Jianpu Technology Inc. [JT]
Q3 2019 Earnings Conference Call
Monday, December 9, 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
Julie Hou, UBS
Wendy Chen, Goldman Sachs

Presentation

Operator: Hello, and welcome to Jianpu Technology Inc.'s third quarter 2019 earnings conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Liting Lu, Jianpu's Investor Relations. 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 the 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 third 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 CEO, and Mr. Oscar Chen, CFO.

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 third quarter. Mr. Chen will then provide details on the Company's financial results and the 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 on our call today. We are pleased to report another quarter aligning with our mission to become everyone's financial partner. This quarter, Jianpu has beaten guidance and we have exceeded our guidance for the past 9 consecutive quarters since our IPO, amidst the challenging macroeconomic environment and the uncertainties in China’s retail financial industry.

As the 18-month long trade disputes has heighted the risk of an economic slowdown, the growth of China has cooled down to over 20-year low. Overall slowdown of macro-economy and credit tightening continues to put downward pressure on consumer and SME lending. According to PBOC, the central bank, the growth of retail consumer loans significantly slowed down in the first half of 2019, with incremental volume less than 30% of the second half of 2018. The licensed Non-Bank Financial Companies, or NBFC, new loan disbursement in Q3 was almost flat with 0.02% increase compared to Q2.

Moreover, the increase of short-term loan disbursement by medium and small-sized banks increased only 1.4%, which is significantly lower than the same period last year. At the same time, the growth of credit card revolving balance also slowed down sequentially in the third quarter.

The tech-enabled retail financial services industry in China today is entering a new era of transformation and re-set, as financial service providers are accelerating their digital adoption. The online lenders’ funding sources are moving towards better-regulated institutional funding, with the increasing protection of personal financial information especially on how the data is utilized, shared and distributed. Moreover, some over-aggressive or inappropriate collection practices by third-party debt collection agencies have caused widespread concern, and became a rising challenge in the short term for all players in financial service industries.

Thus, in recent months, regulatory authorities across a range of jurisdictions have issued quite a few new rules, regulations and guidance, including rules regulating personal consumer finance (Speaking Foreign Language), guidelines regulating cooperation between commercial banks and fintech companies (Speaking Foreign Language), guidelines for protecting personal financial data and information (Speaking Foreign Language), and guidelines for transitioning peer-to-peer lenders into micro-lending companies (Speaking Foreign Language), which we can see that the current trend of industry regulation rectification are continually tightening the overall credit environment.

We want our investors to be aware of these industry regulatory policies change and reform, and mounting regulatory pressures, the industry entered into a relatively tightening cycle which consequently, has the impact on the supply of financial products being listed on our platform. However, our strong technological capabilities, industry know-how and in-depth relationship with financial institutions well position us as we tackle and conform to the new regulatory challenges.

For the third quarter, our credit card businesses remain resilient with the credit card volume for recommendation services increased 6% year-over-year. We continue to work as the largest platform of online user acquisitions for major banks and credit card issuers. We have actually strengthened our market position in spite of this turbulent market environment. So far, we helped close to 30 largest bank credit card issuers, helped them issue more than 15 million credit cards cumulatively.

In addition, we are striving to deepen our cooperation with banks by exploring new initiatives of launching their wealth management and deposit products, and enabling them to improve their digital marketing, risk management and technological capabilities.

To seize the evolving opportunities in the new era of digital financial services industry, we continue to invest in technology and our people that help to advance new segments of our businesses. We will further leverage cutting-edge technologies such as AI, data science, cloud computing and digitalization to optimize our operations, including user acquisition and engagement, data analytics, security, sales and marketing and partner engagement. In the past 3 quarters, we have deployed 20% of our research and development and other resources and efforts into new businesses, which we believe will fuel our growth moving into next year and beyond.

Going forward, we will remain focused on these new initiatives, better positioning ourselves to capture medium-to-long-term growth opportunities in the digital financial services sector in China and globally.

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 performance in the third quarter reflects our efforts in optimizing the business under a turbulent operating environment. As a result of our continuing efforts to actively evolve our business in meeting the needs of the digital financial services industry, revenues from banks and licensed financial institutions contributed a larger percentage in the past quarter, with healthy gross margin growth improving to 92% in the third quarter of 2019 from 89% in the same period of 2018.

