Jianpu Technology Inc. [JT]
Q2 2018 Earnings Conference Call
Monday, August 27, 2018, 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:
Wendy Chen, Goldman Sachs
Richard Xu, Morgan Stanley
Alex Yao, JPMorgan
David Guo, China Renaissance

Presentation

Operator: Hello, and welcome to Jianpu Technology Inc.'s second quarter 2018 earnings conference call. Today's conference 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.

Quiya Chen: Thank you, Operator.

Please note the discussion today will contain forward-looking statements, relating to future performance of the Company. These statements are within the meaning of the Safe Harbor provisions of the US Private Securities Litigation 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 GAAP to non-GAAP financial results, please see our second quarter 2018 earnings press release issued earlier today via wire services and also posted in the Investor Relations section of our website.

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

Joining us today on the call from Jianpu's senior management are 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 second quarter. Mr. Chen will then provide details on the Company's financial results and business outlook before opening the call for your questions.

Mr. Ye, please go ahead.

David Ye: Thank you, Quiya. Hello, everyone, and thank you for joining our second quarter 2018 earnings conference call today.

We are pleased to report yet another solid operating and financial performance for the second quarter of 2018. We continued our strong growth momentum recording revenue growth of 92% year-over year, and 46% quarter over quarter benefiting from a healthy and steady industry recovery. At the same time, we remained focus on enhancing our operating efficiency, evidenced by our non-GAAP adjusted net margin reduced from -6.6% in the second quarter of 2017 to -5.8% in the second quarter of 2018.

Being an opena platform covering full credit spectrum multiple financial product categories, and ideally positioned to capture the changing market dynamic and drives growth across the board, we benefited from stronger consumer demand toward credit cards, consumer and SME lending products and a clear recovery of online lending activities in the second quarter. We recorded solid growth in both our credit card and loan volume. Our credit card volume increased 178% to 1.63 million year over year, and average fees per credit card increase to 99.4 from 71.8 RMB in the same period last year. Our number of loan application increased 75% to 21.2 million quarter over quarter, and unit price of loan application showed healthy increase.

The strong growth in our credit card business illustrates deepening relationships with licensed credit card banks, as we bring to them not only sales and marketing solutions but also risk management services based on our big data. Take one of China's top tier banks as an example. After observing a growing multi-card holders application and delinquency rate, the bank decided to optimize growth and improve asset quality. To address this issue, we have been working with the bank, and leveraging our position as the largest third party provider of credit card traffic, to jointly develop a model to identify and selectively remove around 15%-20% of the highest risk applications, which in testing has been shown to successfully reduce the non-performing rate by 50%. The model is now in use at the bank and has been proven to be very effective.

In light of the more intense competition and evolving regulatory framework, we've seen rising demand for big data and risk management services among financial service providers. This has allowed us to rapidly expand the penetration of our big data and risk management services.

We have successfully applied big data and AI technology throughout the user journey from user acquisition, recommendation, fraud-prevention and pre-underwriting. Leveraging our big data and AI technology, we combine application information with our own proprietary risk management system to construct models that generate a series of comprehensive reports on a potential user or applicant. Such reports include social, geographic, demographic, economic and financial information and other transactional information from hundreds of data sources with over ten thousand data elements.

Our efforts invested in big data and AI technology drove an 191% year-over-year and 99% quarter-over-quarter increase in revenues of our big data and risk management businesses.

Before I turn the call to Oscar, I'd like to briefly touch upon the recent regulatory evolvement and industry outlook. As I have just mentioned, Jianpu's cooperation with financial service providers is becoming more diversified, with an increasing breadth and depth to these collaborations. Despite the challenging market conditions, we see this as an opportune time to increase our investment to capture greater market share as a platform.

Starting in the second quarter, there have been a few headwinds including overall credit tightening due to the macro theme of deleveraging across financial sector. For the P2P sector, investors confidence was damage due to some non-compliant companies exiting the market. In our view, the impact will be limited in the long term. The regulators have been sending positive signals to promote the healthy development of the market. For example, on August 18, China Banking and the Insurance Regulatory Commission issued guidance or Proposition 76 to further promote financial inclusion, promote consumer finance and SME lendings.

