Jianpu Technology Inc. [JT]
Q1 2019 Earnings Conference Call
Tuesday, May 28, 2019, 8:00 AM ET

Company Participants:
Liting Lu, Investor Relations Manager
David Ye, Co-Founder, Chairman and Chief Executive Officer
Oscar Chen, Chief Financial Officer

Analysts:
John Cai, Morgan Stanley
Wendy Chen, Goldman Sachs
Julie Hou, UBS

Presentation

Operator: Hello, and welcome to Jianpu Technology, Inc.'s first quarter 2019 earnings conference call. (Operator Instructions). Please note, this event is being recorded.

At this time, I would like to turn the conference over to Liting Lu, Jianpu Investor Relations Manager. Please go ahead.

Liting Lu: 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 first quarter 2019 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 first 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, Liting. Hello, everyone, and thank you for joining us today. We continue to be the largest independent open platform for discovery and recommendation of financial products in China, connecting more than 120 million users with over 220,000 financial products and 2,500 financial service providers.

During our last quarter's call, we shared again the story of how Jianpu was founded, from that moment our mission was to become everyone's financial partner, empowering users to make smart financial choices and enabling financial institutions to make better decisions. We couldn't have imagined that technology would converge with social change and transform financial services industry.

Jianpu's business is driving this social change and improving the lives of many consumers and small businesses who otherwise would not have the opportunity to benefit from, or have access to, services from traditional financial system.

We are also educating the next wave of mobile financial consumers, generation X and Z, to be able to utilize financial services to their advantage and to do this responsibly.

I'm very proud of what we have achieved. Through our continuous efforts and investments, we have built a scalable platform model and further proven that profitability is a natural result when it reaches the critical mass with efficiency. Let me walk you through some of the key business highlights of the first quarter.

We delivered another solid quarter showing strong revenue growth across our line of businesses. Revenue from our loan recommendation services increased by 170% year-over-year. Revenues from credit card business were up 18% year-over-year. And revenue from big data and risk management services grew 518% year-over-year.

To put our financials into perspective in relation to the industry, most recently, a few promising regulatory announcements were made with regards to how China's online consumer lending industry will be managed. The directional clarity of these proposed set of rules will create standards and boundaries, rewarding those industry participants with innovative infrastructures, scale and capability to manage user experiences and risk effectively and efficiently.

As the leading independent open platform, we're uniquely positioned to leverage our proprietary data insight and technological capabilities to enable financial service providers to capitalize on this digital wave across the finance industry to drive customer acquisition, improve operating efficiency, credit risk management and optimize decision-making processes.

During the first quarter, we continued to deepen our relationship with financial service providers, while maintaining the largest network of online credit card issuers with 25 credit card banks on our platform. For example, we extended co-branded credit card collaborations with more card issuers, addressing their needs to target a larger underserved base of customers, such as consumers in second and tertiary cities or those never having used credit cards before.

We launched a multi-pronged collaboration with a top bank, including offering consultancy services, in marketing channel management, training experts on digital marketing practices, big data and also designing credit card products.

Regarding SkyKey, our branded big data and risk management service, we continue to strengthen our cooperation with bank partners and other licensed financial institutions. We have recently completed the development of a credit card pre-approval model, which is designed for a regional bank to help optimize its credit-decision process by leveraging our data and technological strength. This will increase the approval rates, as the regional bank moves its credit card business from offline to online.

Not only is Skykey able to provide bank partners with strong solutions, it also helps online lenders and consumer finance companies build a risk management engine and optimize online risk management credit models. This helps improve online lending product decisioning, reduce default rate, increase operating efficiencies and improve revenues.

In addition to the business update, I would also like to take this opportunity to welcome Oscar, our CFO, to our Board, replacing Ms. Fan Yuanyuan. Ms. Fan started to serve as our director since 2015. It has been a great pleasure working with Ms. Fan over the last few years. On behalf of the Board, we thank Ms. Fan for her dedication and contribution to Jianpu.

At the same time, we're excited to have Oscar on board. Oscar has extensive experience and expertise in areas of management, strategy, investment and capital markets, as well his strong leadership will be a good, very good, fit to our Board.

As a follow-up to the airing of CCTV's 315, we completed an internal review of systems, products, and processes. Our mobile apps were made available again in early May on some application stores, and we expect a full relaunch in June.

