Jianpu Technology Inc. [JT]
Q4 and Fiscal Year 2018 Earnings Conference Call
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Company Participants:
Qiuya Chen, IR Manager
David Ye, Co-Founder, Chairman and Chief Executive Officer
Oscar Chen, Chief Financial Officer

Analysts:
Chong Liu, Goldman Sachs
John Cai, Morgan Stanley
Alex Yao, JPMorgan
Julie Hou, UBS

Presentation

Operator: Hello, and welcome to Jianpu Technology Inc.'s Fourth Quarter 2018 Earnings Conference Call. Today's conference is being recorded.

At this time, I would like to turn the call 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 U.S. 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 fourth 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 of 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's highlights from the full fiscal year. Mr. Chen will then provide updates 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. Thank you for joining us. We are very excited to share with you today another milestone in our 8th year journey.

In the fourth quarter of 2018, our revenue reached historical high, and we also achieved breakeven for the first time. When we founded the Company in a three-bedroom apartment back in October 2011, we don’t think any of us at the time would have imagined the impact that our business has created for China’s financial services ecosystem.

Our mission is to become everyone’s financial partner, empowering users to make smart choices and enabling financial institutions to make better decisions. Today we are the largest independent open platform in China, connecting more than 100 million users with over 200,000 financial products and 2,500 financial service providers. The total cumulative number of credit cards issued on our platform have exceeded 10 million.

Now let me walk you through some of the key business highlights in 2018.

First of all, an expanded user base with rising user engagement with our platform.

In 2018, we grew our registered user base to more than 100 million. At the same time, our user stickiness and brand awareness have been enhanced through our initiatives to expand product offerings, contents and tools.

In Q2, we launched an initiative to further expand and penetrate into the affluent and underserved user base, engaging consumers across a wide range of demographics, geographic locations and credit spectrum.

In Q3, we stepped up our efforts with a social media and partnership initiative, targeting younger generations such as millennials and Generation Z, as well as users from lower tier cities and the countryside.

Our financial contents in various format, including short video, audio, are distributed through multimedia matrix with over 200 million followers. We have more than 10 series of popular financial products, each generating more than 50 million viewership. In Q4, the number of credit card approvals generated through the social media and the partnership network saw triple-digit growth compared to Q3, and accounted for more than 15% of total applications.

In Q2 we launched a personal finance management tool. The tool and contents increase user engagement and drive user retention. Last year, we issued close to 200 proprietary industry research reports, and other educational content, which continues to broaden brand awareness as well as attracting organic traffic from consumers and SMEs seeking industry insights and financial knowledge.

Secondly, we want to highlight our extended cooperation with financial service providers, and our more comprehensive solutions provided to them. While we have first mover advantage in this space, continuously deepening our relationships with financial service providers remains at the core of our fast-growing businesses.

As of the end of 2018, we have built a vibrant network of over 2,500 financial institutions, and have also strengthened our collaborations with all 5 of the largest state-owned national banks and 11 joint-stock banks out of the 12 nationwide.

As mentioned above, our credit card recommendation businesses have achieved very strong growth momentum, with the total number of credit cards issued on our platform standing at more than 10 million. We have the largest network of online credit card issuers with 25 credit card banks on our platform. Recently, we introduced our first co-branded credit card, featuring Jianpu's [RONG360] mascots, deepening our collaboration with the bank.

The competitive landscape is evolving at a fast pace. Many large financial service provider players have moved online with strong product offerings, actively exploring new data sources and third-party services to do better acquisition and decisions. Taking this opportunity, we have developed our branded big data and risk management services, Skykey, which has proven to be instrumental and transformational for our financial service providers.

As a bespoke service developed in-house, Skykey is helping financial service providers reduce risk, lower costs and improve digital marketing and operating efficiencies. This is a high-potential growth driver for us. Our big data and risk management services recorded over 150% increase in 2018 as compared to the previous year.