In the P2P space, guidance issued by the regulators, financial regulators, that 3 weeks ago, is called 108 Guidances basically clarifying the requirement for P2P platform and foreshadowing the acceleration of inspection and the registration process. We strongly believe that such policies, guidances and the regulations will help shape the industry into a healthier and more sustainable form in the long run.

In summary, Jianpu delivered yet another solid performance during the second quarter of 2018 despite what many perceived to be a turbulent operating environment in China. What distinguishes us from most of the other market participants in the industry is the fact that we are a technology-based, diversified platform facilitating transactions between consumers/SMEs and financial service providers. As an enabler, we do not take on unnecessary credit risk but possess the agility to capture opportunities created by shifting market dynamics. In this regard, we are optimistic about our development prospects and expect a continued strong growth trajectory in the medium to long term.

In particular, I'm pleased to announce that our board of directors has approved a share repurchase program which authorized the Company to repurchase an aggregated value of up to 20 million US dollars during the next 12-month period. We believe this clearly demonstrates our confidence in our strategy, strong fundamentals and long-term prospects, as well as our commitment to maximize 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 happy to report that, despite the industry and regulatory uncertainties, Jianpu has continued to experience robust growth and achieved strong financial results. For the second quarter of 2018, our total revenues increased almost 92% year-over-year and are also up 46% sequentially. The RMB490 million quarterly revenue figure was also noticeably higher than our previous guidance of RMB460 million. Also, worth mentioning, during the quarter, 91% of the revenue generated by our top 50 institutional clients was from licensed institutions or P2Ps that are likely to be registered, which positions us well in light of the trend of increasing regulatory oversight of the industry.

Our overall recommendation service revenues increased more than 86% year-over-year and 52% from the first quarter of 2018. Our credit card business once again delivered a standout performance, up 356% year-over-year in revenue. This was achieved through healthy increases in both volume, which was up 237% year-over-year, and average fees per credit card, which jumped from RMB73.7 in the second quarter of 2017 to RMB99.5 in the second quarter of 2018. Our loan business also continued to show steady and healthy growth with total revenue increasing 43% year-over-year. Both loan application volume and average fee per loan application saw clear growth year-over year. The strong financial performance gives us the confidence that we are on the right business trajectory.

Now, I'd like to walk you through more details on our second quarter 2018 financial results.

Total revenues for the second quarter of 2018 increased by 92% to RMB490.4 million from RMB256 million in the same period of 2017, primarily due to increases in revenues from recommendation services.

Total revenues from recommendation services increased by 86% to RMB441 million in the second quarter of 2018 from RMB236.9 million in the same period of 2017.

Revenues from recommendation services for loans increased by 43% to RMB291.9 million in the second quarter of 2018 from RMB204.2 million in the same period of 2017, primarily due to the increase in the number of loan applications on the Company's platform and increase in the average fee per loan application. The number of loan applications on the Company's platform was approximately 21.2 million in the second quarter of 2018, representing an increase of approximately 11% from the same period of 2017. The average fee per loan application increased to RMB13.8 in the second quarter of 2018 from RMB10.7 in the second quarter of 2017.

Revenues from recommendation services for credit cards increased by 356% to RMB149.1 million in the second quarter of 2018 from RMB32.7 million in the second quarter of 2017, due to the increase in both credit card volume and average fee per credit card. Credit card volume for recommendation services in second quarter of 2018 was approximately 1.5 million, representing an increase of approximately 237% from the same period of 2017. The average fee per credit card increased to RMB99.5 in the second quarter of 2018 from RMB73.7 in the second quarter of 2017.

Revenues from advertising and marketing services and other services increased by 159% to RMB49.4 million in the second quarter of 2018 from RMB19.1 million in the same period of 2017, primarily due to an increase in revenues from big data and risk management solutions as well as an increase in the advertising services provided to credit card issuers.

Cost of revenues increased by 153% to RMB59.1 million in the second quarter of 2018 from RMB23.4 million in the same period of 2017. The increase was primarily attributable to the increases in traffic acquisition costs of advertising and marketing services, short message service fees, depreciation, online payment processing fees and bandwidth and server hosting costs.

Gross profit increased by 85% to RMB431.2 million in the second quarter of 2018 from RMB232.7 million in the same period of 2017. The increase was primarily attributable to continuing growth in revenue. Gross margin was 88% in the second quarter of 2018.