We strive to continue our balanced strategy and the stable foundation for sustainable operation of the business. In maintaining our leadership in retail financial services sector, we are well positioned to move up with the market, as demand for recommendation services, and the capability to fulfill that demand normalizes within the boundaries of the new regulatory actions that are meant to standardize online retail financial services and protect consumers.

To bolster David's financial highlights for the quarter, operationally, credit card volume for recommendation services was approximately 1.8 million, representing an increase of approximately 6% from the same period of 2018.

The average fee per credit card for recommendation services increased to RMB 109 in the third quarter of 2019 from RMB 106 in the same period of 2018. As a result, revenues from recommendation services for credit cards increased by nearly 7% to RMB 195.6 million in the third quarter of 2019 from RMB 183.5 million in the same period of 2018.

Also, encouragingly, gross margin improved to 92% in the third quarter of 2019.

For the third quarter, we reported total revenues of approximately RMB 324 million, a decrease of 27% year-over-year, and a non-GAAP adjusted net loss of nearly RMB 101 million.

Total recommendation service revenues decreased by 24% year-over-year to RMB 286 million in the third quarter due to a 53% year-over-year decrease in loan recommendation revenues, offset by a nearly 7% year-over-year increase in credit card recommendation service revenues.

Revenues from advertising and marketing services and other services decreased by 44% to RMB 38 million in the third quarter of 2019 from RMB 67 million in the same period of 2018, since the Company slowed down the pace of certain advertising business, given the lower efficiency amidst the challenging macroeconomic environment.

Sales and marketing expenses decreased by 4.6% to RMB 325.3 million in the third quarter of 2019 from RMB 341 million in the same period of 2018. The decrease was mainly due to the cut-down of traffic acquisition costs.

R&D expenses increased by 4.7% to RMB 67 million in the third quarter of 2019 from RMB 63.5 million in the same period of 2018, primarily due to the increase in payroll costs incurred for the new business initiatives.

Our G&A expenses decreased by 36.8% to RMB 31 million in the third quarter from RMB 48 million in the same period of 2018. As a result, non-GAAP adjusted net loss was RMB 101 million in the third quarter of 2019. At the same time, non-GAAP adjusted EBITDA was a loss of RMB 93 million, compared with a loss of RMB 13 million in the year-ago period.

In response to the challenging macro environment, the management has implemented certain measures to maintain and enhance our operating efficiencies, including cut down marketing and other direct costs to offset the negative impact from supply side of our platform, and also launched cost optimization program to enhance productivity per head. However, due to the lagging effect of such measures, we expect margin improvement towards the first half of next year,

At the same time, we want our stakeholders to be aware of the current cost and expenses structure also contains certain upfront investment for our new business initiatives. The expenses incurred in this area was around RMB 20 million in the third quarter and around RMB 35 million in the first 9 months. The management strongly believes that such investment will fuel our future growth and create shareholder value in the long run.

As of September 30, 2019, we maintained a strong balance sheet, with cash and short-term liquidity of RMB 1.1 billion.

Regarding the outlook, the Company anticipates the external environment to remain uncertain and challenging, and consequently, the financial products available on our platform may continue to decline in the coming quarter. Based on the current estimates, the Company expects total revenues for the fourth quarter of 2019 to be approximately RMB 240 to RMB 260 million.

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

Questions and Answers

Operator: Thank you. 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.

The first question today comes from John Cai of Morgan Stanley.

John Cai: So I think my question is more related to the sector and regulations. Obviously, you mentioned that the lending activity has been negatively impacted by the regulatory tightening. Just wonder if there's any outlook on that. Do we expect it to improve next year? And also, I think we mentioned about investment into new business. Is there any color on that as well?

So the last question is about the recent Beijing regulatory sandbox approach released in the news a few days ago. So would that help in any ways of our business? Thank you very much.

David Ye: Thank you, John; this is David. I will try to take a stab on your question. So the first part regarding the regulatory environment going forward, we would expect the tightening in lending markets, and the relevant trend probably will continue after the Chinese New Year.