Third, we want to reiterate our commitment to a strong technology infrastructure to enhance data insights and user experience. We are building a closed looped data ecosystem, including data from millions of registered users, thousands of financial service providers and data providers. All of these efforts allow us to obtain greater insights through access to broader, more relevant and timely data, further enhancing recommendation engine, data analytics, as well as refine our algorithms and risk management decisioning.

Our success is largely attributed to our ongoing ability to attract and retain talented employees and business leaders. In 2018, we have almost doubled our R&D team size and hired key talents, including our chief scientist. We launched our Artificial Intelligence Research Institute. We will continue to invest in our people, strengthening our culture and organization and further enhance corporate governance.

I would like now to provide key updates on our results in the fourth quarter.

Revenue was at historically high, beating guidance and have increased across the board. I'm very pleased to tell you that in the fourth quarter, our revenue reached a record high of approximately RMB742 million. With the 4th quarter being historically the best quarter, we've seen incredible growth across all 3 product lines, including loan recommendation, credit card recommendation and big data risk management services.

As mentioned in our previous earnings call, overall lending activities in China have resumed strong growth since September 2018. More consumers and SME lending and financing activities are shifting from offline to online. Financial service providers have improved their digital marketing, online underwriting, KYC, data analytics, risk management and online servicing capabilities.

With the macro environment still applying some downward pressure on the credit market, recently easing policies by Chinese State Council and the central bank have helped to boost liquidity, which, in some extent, have stimulated the growth of SME and retail financial services market.

Heading toward 2019, more positive signals were released by the government. President Xi made a remarks that financial services featured toward more inclusive with broadened financial products, emphasizing that China should deepen supply-side structural reform in the financial sector and serve the real economy. These developments indicate that the up-trend for growth and innovation of the financial markets remain unchanged.

Also, in our effort to improve operating efficiency and enhance operating leverage, we have achieved steady improvement in return on investment. We have reached the critical mass of scale, achieved quarterly breakeven for the first time in the Company's history. Being an independent open platform empowers us to take the driver seat role China's rapidly evolving retail financial services or fintech sector.

We are fortunate enough to be operating in a country that has witnessed a swift transition in technology to digital and mobile. Artificial intelligence, big data, cloud computing, and in the future, 5G, are reshaping the competitive landscape, cultivating a digitally all-inclusive financial sector, propelling China's financial service industry to leap-frog, which will connect Chinese consumers and SMEs closer, faster, easier and safer to the financial markets.

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.

Our strong results in the fourth quarter continue to demonstrate our growth momentum despite a challenging macro environment in the second half of 2018.

We're pleased to have hit a record high in total revenues of approximately RMB742 million for the fourth quarter, a 27% year-over-year increase, and 67% on a sequential basis, in what is historically our strongest quarter.

Our continuous efforts to balance growth initiatives, while improving operational efficiencies, has paid off as we turned profitable in the fourth quarter, both on a GAAP and a non-GAAP basis, achieving net income of RMB12 million and adjusted net income of RMB39 million.

Led by robust growth in our credit card business and solid recovery of loan recommendation services, our total recommendation services revenues reported a 20% year-over-year increase to RMB659 million in the fourth quarter, mainly driven by a 144% year-over-year increase in credit card recommendation services, further illustrating the scalability of our platform model and execution strength.

Combining the credit card business from both recommendation services and advertising, we recorded credit card volume of approximately 3 million in the fourth quarter of 2018, representing a year-over-year increase of approximately 123%.

As David mentioned previously, loan application volume experienced a meaningful sequential increase by around 86%.

The average fee per loan application continued to grow to RMB15 from RMB14.5 in the third quarter 2018. As a result, loan recommendation revenue reached RMB370 million in the quarter, decreasing 14% year-over-year while increasing approximately 92% from the preceding quarter.

We believe that with a healthier regulatory framework, the overall lending market is in solid recovery, trending upward heading into early 2019.

Additionally, loan recommendation revenue accounted for around 50% of our total revenue in the fourth quarter.

Among the revenues generated from advertising and marketing services and other services, our big data and risk management services maintained a strong growth trajectory, increasing 158% year-over-year. More and more financial service providers are utilizing our big data and risk management services offering.