Sales and marketing expenses increased by 94% to RMB421 million in the second quarter of 2018 from RMB217 million in the same period of 2017. The increase was mainly due to growth in marketing and advertising expenses and payroll related costs.

Research and development expenses increased by 122% to RMB52.5 million in the second quarter of 2018 from RMB23.7 million in the same period of 2017, primarily due to the increase in payroll costs and share-based compensation mainly related to the hiring of new R&D staff to further enhance our service delivery efficiency and effectiveness.

General and administrative expenses increased by 397% to RMB37.8 million in the second quarter of 2018 from RMB7.6 million in the same period of 2017. The increase was primarily due to recognition of share-based compensation, as well as increases in payroll costs and professional fees for maintaining our listing status.

Share-based compensation expenses recognized in cost of revenues, sales and marketing expenses, research and development expenses and general and administrative expenses in the second quarter 2018 were RMB32.6 million in total.

Income tax benefits were RMB11.2 million in the second quarter of 2018, compared with income tax expenses of RMB1.8 million in the same period of 2017. Contributed by the change of the cost and expenses structure, the annualized tax rate for 2018 was decreased. In addition, the Company's domestic subsidiaries completed their 2017 annual tax fillings with relevant tax authority by the end of May 2018, which resulted in a change of tax positions in the income tax provision and deferred tax assets recognized as of December 31, 2017, the effect of the change was RMB12.5 million recognized in the second quarter of 2018.

Net loss increased by 251% to RMB61.1 million in the second quarter of 2018 from RMB17.4 million in the same period of 2017. Net loss margin was -12.5% in the second quarter of 2018 compared with -6.8% in the same period of 2017. The increase was primarily due to the increase in share-based compensation expenses.

Non-GAAP adjusted net loss, which excluded share-based compensation expenses from net loss, was RMB28.5 million in the second quarter of 2018, compared with RMB16.9 million in the same period of 2017. Non-GAAP adjusted net margin improved to -5.8% from -6.6% in the same period of 2017.

Non-GAAP adjusted EBITDA, which excluded share-based compensation expenses, depreciation and amortization, interest income and expenses, and income tax expenses or benefits from net loss, for the second quarter of 2018 was a loss of RMB36.3 million.

As of June 30, 2018, the Company had cash and cash equivalents and short-term investment of RMB1,339.1 million, and working capital of approximately RMB1,435.6 million.

Now, for guidance,

As a result of the credit tightening across the board and recent funding supply shortage of P2P platforms, we observed slowing down of lending activities in the past two months. At the same time, we noticed that the regulator has issued new policies promoting financial inclusion and consumer finance, as well as the loosening trend of monetary policy since the end of July, we remain confident and positive in terms of outlook in the mid to long run. We currently expect total revenues for the third quarter of 2018 to reach approximately RMB415 million.

Our quarterly progression during the year reflects our estimates based on the current market conditions and regulatory environment and is subject to uncertainties and changes.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). For the benefit of all participants on today's call, if you wish to ask your question to management in Chinese, please immediately repeat your question in English. (Operator Instructions). Our first question today comes from Wendy Chen, Goldman Sachs. Please go ahead.

Wendy Chen: (Speaking foreign language). So I'll repeat my question in English. My first question is about our third quarter guidance. So, can management kindly share some insight about the breakdown between the credit card, new as well as the loan business, especially as we've seen the loan business and the P2P platform has been having some headwind in the third quarter starting from July?

And then my second question is about the user acquisition cost. I'm wondering if management can give us some guidance on the traffic acquisition cost by different channels. Thanks very much.

Oscar Chen: Thanks, Wendy. Let me take your question first. So, regarding to your first question of potential decrease year-over-year of our third quarter guidance, firstly, I want to comment that the third quarter impact is, across our board, result from the tightening credit and the monetary policies implemented earlier this year under the theme of deleveraging.

So we observed the slowdown of lending activities in July and August. So it's not just about the P2P activities. Of course, P2P is part of it but overall, we have seen the tightening credit and the monetary policies. But again, we want to emphasize the policy trend turned more positive recently, which I have explained in the guidance.

Regarding the revenue split, I want to give some information for the third quarter guidance, we think the credit card revenue will continue to grow year-over-year and quarter-over-quarter, which may be a bit less than 50% of total revenue. The loan recommendation and the others like advertising, big data and risk management services, will contribute another half. That's a rough ballpark about the revenue split of the third quarter.

