that case -- we actually found -- actually that's the news last few days. We found a couple of non-licensed companies and actually they got license just a month or two months before the suspension for licensing.

So actually the number of licensed companies, that it be more than we thought. And it's good news. The top ones, the top 30 or top 50 of the microfinance companies or lenders, so we actually find that most of –them already have license. So the issue for them is to adjust the product or also require the users to state the purpose. There's regulatory compliance cost, but manageable.

So that's the feedback from the FSPs, things we have heard, also they have taken action during the last two weeks.

Piyush Mubayi: Thank you. Thank you very much.

Operator: And the next question will come from Richard Xu of Morgan Stanley.

Richard Xu: Hi, David. Hi, Oscar. Thank you very much for giving me the opportunity for the question. I have two questions. First of all, obviously there's a lot of cleanup going on with some of these online lenders. Given that situation, will that impact your, I guess, current acquisition plan and your marketing plan over the next several quarters? Are you going to basically continue to acquire borrowers at a similar pace? Or you probably will take a slight pause in some quarters? And in addition, whether the acquisition costs will be impacted as well, assuming a lot of these online lenders are exiting the market, maybe they're not as competitive. That's question number one.

Number two, obviously there's still news indicating sort of giving a timetable of some of these -- for example, cleanup. By January they want to finish the review of some of these issues with online lenders. I think, like, by March, according to the news, they want to basically have all the online lenders violating current regulations exiting the markets. Do you have any updates from your financial institutions talking about the timetable at the moment? Because, you know, that could be a slightly different grace period than the previously cleanup efforts. Thank you very much.

David Ye: Thank you, Richard. The first question about acquisitions, acquisition costs overall, I will answer that. So as a platform we connect users with financial service providers. So 38% of our traffic are organic. Of course no impact on that part. So among the paid traffic, over 60%, we actually have seen that overall acquisition costs going down. In the last two weeks actually you guys know, the marginal lenders that have a higher APR, actually distorted the market. They actually paid a higher cost per click or pay a higher price for the acquisition cost. So we actually have seen some of the channels, the costs per application, and cost per click has decreased by 50 to 60%. But that's some of the performance-based channel.

And we do have some channels that either pay by quarterly or by annually. So in that case it take us some time to scale it back. So the speed of scale-back at the volumes is not as fast as we would expect it, because we do need to, say, let the contract expire at the end of the quarter or the end of a year.

So overall we have seen the cost per acquisition has gone down. And also, we actually have found out that the less the lender is actually paying for traffic for loans, our credit card volume has gone up. And also the cost for credit card, per application has gone down the last few weeks.

So the hedging is from the acquisition cost to sales. That’s one type of hedging. The second type of hedging, I could call it diversification. So less competitors in the loan space is actually benefiting our credit card as well. So that's the situation.

So at the end of the day we have our marketing strategy that we are buying traffic at the margin. So if our ROI, return on investment, which is defined as our revenue divided by our traffic acquisition costs, if our net revenue divided by acquisition cost is about 120%, 125% for loans, or about 125% for credit card, we grow as fast as we can.

We've definitely seen some headwinds on the revenue side. But if we would be able to scale back our acquisition cost and benefit from the natural hedging and also the diversification overall. So that's the way we've managed the operation the last two weeks and a half, two weeks. Going forward we will keep optimizing and monitoring the situation, optimizing our position and strategy. And we are planning to improve that over time.

Oscar Chen: Richard, your second question is about the new regulation issues about micro-lending license. During the last few weeks from December 1st, the regulations came out, we keep very close interaction with the financial service providers, working with online unsecured lending companies. So far, given that regulation that just came out yesterday, we haven't heard anything new about that part.

So our goal is to keep very close communication with these lenders to evaluate the potential impacts on our platform. So, as we said, currently we see some short-term pressure. We will keep you guys posted as appropriate down the road.

Richard Xu: Okay. Thank you very much.

Operator: (Operator Instructions) Your next questions will come from Ella Ji; China Renaissance.

Ella Ji: Thank you. Congratulations, Management, on your listing and on a strong quarter results. I have some quick follow-up questions. The first one, you mentioned that there's now some pressure on the funding side. Can you elaborate on that? Is it the funding sources? Is it from the financial institutions? Or is it from trust companies? Or are you referring to the individual investors or high net worth investors on the P2P platform?

And the second really, I just want to clarify that, given all the lenders has kind of lowered their APR to be compliant, so should we expect the average fee that you can charge on your platform per loan application, is that average of fee also going to see some pressure in the near term? Thank you very much.

David Ye: Thank you. I will answer the first question now. Oscar will talk about the second question. So in terms of the funding pressure -- and, again, the more detail interpretation or clarification will come from PBOC or from CBRC, we would expect more from them. But what I will mention, is based on what our interpretation and also what FSPs have shared with us.

So in a couple of categories. The first one is about the P2P or individual investors for the P2P wealth management platform. It basically says, to our understanding, that P2Ps they're not impacted by the funding constraint. P2P -- our marketplace vendors, they can still attract funds through individual investors and they use funding to match the loans to continue the lending activity, so less impacted.

To licensed micro-lending companies, he impact is more on the ABS. So now the asset-backed security for some of the licensed microfinance companies, now the regulations say when they calculate their leverage ratio they need to move off the balance sheet ABS, onto the balance sheet, which will limit the funding for some microlending companies.

And the second thing is CBRC would strongly enforce the leverage ratio for microfinance companies. So if x time of the capital for a microfinance company, they may have a ratio of 2x or 3x, maybe a couple of x, which for some microfinance company they will have to limit growth. They either have to increase their paid-in capital or maybe reduce their growth.

So that's what we have heard from the industry and our interpretation for the regulation in the three categories.

Oscar Chen: And I will take your second question. I think your question is about the average fee we charge for the loan recommendation. The average fee we charge is on an application basis. So firstly, we haven't seen a downward trend in the last few weeks, although the lenders are under the pressure to adjust their product to have their total APR to below 36%. And also adjust their risk model to adapt to the levels of change.

But what we are seeing there some been some financial service providers launched their lower-than 36% APR product on our platform. So with that, what we observe for now is that they need to have more qualified potential borrowers. We can help the lenders to do, prequalification, prescreening, to help them target a certain population of the potential borrowers. So we're seeing our value to these financial service providers rise.

So at least for now we don't see any pressure or block to the normal price.

David Ye: Yes. So, Ella, I want to add one more thing about the funding source I just didn't mention -- the banks. Banks are not allowed for investing in the cash loan product for the microfinance companies, and also the P2P companies. P2P companies are also not allowed toprovide capital to microfinance companies. So this actually seem to hurt microfinance companies' access to funding. So that's one point I just omitted. I just wanted to clarify that.

Ella Ji: Got it. Thank you very much, David and Oscar.

Operator: And ladies and gentlemen, this will conclude our question and answer session. I would like to turn the conference back over to management for any additional or closing comments.

Qiuya Chen: Thank you once again for joining us today. If you have any further questions please contact us at ir@rong360.com, or TPG Investor Relations at jianpu@tpg-ir.com. Thank you for attention and we hope you have a wonderful day.

Operator: Thank you. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. You may now disconnect your line.