As we diligently move forward fine-tuning our strategy and looking for balance between growth and efficiency, we achieved significant improvement in our profitability.

Our gross margin continued to improve to 91% in the fourth quarter of 2018 from 89% in the preceding quarter. Also, sales and marketing expenses, excluding share-based compensation, as a percentage of revenue, significantly improved to 71% in the fourth quarter of 2018, representing approximately 11 and 5 percentage points down year-over-year and quarter-over-quarter respectively.

As we maintained the strategically focused on strengthening our technological capabilities, while optimizing technology infrastructure, non-GAAP R&D expenses increased by 91% year-over-year to RMB81 million. The increase is also attributable to the acquisition of a subsidiary and the front-load hiring for certain new initiatives.

Our non-GAAP G&A expenses increased by 56% to RMB23 million in the fourth quarter from RMB15 million in the same period of 2017. The increase was primarily due to the increase in payroll costs and other administrative expenses along with the expansion of back-end team to support our growth.

While looking at the R&D and the G&A expenses as a percentage of revenue, it decreased to 11% and 3% in the fourth quarter from approximately 13% and 4% in the previous quarter, representing a sequential decrease benefited from the economics of scale.

From our discussion above, we reached an inflection point, and achieved profitability on both net income and non-GAAP adjusted net income. Non-GAAP adjusted net income reached RMB39 million in the fourth quarter of 2018 and net income was RMB12 million. At the same time, non-GAAP adjusted EBITDA turned positive this quarter at RMB54 million.

As of December 31, 2018, we maintained a strong balance sheet and cash position with cash and cash equivalents, restricted time deposits and short-term investment of RMB1.5 billion, and working capital of approximately RMB1.4 billion.

Now I'd like to briefly go over the Company's full year financial results of 2018.

In spite of the macro slowdown and the rising challenges of the industry's tightened regulatory environment throughout the year, total revenue for full year 2018 increased by 39% to RMB2 billion from RMB 1.4 billion for 2017, primarily driven by our fast-growing credit card business and strong growth in big data and the risk management services.

Driven by technology, our diversified platform model has enabled us to navigate evolving market dynamics, successfully capturing shift in user demand and achieving remarkable performance when facing the tightening liquidity and credit across the retail financial services sector.

Revenues from credit card recommendation services significantly increased by 228% to RMB751 million from RMB229 million for 2017, driven by impressive increase in both credit card volume and unit price.

We grew our credit card volume from both recommendation and advertising services to over 8 million in the year, and in October, we proudly announced that our cumulative credit card volume had reached over 10 million.

Macro slowdown and regulatory uncertainties impacted our loan recommendation business in 2018. Revenues from recommendation services for loans decreased by 9% to RMB 1,015 million in 2018 from RMB 1,120 million in 2017, primarily due to the decrease in the number of loan applications on the Company's platform, which was partially offset by the increase in the average fee per loan application.

The number of loan applications on our platform was approximately 71 million in 2018, decreased by approximately 21% from the prior year, mainly attributable to the slowdown in lending activities resulting from credit and liquidity tightening in the third quarter of 2018, as well as market adjustment within the new regulatory framework since the end of 2017.

The average fee per loan application increased to RMB14.2 in 2018 from RMB12.5 in the prior year.

Revenues from advertising and marketing services and other services increased by 152% to RMB246 million in 2018 from RMB97 million in the prior year, primarily due to an increase in the big data and the risk management services, which increased 194% year-over-year, as well as an increase in revenues from the advertising services provided to credit card issuers and other advertisers.

The efficiency gain discussed above is also a major theme of the whole year of 2018, as we have continued to execute and deliver our strategy and, at the same time, to strike a balance between growth and efficiency and the fast-changing industry dynamics.

The improvement in operating efficiency, particularly on the front of traffic acquisition and matching capabilities, resulted in sales and marketing expenses, excluding share-based compensation, as a percentage of revenue down to 77% in 2018 from 84% in 2017.

Consequently, non-GAAP adjusted net loss, which excluded share-based compensation expenses from net loss, decreased by 69% to RMB29 million for 2018 from RMB94 million in the prior year. Non-GAAP adjusted net margin improved to minus 1.4% compared to minus 6.5% in the prior year.