Operationally, we believe the business will slow down at the end of the year and also January, that's early Chinese New Year, but expect business take-off after February. So operating environment will be challenging, but we have seen that the competitors or similar business models are actually in much harder positions due to the same regulatory reason, and also their operational reason and liquidity problems.

And also for us, the advantage of being an independent and open platform, we will have huge benefits because as soon as the market take-off, we will be able to capture the scalability and our light-asset model, we will gain the market, the growth and advantage. And also, keep in mind, we, as a light-asset platform, we don't take any risk. We don't have any credit, liquidity or any market risk. So this put us in a relatively stronger position. That's the first part.

Second part, I believe, John, you asked about the sandbox, the regulatory framework just launched by People's Bank of China, the central bank, on December 6, just a few days ago. So as far as we understand, we actually had some dialogue with the regulator just a few days ago. There are about 46 projects that will be part of the sandbox.

Basically, the purpose of putting Beijing as the testing city for the so-called fintech innovation and supervision sandbox is to build fintech supervision and regulation basic rules and framework, we know in the past couple of quarters, we have seen growing trend of regulations from different regulatory bodies. But this is the first time the central bank asked Beijing to build the basic rules and framework for financial supervision. That's the first purpose.

The second purpose is to explore more like transparency of information, more financial product demonstration and more supervision from relevant bodies.

And the third one, they try to build more inclusive and more prudent fintech innovation and supervision tools to try to improve and enhance financial regulatory agencies' professionalism, and also try to increase transparency and standardization. We believe more clarity, transparency, standardization and more professionalism will benefit the sector in the short term, midterm, of course, in the long term.

And finally, in terms of the fintech supervision sandbox, we have seen a couple of initiatives have launched. Basically, they want to make sure more projects fintech company get a system connection into the testing environment or testing bed. They want more disclosure from the financial institution or financial service provider side, they want some product registration as well as information disclosure.

We're positioned as a tech-enabled open platform, and we are able to work with the relevant authority in Beijing municipal government as well as the China FinTech Internet Finance Association, which we, in the past 6 to 7 years, have built partnership and cooperation. We also have some RegTech initiatives with the relevant regulatory bodies. We also try to engage with the PBOC-endorsed Beijing FinTech innovation and supervision sandbox.

John, does that answer your question, especially the second part?

John Cai: Yes. So I think just to follow up on the new business initiatives, I think I heard that there is some investment in that area. If there's any color that can be provided, it would be very helpful. Thank you.

Oscar Chen: Sure, John. Our new business initiatives will be probably two categories. One is category expansion in terms of financial products to leverage our platform advantage for cross-selling; and also the geographic expansion to leverage our technology and industry know-how to penetrate into the other markets.

So I think we can share more probably next quarter or something. But one thing I want to emphasize is that the management is, and will be, very disciplined in terms of the spending on the new business initiatives.

John Cai: Thank you, Oscar. That's helpful.

Operator: (Operator Instructions). Julie Hou of UBS.

Julie Hou: I have two questions. The first one is on revenue breakdown. Total revenues declined by 11% quarter-on-quarter. I wonder what is the revenue contribution from banks, licensed financial institutions and unlicensed lenders. How does it compare to previous quarters?

And my second question is on average fee. The third quarter average fee per loan application was RMB 17 versus RMB 18 in second quarter. What are the key drivers behind the decline, and how should we think about it in the fourth quarter? Also on the credit card side, can we still expect an increase in average fee per credit card issued in the fourth quarter, as was the case in previous years?

Oscar Chen: Thank you, Julie. I think in terms of the revenue contribution from the banks and other licensed companies, we are seeing a slight increase in terms of the revenue contribution percentage from last quarter. Given the growth in credit card and also the shrinking in the lending, the loan recommendation services, we are seeing more revenues from the banks. So I think it's a 2 to 3 percentage point increase compared to the last quarter in terms of the revenue contributions from the banks and other non-bank licensed financial institutions.

Regarding your second question about the fee per loan recommendation, yes, there was a slight decrease in terms of the ASP. But look into the loan recommendation breakdown, it's almost the same. I think the slight decrease is also an evidence of the less financial product available on platform. That means the reducing demand from the financial service providers in terms of borrowers' acquisition. So I think that fairly reflects the trend.

Julie, does that answer your question?

Julie Hou: Yes. And how about the fourth quarter guidance on credit card ASP?