About sales and marketing expenses, you're asking about the user acquisition cost. So, in a particular quarter, as you can see, we view that sales and marketing, as a percentage of revenue is a proxy measure for marketing and acquisition efficiencies. In the second quarter, it was about 85% of total revenue, which is in line with the same period of last year and a bit lower than the first quarter of 2018.

So as we mentioned in our previous earnings call, so online lending activities has been recovering in the second quarter this year. As a result of the increasing activities, we saw a sequential increase in quarterly traffic acquisition cost. Back to the first quarter, because there was a combination of slow season and the regulatory impact, we scaled back our marketing spending a bit, we can keep the flexibility in terms of the marketing spending.

In the second quarter, alongside with recovery of the industry, we turned back into the strategy of managing of our margin to expand our user base. In the second quarter, our total number of registered users reached over 100 million. For Q3, given the industry uncertainties, we will be more cautious in terms of marketing spending. As such, we will expect better ROI in the third quarter.

Wendy Chen: Thanks very much.

Operator: The next question comes from Richard Xu, Morgan Stanley.

Richard Xu: Hi, David. Hi, Oscar. Thank you very much for taking my questions. Two questions, one is can you talk about the fee rates that you are able to charge, both the credit card issuers and P2P lenders. Any new trend, there? For some industry you're able to raise some prices? Is that more across the board, or particular platforms at the moment?

Secondly, we know, obviously, the regulator has issued some guidance in terms of the pace of registrations. Are you seeing stabilization of activities, any industry trends that you're seeing after 2 weeks or so? Obviously, you're giving relatively conservative guidance in the third quarter, but what's the actual trends at the moment? Thank you very much.

Oscar Chen: Okay. Thank you, Richard. I will take your question. So firstly, your question about the average fee of credit card and loan, so yes, I think given our strong position in this market, we successfully increased the fee per credit card and per loan applications in the last quarter. I think the increase in average fee of credit card is a combination of several factors.

Firstly, in annual contracts we signed with the banks of this year, we’ve seen the average fee increase. Given our larger volume contributed to the banks and also our better conversion rates and the approval rates by leveraging our big data and technology, we help the banks to further enhance their credit card operation efficiency and lower the delinquency rate.

David will provide some comments in one case study of how we worked with banks, not only directing traffic to them, but also help them to manage the risk. So I think a larger volume market position and a better operating efficiency are the reasons that we can increase our price with the banks.

For the fee per loan application, as we explained before, for the first quarter and second quarter, we are seeing more loan applications -- more loans with larger ticket size and longer duration, which was a result of the December regulation in terms of cash loans. So all the lenders become fully compliant with the regulations and the launch with our products on our platform with larger ticket size and the longer duration. We don't price our loan application based on the duration or the size, but there are some correlations between the price and the loan size and duration. As you see the migration of loan duration and size, the price increase naturally. Okay.

David Ye: Richard, I just wanted to just add a few more points. This is David. We do see the unit sales price for both credit card and loans increased across-the-board. We have seen the increasing trend in the last couple of years. We do expect to see this continue going forward. If we further segment the unit sales price by loan or credit card, like for credit card, if we put a second by a super-prime or prime card, we do see that increased for each higher-quality segments or medium-quality segments. And if you look at a single credit card issuer, we do see that our contract renewed on an annual basis. We were definitely able to raise the price by 10% to 15%. So we expect that this trend will increase around 15% year-over-year. We will have it at least for the next 12 months, maybe longer.

For loans, for example, we have like a mortgage lease sale for a few hundred bucks per lease, a few hundred renminbi per lease. We have seen an increasing trend. For non-secured credit, with a credit limit of 30,000, 50,000, we've seen that also increase from RMB60, RMB70, RMB80 and close to 80, 90RMB. So, the primary driver of increasing the unit sales price is more about quality of the lease with better conversion rates, higher approval rate, and in the medium to long-term is a higher credit quality or less fraud or less charge-off rate. And by applying our big data risk management solutions, we were able to negotiate higher unit sales price in the annual basis.

And also, the second driver of the unit sales price is by the volume or the quantity, because the large financial service providers do want to ensure large volume or quantity. That's the combination of the quality of the loan or credit card and the volume, which put us in a good position to provide better services to financial service providers and have a higher unit sales price.