Share-based compensation recognized in cost of revenues, sales and marketing expenses, R&D expenses and G&A expenses were RMB131 million in 2018 and RMB108 million in 2017 in total.

Share repurchase plan -- previously, we announced in August 2018 that our board of directors had approved a share repurchase program, which authorized the Company to repurchase an aggregate value of up to USD20 million. As of February 22, 2019, the Company had repurchased approximately USD15.1 million of shares under this program.

We maintain our ultimate confidence in our business strategy, strong fundamentals and the long-term prospects. As such, our board authorized another USD10 million for the share repurchase to demonstrate our confidence, as well as our commitment to maximize shareholder value.

Now, the last piece is outlook. Our guidance for the first quarter of 2019, based on the Company's current estimates, total revenues for the first quarter of 2019 are expected to be within the range of RMB600 to RMB630 million.

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

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Piyush Mubayi, Goldman Sachs.

Chong Liu: This is Bill on behalf of Piyush. Thank you for taking my question and congratulations on the solid quarter. My first question is about our revenue. So I saw that there is a sequential improvement in our credit card volume, and to a lesser extent, pricing. So I just wonder that based on the current guidance and the current outlook in Q1, do you expect this to continue in the next couple of quarters, given that we have seen some seasonality in historical years. But from the guidance, it appears that seasonality, at least for Q1, is no longer an issue.

And then my second question is about our expense, especially sales and marketing. So I wonder what is the rough -- is there any color on the mix between the traffic, i.e., organic traffic and the -- any platform, how we acquire external traffic? And what is the sort of expense implication from that mix change? Thank you.

Oscar Chen: Okay. Thank you, Bill. Let me take your questions. Regarding our revenue guidance of RMB600 million to RMB630 million provided for the first quarter. I think a couple of things. Firstly, for the loan recommendation services, we are seeing strong recovery not only in the fourth quarter, but also as we mentioned earlier, starting from September last year, more and more positive signals from the regulators and also more liquidity is injected into the real economy.

The government encouraged the financing to the SMEs and to the consumers to further grow the economy. So this is why we are seeing strong sequential recovery of the loan recommendation in our platform, both in terms of the volume and the unit price.

I think this strong momentum will continue into early 2019. We have the seasonality impact in terms of the Chinese New Year and some other factors. So year-over-year, we think the first quarter would have strong growth. But sequentially, I think everyone should expect there will be a dip compared to the fourth quarter last year.

And also back to your question on credit card. We will also expect we will have a nice quarter for the first quarter of 2019. But there are also some seasonality factors for the credit cards, because the banks, particularly the larger banks, they're still fine-tuning their annual budgets in the first quarter, so that's an impact on our credit card business. But anyway, year-over-year, we expect growth, but sequentially, we may have a reduce compared to the fourth quarter.

Regarding the revenue mix, I think I can provide more color in terms of the annual number because for quarter-over-quarter, there could be some fluctuations between the different business lines. But for our outlook for the full year 2019, I think the mix for 2019 will be similar or comparable to the fourth quarter of 2018, because during the last year, although there is -- it's a quite a volatile year. As a platform connecting users with financial service providers, we have a healthier structure revenue mix comparing to before. I think this would be a solid foundation to fuel our future growth.

And secondly, the acquisition and the sales and marketing expenses. In the fourth quarter, our organic traffic was around 40% of our total traffic, which is the main driver for our efficiency gain in terms of user acquisition. And we can share a bit more about the traffic distribution among different channels.

In addition to the organic traffic, we also deployed our sales marketing budget into info feeds, app stores, search engine and social media partner programs and some other marketing alliance.

So a rough breakdown into these categories is that info feeds may account for 15% of our total traffic in fourth quarter; app stores around another 15%; search engine around 10% to 12%; and our social media partner program and other marketing alliance that means the long tail marketing channel we've developed over years, that accounts for around 18% to 20%. That's a rough distribution of our traffic in the fourth quarter.