In the meantime, we continue to drive certain self-imposed improvements to our internal processes, such as adopting more stringent partner on-boarding process, while adhering to stricter platform policies for financial service providers. We have engaged a global consulting firm to assist us in the review of our business processes, conduct in-depth industry studies and recommend best practices.

We were invited by the National Internet Finance Association of China, NIFA, and Beijing Internet Finance Industry Association to participate in developing standards and defining best practices in terms of the retail financial industry in China, and also the financial consumer rights protection and education. We were also appointed a member of the sub-committee of these two Associations with respect to financial education and consumer rights protections.

At the same time, our Regulatory Technology, or Regtech team, also won a few important mandates to help local Chinese financial regulators establish systems to monitor financial products and services online. Being recognized on our platform model and market position by the regulators, we will continue to contribute and lead the initiatives of introducing and promoting higher industry standards and best practices.

Jianpu was also recently invited to speak at the Financial Services Leadership CEO Roundtable during the 2019 Boao Forum for Asia, and also a fintech seminar hosted by the Institute of Finance and National Institution of Finance and Development of China Academy of Social Sciences.

We're very optimistic about the huge market potential in China's retail finance industry in the long run, as a digitally all-inclusive financial sector is emerging in this nation, as cutting-edge technologies like AI, big data, and cloud computing, and in the future 5G, is reshaping the financial service industry, connecting Chinese consumers and SMEs with financial service providers smarter, more effectively and efficiently.

With our continued efforts to strengthen our operational capabilities to provide better products and services to our customers, we are optimistic about our growth and our performance for the intermediate to long-term future.

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 pleased to deliver another strong quarter highlighted by total revenues of approximately RMB 655 million, a 95% year-over-year increase, beating the high end of our guidance by 4%; and net income of RMB 19 million and non-GAAP adjusted net income of RMB 47 million, representing a 22% increase on a sequential basis. Strategically, we continued executing on our growth initiatives while optimizing our operating efficiencies.

Led by the loan recommendation services and a solid contribution from the credit card business, our total recommendation service revenues reported a 101% year-over-year increase to RMB 582 million in the first quarter, mainly driven by a 170% year-over-year increase in loan recommendation services, further illustrating the comprehensive scalability of our platform model capturing market demand, as well as our execution strength.

As David noted, loan application volume increased 102% year-over-year. The average fee per loan application continued to grow to RMB 17.7 from RMB 15 in the fourth quarter of 2018. As a result, loan recommendation revenue reached RMB 433 million in this quarter, exhibiting a strong increase of 170% year-over-year.

Combining the credit card business from both recommendation services and advertising, we recorded credit card volume of approximately 1.6 million in the first quarter of 2019.

The average fee per credit card increased to RMB 106 from RMB 95 in the first quarter of 2018. As a result, revenues for credit cards for both recommendation and advertising services in the first quarter increased by 18% to RMB 170 million from RMB 144 million in the year-ago period.

Among the revenue generated from advertising and marketing services and other services, our big data and risk management services tracked a very strong performance, growing 518% year-over-year, as financial service providers continue to engage us for our big data and risk management services offering.

As we forge ahead not only to grow market share, but educate new and existing segment of the population with regards to financial service product offerings, we look to achieve growth with efficiency in mind. To illustrate, gross margin improved to 91% in the first quarter of 2019 from 85% in the year-ago period.

Also, sales and marketing expenses, excluding share-based compensation as a percentage of revenue, decreased to 68% in the first quarter of 2019 from 77% in the year-ago period and 71% in the prior quarter.

As we remain strategically focused on strengthening our technological capabilities while optimizing technology infrastructure, R&D expenses, excluding share-based compensation, increased by 87% year-over-year to RMB 78 million. Given the operating leverage we have, the R&D expenses, as a percentage of revenue, decreased to 11.9% from 12.4% one year ago.

Our G&A expenses, excluding share-based compensation, increased to RMB 31 million in the first quarter from RMB 9 million in the same period of 2018. The increase was primarily due to the one-time fee for new business initiatives and increase in payroll costs.

From our discussion above, the scale and efficiency led to profits on both net income and non-GAAP adjusted net income. Non-GAAP adjusted net income reached RMB 47 million in the first quarter of 2019 and net income was RMB 19 million. At the same time, non-GAAP adjusted EBITDA increased to RMB 56 million, up 4% sequentially.