Oscar Chen: Okay. Richard, regarding your second question about the P2P regulation, our observation is that we see both risks and opportunities in the recent crackdown against the P2P companies. So, starting in the second quarter, China's overall tightened credit and the monetary policy resulted in liquidity crunch, it indirectly led to the crackdown for certain P2P platforms.

We view that as more important, it's more about the non-compliant P2P platform. The majority of the problematic P2P platforms were not P2Ps by definition. Instead of serving as pure information platform matching individual borrowers and lenders, these platforms were directing funds to related parties' foreign assets or investing in larger ticket size assets would mismatch the cash flows. So that's where the risks are.

So, the closing down or the crackdown of certain P2P platforms led to a shortage of investors' confidence and the funding suppliers, which impacted contributed to the part of the lending activities, particularly the online part. But we view that this impact will be limited in the long run, as we observe that financial inclusion is still encouraged by the regulators, in the future, the P2P firms will stay away from mismatched assets and they're looking for smaller size and diversified assets.

The loan issued to the consumers and SMEs will be a perfect match. Although the size of the overall P2P industry may shrink, we see more focus and resources of funds will be put into the smaller size and the diversified assets, for example, the individual consumption loans or the SME loans.

David Ye: Yes. So Richard, I just want to paint some color on this issue. Actually, in the last 2 to 3 weeks, we have definitely seen, at the macro level or at the industry level, we see the tightening of credit or credit crunch as making a positive term. A couple of things happened at the government level. For example, on July 31, President Xi Jinping had a meeting basically with the Central Political Bureau, which is a government decisioning body.

One of the policies he mentioned is trying to help SMEs to solve their difficulty in terms of financing and also trying to reduce the cost of financing. That was July 31. On August the 7th, Vice Premier Mr. Liu He, he actually also in one of the meetings he hosted, basically wanted to make sure license the financial institutions to support the micro SME or sole proprietors.

And also, I mentioned earlier on August 18th, that the China Banking and Insurance Regulatory Commission basically want to promote the consumer finance, try to solve the SME lending. As we see now, there is more liquidity either provided by the central bank or the licensed financial institutions such as banks. And also, as I mentioned earlier, the guidance, the 108 Rule is to basically help P2P companies to get its registration, get self-inspection and get more supervision and also provide more like confidence for the individual investors.

So basically, what our understanding is that the central bank, the Bank Regulatory Commission and China Internet Finance Association try to make sure the top tier or the true marketplace lenders or P2P companies will have safe operations. And they will just grow more steadily and healthily in the short to medium term, and even long term. So that's what's happening about the regulation in the industry.

And data wise, keep in mind that we do work with the top credit card issuers, top marketplace lenders and we're working with hundreds of small micro-finance companies and consumer finance companies. We do see the business volume has been growing in the last especially in the last 2 weeks. So, I just want to summarize, yes, there was a turning point in last 2 or 3 weeks ago, and this is gradually climbing. But again, the guidance we are giving has been very cautious. We would say Q3 earnings will be better. Next month will be definitely better than end of July and July and June, but Q4, we would see much better compared to Q3.

Thank you. Richard, does that answer your question?

Richard Xu: Yes, yes. Thank you very much.

Operator: The next question comes from Alex Yao with JP Morgan. Please go ahead.

Alex Yao: (Speaking foreign language). Good evening, David and Oscar. I have a few follow-up questions. Number one is how do you think about the long-term direction of online FinTech or more specifically, online lending regulatory environment? Do you see the likelihood that from supply side, the online lending service provider will increasingly become an oligopoly market, i.e., the market participants will reduce the number of participants, and potentially hurt our value proposition in the market or the marketplace?

And then, secondly, given the current regulatory environment and the future potential developments, how do you think about the growth strategy to drive medium to longer term growth? I'll stop here. Thank you.

Oscar Chen: Thanks, Alex for the questions. Regarding your first question about the regulatory evolvement in the future, I think we always expected that the licensing requirements will continue to be in the center of the regulatory framework because the lenders handle money; it's financing. So worldwide, all the financing activities need a license. P2P is going through the registration process, although the deadline has been postponed twice, there has been already a very clear timeline in terms of the P2P registration in the end of next year. And the final registration or licensing, I'm not sure if there could be something happening in the next 12 to 18 months.