The efficiency gains as we mentioned should firstly thanks to our technological capability, which help us to improve our matching capabilities into the fourth quarter. The matching capabilities means how many percentage of traffic that we can convert into a loan application, a credit card application, so that we can monetize.

In the fourth quarter, our raw conversion rate from our monthly active users to the number of loan and credit card applications is roughly 12%. And secondly, the traffic acquisition costs, the media always want to charge higher price. So in terms of single user acquisition cost, it's always going up in a bullish market.

And also, you may notice that our unit price for credit card and loan recommendations also increased sequentially in the fourth quarter. That means we can help our financial service providers to broaden the coverage in terms of the user acquisition and also help them to improve their efficiencies. So better monetization also contributes to our efficiency gain.

That's my answer to your two questions, revenues and expenses. I'm not sure whether it's helpful to you or not.

Chong Liu: It's very helpful, thank you.

Operator: John Cai with Morgan Stanley.

John Bye: Thanks for the updates and congratulations on the strong quarter. I have a few questions. I think first one is on the loan recommendation revenue. The number is strong in the fourth quarter and I just wonder if we can share some breakdown by institutions, i.e., how much are from P2P and how much are from licensed institutions?

And obviously, with the tightening on the P2P industry, how would that impact our loan recommendation revenue outlook for 2019? And -- or more in general, what was the management's assessment on the P2P industry under this regulations and in general for the online lending industry? So that's the first questions.

And my second questions is on the cash size. So obviously, we turned profitable in this quarter and potentially, with the efficiency gain, we might have better cash flow going forward. So we have like more than a billion cash on the balance. What's our plan on that?

And the final question is more generic; it's on the strategy side. So on the -- I've heard the note that we want to balance the growth and the efficiency. So just wonder, does that mean we can maintain at the current efficiency, i.e., maintain profitable while continuing to grow our business looking forward? Thank you very much.

Oscar Chen: Thank you, John, for your questions. First question is regarding the revenue breakdown among the different type of financial institutions. In the previous quarters, I think we discussed this breakdown several times. I will follow the same practice and methodology to discuss the numbers.

So firstly, will give out the number of our total revenue breakdown. In the fourth quarter, we have around 52% of our revenue coming from the banks. So keep in mind that the majority of this part is contributed by the credit card. The total credit card is around 40% of total revenue in the fourth quarter.

And then we will have the P2P part. As of the fourth quarter, the P2Ps contribute around 16% of my total revenues. And then the remaining revenues come from the non-banking licensed financial institutions including consumer finance company, micro-lending company and other licensed players. So this is same as we discussed before. So this is the distribution number and there's also statistics of our top 50 revenue contributors. I think it's representative of the Company's overall revenue stream. So that's a rough number. I think it's quite similar, changed not that much compared to the third quarter of 2018.

And also you want us to discuss particularly about the revenue from the P2P and any regulatory impact in terms of the outlook into 2019. I think the regulations is already out there and different people have different expectations of the P2P industry. I'm not an expert in this regard, so I want to focus more on the impact on us. We took a look into our major P2P revenue contributors and also you know that we have our own research institute which publishes the P2P rating report every quarter.

We consulted with our experts and further looked into the names of the P2P guys working with us. So among the P2P revenues, our best guess is around 3/4 which means 75% of the revenue, the underlying the P2P companies have the large probability to get registered in the future. And probably the remaining 1/4 of the revenue probably is at risk. I don't have the answer, because as far as we know, currently, they submitted the self-inspection report and waiting for the regulatory inspection and the regulatory further inspection. That accounts for less than 5% of my total revenue. So that will be an impact going forward.

And also, in terms of the regulatory impact into 2019, I think first quarter, it's already January and the February. We have strong confidence to deliver the number we provided in our guidance. But entering into the second and third quarter, there might be more stringent regulatory implementation because at that time, there could be the pre-registration process for the P2P guys, and there could be more regulations published in terms of the industry.

I think overall, in terms of the regulatory environment in 2019, we expect 2019 would be a better year in terms of the visibility and the stableness.