As of March 31, 2019, we maintained a strong balance sheet and cash position, with cash and cash equivalents, restricted time deposits and short-term investments of RMB 1.4 billion and working capital of approximately RMB 1.3 billion.

Share Repurchase Program, starting from August 2018, our Board approved a share repurchase program with a total authorization of US$30 million. As of May 27, 2019, the Company had repurchased approximately US$26.8 millions of shares under this program.

Then outlook -- regarding our guidance for the second quarter of 2019, we anticipate a one-time, short-term impact on our financial results as a result of 315 Night, the reason being that we voluntarily suspended the app downloads for our own self-review from March 15, and we are now in the process of re-launching towards next month. And at the same time, we are optimizing our efficiency of acquisition, recommendation and operation.

Based on the Company's current estimates and expected short-term impact, we expect total revenues for the second quarter of 2019 to be approximately RMB 360 to RMB 380 million.

Given the optimistic view of the industry in the long run with more regulatory clarity and visibility, and our resilient platform model and strong technology infrastructure, we are confident and optimistic about our ability to overcome the temporary challenges in the second half of this year.

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

Questions and Answers

Operator: We will now begin the question-and-answer session. (Operator Instructions). The first question comes from John Cai of Morgan Stanley. Please go ahead.

John Cai: Hi, management, thank you for taking my questions and congratulations on the strong first quarter. I have three questions. The first one is on the credit card. I noticed that the volume growth on a year-on-year basis seems to be slowing to single-digit. Just wonder what's the reasons behind that? You said some growth rate that we are looking for, for the full year this year?

And the second question is on the loan business. I think the average fee per loans obviously has a very strong growth. Just wonder what's the trend we are seeing now, and what's the order for the rest of the year?

And the third question is on the outlook or maybe our current operations of 315 Nights. So I think we have outlook revenue number here. Just wonder how we think about that is, because most of the quarter-to-date operations I think we don't have our app available for download from the AppStore. So this revenue is mostly coming from the exclusives and it's quarter on quarter to down. So the decline is mostly driven by loan, or how should I think about the mix between credit cards, loans and others and operational-wise?

In terms of sales and marketing, I guess, we are also scaling back from customer acquisitions. So just maybe some more details on the operational-wise after the 315, and how we -- to help us better understand the revenue outlook here and obviously, we relaunch the app next month. So what's the revenue outlook, maybe in a general sense, for the second half of this year? Can we go back to maybe first-quarter-over-first quarter of this year? Thank you very much.

David Ye: Thank you, John. This is David. I will start. I guess three questions. I will answer the first, and maybe third one first; and then maybe Oscar will continue. Okay.

First question is about the first quarter credit card business. We grew about 18% year-over-year. That's an 18% increase, and we do expect the growth rate will be higher for the second half of this year. Three reasons. First quarter was a little bit below what we expect. The first one is seasonality. This year, the lunar calendar for Chinese New Year is February 4th or 5th. Actually, it's like 10 days earlier compared to last year. The Chinese New Year last year was about the 14th or 15th.

So we effectively lost the 10 days of business because credit card business, the bank would close the book before the Chinese New Year. The business would not have resumed until 3 or 4 weeks after the New Year's Day. So that's the seasonality reason.

The second reason, of course, we do have some impact in the 315, about half the amount of business in March, we do have some impact on that one.

And the third reason, for Q1 last year, some of the credit card issuers actually front-load their marketing budget in Q1. This year, due to seasonality, due to a reason, credit card issuers actually did not front-load their marketing budget in Q1. As you know, they had a budget; they had a high goal of achieving growth of the credit card businesses, especially in digital channel online. We know they're going to use the money in Q3 and Q4. So as a team, we don't have any concern about the credit card business growth for the rest of this year.

I will take a step back for the third question about 315. 315 do have an impact on our businesses, but we believe this is only a short-term and one-time impact. As we know, we voluntarily suspended some of the app downloads from major stores, and also some of the involuntary products as well.

So basically, it took us a couple of weeks to go through our internal review process. So we put together more stringent rules in terms of the financial institution and also product listing. Basically, we also took some time to communicate with the regulators, took time to build the standards and the process to improve the overall process. So that's why we didn't not relist some of the app until late April or early May.