So yes, of course, with the stringent regulation in this regard, there won't be over 2,000 P2Ps down the road. After the P2P companies' crackdown since mid-June to late-July, it is reported that hundreds of the P2Ps disappeared or closed down their business. And nowadays, the number of P2P companies is around 1,500 to 1,600. As you guys are smarter than us, you have the best estimate of the number of P2Ps down the road. Someone estimates 10%, 15% whatever; it could be a number between 100 to 200 P2P companies.

So again, so the number of P2P companies we are working with, and we have the business relationship with is not big. We have a very stringent and a strict onboarding process. So that we only work with the top P2P guys, focusing on providing individual consumer loans to the consumer, not the non-compliant P2P platforms.

But one thing I think everyone should keep in mind, China's financial services industries are not only P2Ps. There is a pyramid structure of the overall financial services system including banks, consumer finance companies, micro-finance companies, P2P companies and some others. There are multiple types of the lending product providers in the market and they're serving the consumers of different credit spectrum. So, it's a very diversified market.

Even though there will be some consolidation of the P2P industry, we are seeing more licensed players, including banks, consumer finance companies, enter into the online lending space. And they're implementing their digitalization strategy. They acquire customers online; they do the KYC online and they do the risk assessment online, underwriting online. So as a platform, definitely, we are connecting users with financial service providers. We are matching them with the proper financial products. So I think we are well positioned in this market to grow our business further.

David Ye: Hey, Alex, this is David. You asked a very good question. I believe it's a $10 billion, maybe $50 billion question. My simple answer to you is there will be no monopoly or oligopoly here in China. I'm going to answer your question in couple of fronts.

First, from the government standpoint, I'm going to use the recent, August 18th, CBIRC issued Document No. 76 or Proposition 76. Okay. Let me read this. "Expedite the development of consumer finance; strengthen the impact of consumption and economic growth to add diversified products, diversified products with a different level of consumption needs to provide an improved, differentiated financial product and service to support consumer finance." So a couple of keywords the government says, "diversified, different level, differentiated financial products."

Okay. So we, as a platform in the last 6.5 years, we have been working with 2,500 financial institutions and different peers. Keep in mind in China, we have 15,000 financial service providers; we have 4,500 banks serving the top 30% of the more affluent, super-prime people, right?

We have nine thousand micro-finance company licensed. We have about 30 licensed consumer finance companies. We have about 200 in the micro-finance licenses. And at the bottom, there are about 1,700, 1,800 P2P companies. We believe about 10% will be around in a year, maybe 2 years later. So we are working with different credit spectrum, which really is the different tier of financial service providers.

We are offering diversified product and service, credit card, mortgage, SME loans, consumer finance, liability structure, right? We are further expanding to other products. So different segments, credit spectrum, given the level of consumer and also different products. Keep in mind that now, we've been talking in China in consumption upgrade or downgrade; it's been very controversial.

We believe for the financial product, most of the Chinese consumer SMEs still want better financial products. It's upgrading, so that's why we don't want to worry about the monopoly or oligopoly at all; even that we have the government will make sure that will not happen. I think that's one thing.

The second thing, we actually have seen like each product or each segment keep in mind in China, we have our search engine which is geo-based in each city. We actually have found something very interesting. Each segment, each geographical region, if we have about 5 or 6 players competing seriously, we don't worry about a monopoly at all. It's the same like U.S. I remember in the good old days in U.S., we had thousands of credit card issuers.

Now, the U.S., the top issuers are less than 10, right? We have JP Morgan Chase, we have Capital One, we have Bank of America and Citibank, or American Express, right? So those top few guys are competing. We don't really worry about a monopoly. So that's why I say this is a $10 billion, maybe $50 billion question. As a platform in China, we always had a value to make sure the Chinese consumers SMEs have the best values, find the best financial product at the best price. Does that answer your question?

Alex Yao: Yes, very insightful. Thank you, guys. One more follow-up on the near-term momentum, if I may. During the current environment, are the relatively larger, more credible, higher-quality lending providers on your platform spending more to drive market share gain or volume gain, or they are also seeing pressure from liquidity or pricing side? So they also have to reduce their user acquisition efforts and consumption on your platform?