And your third question is about the cash flow. Yes, we still maintain a strong cash balance sitting on our balance sheet. I think for 2019, in terms of the efficiency gain, the management strives to continue to deliver our strategy, and at the same time, to deliver the operating efficiency down the road. But at the same time, please be reminded that there are certain initiatives we would like to launch in 2019, including the branding, the user engagement and also some new product offerings. So we may have some upfront investments into these new initiatives. I think for the existing product and the business lines, we will continue to deliver efficiency. In terms of the new initiatives, we don't have a clear view for now, but we will keep you guys and the investors updated when we have any progress in that regard.

David Ye: John? Hi, John, this is David.

John Cai: Hi.

David Ye: You asked (inaudible) question. We have over RMB1 billion in our balance sheet. You asked how are we going to use it? If you compare RMB1-plus-billion to our mission which is to become everyone's financial partner, we have just a little over 100 million registered users. We want to grow the business to 200 million Chinese consumers, SMEs, maybe 500 million, maybe 1 billion worldwide. If you compare RMB1 billion with 1 billion users, down the road maybe 5 or 10 years, that's not sufficient enough in our view. We also mentioned a couple of initiatives that we have planned for this year. We also have long-term plans.

Let me just mention a couple. First one is user acquisition, how to grow this business into just a little over 100 million registered users, less than 10 million SMEs to 5x maybe 10x; that's number one. Number two, we will invest heavily and strategically in our big data risk management service including talents and strategic data partnership. We are going to maintain high growth. Doesn’t necessarily mean we're going to generate positive cash flow for this big data risk management service.

We are going to invest for growth for next year and the year beyond. And also there are other financial products like retail financial products, such as wealth management. We haven't really done much yet. But for loans, we're doing pretty well in retail loans, SME loans and auto loans. Even for consumer loans with high credit limit. We launched our initiative, we call Shang Shan Xia Xiang. In English, we say is “expand and penetrate into affluent and underserved user base”.

We still have a few hundred million underserved user base in China. Of course, worldwide, we have to penetrate. We're going to invest in innovation, some like insurance, wealth management and other loans. We're going to have substantial investment in that.

And tenants, I mentioned that; we had close to 1,000 people. We're going to invest a lot of money in our HR, our corporate governance, our infrastructure. Last but not least, we spent a little bit of money last year in strategic investment. We acquired a big data risk management company which has a high growth. We are strengthening our position in the sector and as you could see, we have good data company, AI company, a good team. We don't mind to spend a little bit more money on that half.

So for this year, that's why RMB1 billion, it's not enough in our view. That's just our management take, for this question.

Oscar Chen: So John, do you have any follow-up questions?

John Cai: So, yes, just a quick follow-up on -- yes, then obviously, there's plenty growth opportunity out there. And I think in the press release, we also mentioned growth and efficiency. So basically, do we expect like continued profitability down the road, while maintaining growth obviously?

Oscar Chen: I think it's part of our answer to your cash flow question. So I think for the existing product and business lines, the management strives to continue to deliver our efficiency for 2019 and the years beyond. But as David mentioned, we may have some expenses.

We may incur certain expenses of our headcount, or some other related expenses, our new initiatives. So we're not sure the new initiatives will bring how much revenue in the future.

David Ye: Yes, we will have positive cash flow for some business that we're leading in the marketplace, right? We are increasing our operating efficiency. However, we do invest in technology and people, a strategic investment into talents and user growth.

And also, we want to build a loan facility of Jianpu as the ultimate brand if we want to be everyone's financial partner. If every Chinese consumer and SME, when they're looking for financial products, they think about our brand. That's also the part we want to invest. Profitability, I would put that behind all other things I've just talked. We do want to invest strategically first.

John Cai: Okay, sure. That's very helpful. Thank you very much and congratulations again on the strong quarter.

Operator: Alex Yao with JPMorgan.

Alex Yao: Thank you for taking my question. I have two. Number one is regarding your business momentum. What exactly is driving the strong growth momentum and how sustainable is it? I think in the prepared remarks, you guys talked about even in regulatory environment coming from the government to encourage the financial institution to lend out some more money to the individual consumers and the SMEs. And how exactly did this government message transmit to the financial institution and to the consumer behavior?