It's still an ongoing process, we expect most of the apps will be fully launched for release in June. So that's why we believe it was a one-time and short term impact. We do expect this last one maybe to one-half, maybe two quarters. We should be able to recover in the second half of this year. So I'd say give us some time, we will have more data points to evaluate the impact on our growth and profitability. So no matter what this impact is, it will be an one-time impact, in the short term, we're optimistic in the medium to long-term, and given the resilience of our business model, our technology, our robust infrastructure, and also most importantly, our people, we're able to execute and deliver. So we're still targeting to achieve a full year profit for the whole year, but that's still the plan at this point.

Oscar Chen: Yes, I think John, I will answer your second question about the unit price of the loan recommendation services. I think the answer is quite straightforward and short. We raised the price for the loan recommendation services. Of course, it's probably, we communicated before for this year. We do have a plan to raise the price of the loan recommendation services, so we did it in the earlier first quarter. So this is why you saw the price increase for the loan recommendation services.

John Cai: Thank you. Just a quick follow-up on the quarter-to-date operations. Maybe on the sales and marketing, can we have more details on that? Given the app suspensions, do you spend in the sales and marketing, or do you scale back from there?

Oscar Chen: Yes, sure, John. I hoped we would have more data to answer this question, but at the current stage, - we do have some apps available in some app stores. But we are in the process of a fully relaunch toward June. So as of now, I think we have limited data to evaluate the operating, the sales and marketing efficiency for this quarter.

But I want to refer you to the last two quarter numbers. When you see that we achieved the scale and we improved the efficiency in the fourth quarter last year, and in the first quarter this year. As David said, efficiency gain, operating leverage and profitability is a natural result of the scale and efficiency.

I think probably for our next conversation, when we get a full relaunch of the apps in June, and we continue to optimize- our strategy in terms of acquisition and recommendation, around that time, we will have more data to share with you guys in terms of how we evaluate the efficiency and some other metrics after the 315 issue.

John Cai: Thank you very much.

Operator: The next question comes from Wendy Chen of Goldman Sachs. Please go ahead.

Wendy Chen: Hi, thanks management take my questions. I have two questions. First, a follow-up on the second quarter guidance. Just wondering if management can kindly share or dissect the year-on-year decline on which part of our business is more impacted by the 315? It's more on the loan business or it's on the credit card business?

And the second question is on the sales and marketing follow-up. So just wondering has the management observed any change in the pricing on advertisement as we see our some advertising platforms have been saying that the price has been rapidly muted for the past quarter because of competition. So just wondering has Jianpu observed such a trend in decreased pricing in advertising?

Oscar Chen: Okay. Thank you, Wendy. Let me take your first question about the second quarter breakdown. I think so far, we’re seeing the continued growth of our credit card business and also our marketing and advertising services and other services. These two lines I think both year-over-year and quarter-over-quarter, we should be able to drive the growth.

I think that we will see some downward trend of our loan recommendation business; reason being still that our suspension of app download. So that's, to some extent, have some impact on our new user acquisition momentum, so that will be the major impact.

So in terms of the number we provided of our guidance, I will say I would expect the loan recommendation business would be 30% to 40% of that number; credit card will be 50% to 60% of the number. And the third business line, the advertising and marketing and other service, within that, the main driver was big data and the risk management services. So the third line will contribute around 10% of my total revenue for the second quarter.

Wendy Chen: Okay.

David Ye: Wendy, for your second part of the question about sales and marketing, in Q2, we did observe the market that actually, it is more rational. Of course, in Q1, as the largest platform, we were in the market, right? And of course, the market is the currently, not as competitive as before. We do see some financing trends in the cost side.

You asked in Q2, most of our revenue in the loan side are either from the key customer of organic traffic, or due to our internal like user-generated content, so like the completion campaign. So we didn't really spend much money on sales and marketing in Q2 as revenue because we couldn't even spend money to pay for the downloads, right?

But going forward, as we resume the full operation in June or in Q3, of course, number one, we still need to have stringent rules in terms of the ongoing process. Number two, we have to make sure we work with the industry to base it on the fintech retail financial standard or product standard. We have to make sure the standards are in place.

And number three, we need to optimize our recommendation and optimization to make sure our users have the best user experience. We can find the right product that can be served or approved by the financial institutions. So that's some of the efficiency, we have to regain that. It will take time, but our efficiency will be fully expanded or return to the normal time from the second half of this year.

Wendy Chen: Thanks very much.

Operator: (Operator Instructions). The next question comes from Julie Hou of UBS. Please go ahead.

Julie Hou: Hi David and Oscar, thanks for taking my questions. I have three questions. First, can you share the revenue split between banks licensed, FSPs and tech-enabled lenders as you did in previous conference calls?