Oscar Chen: Hi, Alex. During the near term, back in the last 2 months, I think it's a liquidity issue and it's also P2P investors' confidence issue. If what you ask are credible, large-sized online lenders spending on our platform, probably my answer would be in the past 2 months, we see across-the-board slowdown of lending activities, not only the P2P platform, but also the other financial institutions. But as David commented, in the last week and one week before, we're seeing the volume recovery on our platform.

David Ye: Yes, the credit crunch in June or July, we see the tightening in consumer finance companies and some of the licensed micro-finance company. And you guys probably heard even like MyBank, those big banks, they also actually have some credit crunch due to stop of ADS, and the regulators want them to increase the leverage ratio, reduce the leverage ratio basically. So that's what happened in Q2, and early Q3, but we definitely have seen a good trend in the last 2 weeks.

Oscar Chen: Okay, Alex. Any further questions?

Operator: The next question comes from David Guo of China Renaissance. Please go ahead.

David Guo: I'm representing Bo Pang from China Renaissance with our question, and it's actually a follow-up question. As management mentioned, that we have really diversified product, so we want to understand what's the share structure of our debt and the consumer finance SME loans in our operations? That's my first question.

And then the second one is that we really have a good start of the credit card business since last year. And that's bigly because the banks are aggressively shifting to retail finance. So we want to understand what is the characteristics of our top customers. And do we have any like strategy to better collect user data and engage with the borrowers on a timely basis, so that we can evolve some of the cross-selling opportunities in the future? Thanks.

Oscar Chen: Okay. Thank you, David. So, regarding your first question, the structure of the financial products on our platform, we will not be able to provide the detailed data regarding the SME loans or some other loan products. But a ballpark number I can share with you is about -- because we mentioned earlier that we are seeing the loan size and duration shifting on our platform as of the second quarter this year.

We have seen that the loan size within RMB10,000 to 50,000 accounts for around 60% of our total loan applications. The loan size less than RMB10,000 is around 1/4 of our total loan applications, and the remaining are the loans with a size larger than RMB50,000. So that's a breakdown we shared with investors in the first quarter and also, we're willing to share that in the second quarter.

David Ye: David, I will give you a couple of flavors in terms of the profile of our products or customers. We have mostly a consumer play; 90% are consumer-related loans or credit cards; 10% are SME loans. Of course, there is some overlap. Some of the SMEs actually come to our platform, apply a mortgage or even a large percent of non-secured credit as individuals. So, it’s a 90% consumer play. And also I mentioned the majority of loans are micro loans for consumers which are below 100,000.

And for credit cards, we cover more than 21 of the largest Chinese credit card banks in China; we have over 4,000 products. Basically, that covers the full credit spectrum. That’s super-prime cards, prime cards, lifestyle card and some of the newly issued cards. Recently, there are some new lifestyle cards. And geographically, we cover 350 cities, as I mentioned earlier, in China, lending in credit card issuance is really constrained by geographic regions.

Of course, with the internet, we pretty much cover most of the online applicants. There is no such thing as a typical user profile because we are positioned as a platform only. I would say, demographic-wise, age-wise, like 22 years old about. We see a high concentration between 25 to 30, and 34 to 40, and there is a bell curve. It’s like a risk profile of a platform.

Oscar Chen: So, regarding your second question, David, our credit card customers, we are now working with 21 nationwide banks in terms of credit card online issuance. So among that, 3 out of 4 state-owned banks and almost all the joint stock banks, and a few city and rural commercial banks working with us on the online credit card issuance. They are more advanced in terms of online acquisition and online positioning. If the banks want to do online credit card issuance, the most important capability of them is that they can do online designation in a very short timeframe.

And also, you asked about user data and whether we can do more cross-selling opportunities. I would like to give you an example. One of the credit card issuers now we are working with on the incomplete applications, which means that the credit card issuers will give us following the compliance rules and the incomplete application, in order to follow up and to cross-sell some other products.

So ordinarily, we already have the cross-selling opportunities between our loan and the credit card business, which is around a bit more than 20% users; they both are credit card and loan applicants. So there is already some cross-selling opportunities on our platform. With our advantage of data, we will have more cross-selling opportunities down the road, and we can further develio our relationship with financial institutions. Did that answer your question?

David Guo: Okay. Thanks.

Operator: And that concludes the 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 your attention. And we hope you have a wonderful day.

David Ye: Thank you.

Oscar Chen: Thank you.

Operator: This conference has now concluded. Thank you for attending today's presentation. You may now disconnect.