If I understand correctly, the legal [tab] of 36% annual interest rate remains unchanged. So has the financial institutions changed any of their product structure? And how exactly does this policy, even in the environment, improve your business momentum? And how should we think about the growth momentum in the coming quarters?

And then secondly, now that you guys have reached the first profitable quarter, how should we think about the path to profitability in the next 1 to 2 years? Maybe perhaps you can share with us the unique economics between the loan business and the credit card business. And also what are your margins most sensitive to, the ARPU or revenue mix or user retention rates? Any color would be helpful. Thank you.

Oscar Chen: Okay. Thank you, Alex. Let me answer your question first. For the recovery, you mentioned the strong growth momentum of the loan recommendation business and how sustainable it is. We shared a bit of color from the macro level. You may notice that in June overall banks' credit extended to the enterprise and consumers reached the historical high. And also the social financial amount is also a record high in January.

Normally, our lending activities on our platform are to some extent strongly correlated with liquidity and the credit facility available in the market where there is more liquidity. As we analyzed before, the users' demand is always there. The consumers, SMEs, they want to borrow money to fund their lifestyle and to fund their business; the user demand is always there, even in July and August of 2018, there was a tightening of the liquidity and the credit. We still observed the users' activities on our platform, but unfortunately at that time, because of the shortage of funding across the board, among the banks, P2P guys and other financial service providers, there was a shortage of product offering. So the users' demand cannot be met at that time. Now, with the sufficient liquidity and more products on our platform, the lending activities on our platform naturally grow.

Regarding how sustainable it is, we believe the retail financial services industry is still a growing sector down the road, particularly in terms of digitalization and financial inclusion, that means opportunities to us. Of course, the outside environment, the regulations, may have impact on the financial institutions who are offering products on platform and indirectly have impact on us.

As we answered the first question from Goldman's analyst, there could be some uncertainties or challenges around the time of the P2P registration or pre-registration or inspection down the road. It could be the second quarter or third quarter. The deadline of P2P registration in June this year, probably would be further pushed back by another few months. That could be short-term impact on us.

Looking to the long term, we still strongly believe the retail financial services sector in China would further grow. And a platform, we can capture the trend and help the financial service providers to do better job in terms of digitalization. So we will benefit from the overall trend in the long run.

Your second question regarding the profitability, I think you want us to drill down further into the potential drivers that could impact on our profitability. If you look into the trend in the past 4 quarters, our profitability comes from a few factors.

Firstly, it's still our efficiency of traffic acquisition which means if we have more organic traffic, or more repeatness, that will be helpful in terms of the traffic acquisition. The unit traffic acquisition cost is always trending up, so as long as we can have more organic traffic and more repeat users, that will be helpful.

Secondly is the conversion which depends on our technological capabilities, how we can match the users' demands with proper financial service products. If we can have more products online, we can help users to meet their demand better. So this is why, as David said, we launched some new initiatives, because we want to bring more financial products online. If we can provide more products and more services to every single user, that will also be helpful to the profitability and to the ARPU.

And thirdly is the unit price we can take from the financial service providers. You can view the upward trend in the last 2 years on both credit card and the loan recommendations.

We are quite confident we can keep up the upward trend which means we can further grow the unit price for credit cards and the loans. The reason behind is that we continue to bring more value to the financial service providers, not only the user acquisition, but also help them to do pre-filtering and pre-segmentation which help them to lower their acquisition cost.

In terms of your questions about the available product offerings on our platform, we didn't see much change in the fourth quarter this year.

Alex Yao: That's very helpful. Thank you very much and congrats on a strong quarter.

Operator: Julie Hou with UBS.

Julie Hou: Congratulations on the good results. I have two questions. First, could you provide some color on the growth outlook for credit card business in 2019?

And my second question is on big data and risk management. Could you give us an update on what kind of services you provide to financial service providers, and how do you charge them? Thank you.