And the second question is in terms of number of loan applications, what is the split between consumer loan, SME loan and other loan products? As we know,big banks, as well as small banks, are accelerating lending to SMEs. So I just want to know if our Company will benefit from such trends, and to reach out more on SME loan products.

And my third question is on credit card applicants. How many of them are first-time users? And for those who already have credit cards, how many cards do they have on average? Thank you very much.

Oscar Chen: Thank you, Julie. Let me answer your first question regarding the revenue split. So for the first quarter of our total revenues, we have around 40% from the banks, including credit card and the loan recommendations. We have around 30% from the non-bank licensed financial institutions; that's mainly the consumer finance company, internet micro-lending company and local micro-lending company and trust company, that 30%.

Our revenue exposure to the P2P companies rise a bit in the first quarter of this year. They contribute around 20% of the total revenue. And the remaining, you would imagine, it comes from the advertising services and the big data and risk management services. So that's a rough breakdown.

So I think the reason behind it is that in the first quarter, we saw strong growth momentum in terms of the loan recommendation. Among that, non-bank licensed financial institutions and the P2P companies play more important roles, so to grow our loan recommendation business. But we think we still keep a healthy and revenue structure from different type of financial service providers. So that's to your first question.

So to your second question, the loan products, yes, SME so far on our platform, we do list some SME product. But in terms of the number of loan applications toward the SME lending products, it's only a quite small percentage, as you can be aware of the digitalization of SME lending, it's far behind and more complicated than the consumer lending.

But because we have a very positive policy here, the government wants to promote the SME lending. So we do have some initiatives in terms to expand the SME lending product on our platform. So we believe digitalization is the trend, and it will bring us with the scale and efficiency. So I think more data regarding the SME will be available online or through mobile. At that time, we'll see more and more SME lending products on our platform.

And also, I would share a bit insight about SME lending. So you just imagine the small ticket size SME lending. Given the traditional banks, their capability, their cost structure, probably, it's not easy for them to do the SME lending directly. Probably, there will be some third-party players like us, like other supply chain loan facilitation model, the guys own the data of the SMEs, may be able to play an important role on the SME lending.

David Ye: Yes, I think it's putting the market into perspective. We do see like the auto loan market, it's high growth, getting more digital and more decisions will be made, leveraging data, leveraging online, leveraging AI. And of course, SME lending, we know government actually has asked the financial institutions, especially banks, to reserve more capital on SME lending. We see that it's a high-growth market.

And supply chain management, as I mentioned that you have the other side of the balance sheet, the wealth management and insurance. We haven't talked about that. Of course, the insurance market has a high potential. The wealth management, we are seeing some regulations basically relaxed, the KYC process of opening like a money market fund or the wealth management fund online. So we definitely see opportunities of growth in those segments in the financial services industry.

But of course, the challenge of regulatory side is number one; number two, if those products can be sold online, and also how technology will drive better user experiences and make the product can be serve online. So that is a key kind of hurdle, but we do see opportunity in those segments.

Oscar Chen: And Julie, back to your third question regarding the credit card user profile on our platform, firstly, we don't have the full picture of whether it's a first card user or most card user. But through our communication with the banks, we guess our most value proposition to the credit card issuers is that we can bring the under banks' population to them. That means the majority of the users. Of course, our platform would be the first card user.

But secondly, I want to emphasize the second card or third card is not something we should be afraid of, or we should be alert of, because you're just looking to the numbers of some developed countries, 4 or 5 cards per capital is still a reasonable number of the developed economies. So in China, I think in certain developed cities, I mean coastal cities like Shanghai, Beijing and Guangdong, and Jiangsu provinces, I believe the credit card holders that comes from there mostly will be the multi-card holder, maybe apply for the second or third credit cards. But the credit card holders that come from the third and fourth-tier cities, that most of them are the first card applicants.

So yes, I think that's the answer I can provide for now. Probably, we can communicate with the banker more to understand the user profile from their perspective.

Julie Hou: Thank you.

Operator: (Operator Instructions). And that concludes the question-and-answer session. I would like to turn the conference back over to management for any closing or additional comments.

Liting Lu: 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. Thank you for your attention, and we hope you have a wonderful day.

David Ye: Thank you, everyone.

Operator: The conference has concluded. You may disconnect your line at this time. Thank you.