Oscar Chen: Okay. Thank you, Julie. For the credit cards, throughout the year 2018, we saw great momentum and great demand from the banks. So in the fourth quarter, we add another 3 banks onto our platform to help them to acquire credit card users. As of now, we have 25 credit card issuers working with us, I think we are the largest online platform or network in terms of online credit card issuance.

The 3 banks we added in the fourth quarter including one of the state-owned banks, one joint stock bank and one city commercial bank. So nowadays, we have cooperation with 25 banks. Now published by the government, the state-owned banks turn to 6 by adding the Postal Savings Bank of China. So we had 5 out of 6 state-owned banks 11 out of 12 joint stock banks with national presence and a couple of city or rural commercial banks.

I think into 2019, we expect to add more banks onto our platform. At the same time, we get more and more knowledge in terms of credit card business. For this year's initiative, we will not only work with credit card center, Kazhongxin, also work with the provision-level branch of the big banks for further helping them to penetrate the credit card issuance. We understand some marketing budget also allocated from the centralized credit card center to the provisional-level branches. We also want to help them to fulfill their targets and go deep into the market to grow our credit card business.

You may notice that there are some press release regarding the quality of credit card users; say there are some risks in terms of the aggressive issuance of credit card. Actually, that's an opportunity for our big data and the risk management services. We already work with a couple of banks to help them to do online acquisition better.

We have the joint modeling efforts with some banks for helping them to target more precise credit card users and lower risk at the same time. We will promote this kind of model to more banks. It's our cross-selling efforts.

And another thing, in the fourth quarter is that we launched our co-branded cards with one of the banking partners. As David just introduced, that's a card with RONG360's logo and the mascot. It will also be helpful to our credit card business and to our brand. We will continue to test this kind of initiatives to cooperate widely and deeply with banks. All these things will benefit our growth into the 2019.

There are three level of big data and the risk management services we provide to the financial service providers, including data inquiry, profile inquiry and the modeling exercise. All these data for filing and the modeling, we charge per inquiry. For every inquiry initiated by the financial service providers, we charged them at a fixed the price. So that's actually a SaaS-based service we provided to the financial service providers for a better job in terms of risk management and online decisioning.

We can talk later offline if you have interest in our big data and the risk management services. We believe this part will also be a strong growth driver for our business in 2019.

David Ye: But Julie, about the credit card growth and the market potential of our growth, as in a nutshell, we are going to grow our credit business at a very high speed. In terms of the overall market, I want to just share with you a couple of data points. In China, average credit card per adult is 0.5, last year, Chinese urban family, the credit penetration rate was only 31.6% which is much lower compared to U.S. 77%. In Chinese third or fourth-tier countryside, the penetration rate is much lower.

Personally, I started my career in a U.S. credit card company called Capital One 20-plus years ago; I also worked at American Express more than 10 years ago. Chinese retail or consumer credit market, is like U.S. maybe in 1995. Of course, the digitalization in China today is like U.S. maybe in early 2000.

So that's why we will see the Chinese banks would allocate more of their capital to the retail businesses. In some retail bank, credit card accounts for over a third of banks' total profits.

The second growth driver will be online, shifting branch network direct sales from offline to online. We see the Rural Commercial Banks started launching retail businesses like credit card businesses. We have signed up 25 large online credit card issuers in China. Last quarter, we signed up China Construction Bank, which is one of the top 5 banks. We're going to keep signing up more large banks and medium-sized bank.

And also keep in mind, we have been investing heavily in the matching recommendation and the conversion risk management capabilities. And we have increased efficiency in terms of approval rate. We are helping credit card issuers to manage their fraud detection and risk management better.

That's why you have seen our unit price is much better compared to other smaller platforms because we have the scale, we have the efficiency and we have the quality. So that's why we're very confident to grow the business at a relatively high speed.

Julie Hou: Yes, very helpful. Thank you.

Operator: Thank you. And that concludes the question-and-answer session. I'd like to return the conference back to management for any additional 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.

David Ye: Have a good day; have a good night.

Operator: Thank you. The conference has now included. Thank you for attending today's presentation. You may now disconnect your lines.