Oscar Chen: The guidance on the fourth quarter ASP, I think in terms of ASP for both credit card and the loan recommendation, we would expect for credit card, we may see a slight increase in terms of the fee per card issued, for loans, given the challenging environment and the declining trend of the product available on platform. So we would expect another slight decrease in terms, but not much, maybe RMB1 also in terms of loan ASPs.

I hope that answered your question.

Julie Hou: Yes, thank you. Can I also ask a question on R&D expense? You mentioned that there is a sequential decline in R&D expense due to cut in payroll costs. So do you have employee turnover in the third quarter? And (inaudible) will continue to leverage technology to improve business, how should we project R&D expense going forward?

Oscar Chen: Julie, yes, first of all, I want to clarify a bit. What I mentioned is that we cut down the acquisition cost in terms of the traffic acquisition. But for R&D, the year-over-year trend, I think it's an increasing trend, increase by around 5% year-over-year. But we may also want to mention that among that R&D cost, we are trying to improve the R&D efficiency for the existing business, and shifting around 20%, as David mentioned, R&D efforts and resources to our new business initiatives. So overall, the R&D cost increased in the third quarter, yes, thank you.

Operator: Wendy Chen of Goldman Sachs.

Wendy Chen: I have two questions. First one, may I follow up on the comment that we have cut traffic acquisition costs for the quarter. Just wondering how much of this is coming from, let's say, by the cheaper price due to the muted advertising market, or versus, we actually reduced demand because of our relatively lower loan growth for the quarter?

And my second question is about the demand by some financial institute. So after the relisting of our app to all the app stores, how do we see the financial institutes' activeness on our app after is coming back?

Oscar Chen: Okay. Thank you, Wendy. Let me answer your second question first. So after our app is fully relaunched, we are seeing the number of financial service providers on our platform remains stable. The number of financial institutions remains stable, but we are seeing less supply of the financial product, mainly because the increasing tightening on credit environment. And for both credit card issuers, the banks and other non-bank financial institutions, they enhanced their credit policy in terms of the user acquisition.

So their activities on our platform are still active, but in terms of volume or the number of financial products available on platform, it's a declining trend, because they are tightening the credit policy. Some financial service providers adjusted their funding source, like P2Ps, they're shifting away from the retail funding to the institutional funding. And also some other impact in the market also have some impact on the activities on our platform.

So regarding the traffic costs, in terms of the unit traffic costs of the user acquisition, for example, the app downloads, we are seeing a declining trend. For instance, one OEM app store, we are seeing the acquisition cost was half of the spending compared to the one quarter ago. The overall traffic acquisition cost, I think in the retail financial services sector, may decline in the past quarter. But to our case is that this also impacted the supply side of our platform. That means less of a number of financial products available on our platform.

So we still focus on the return of investment of our business model, but given the tightening credit policy, given the less demand from the financial service providers in terms of user acquisition, so it impacted our monetization capability. So although the unit cost of user acquisition is declining, but given the scale and given the efficiency level we have, that you can see the number of our sales and marketing efficiency.

David Ye: So Wendy, we believe the last part of your question is about the app relisting in major app stores. And most of our apps resumed listing in Apple Store, other OEM apps in Q2 and of course, fully launched in Q3. That's what happened. However, among the whole China mobile Internet sectors, there is a new initiative going on.

As of October 25, there is an app special governance working group initiative, which is mostly under the supervision by (Speaking Foreign Language), which is The Ministry of Industrial and Information. Basically, there are new rules in terms of how mobile applications can collect personal information. As of last week, thousands of apps got delisted by this app special governance working group, including some banks’ App. Last week, one of the top 10 bank major app got delisted as well. Our app is not impacted by this new special governance initiative.

In the meantime, we are also helping our financial institution partners, banks, credit card issuers. We know some of the small banks, rural commercial banks or city commercial banks are trying to figure out how to fully comply with the recent app governance initiative. We are helping them to manage the customer privacy and data governance better, and helping them to re-launch their digital marketing initiatives.

So yes, definitely, we do see some short-term impact, but we believe, as our financial institution partners manage their app, digital marketing, data privacy and information security better, we are able to help them to better grow their digital businesses next year.

Wendy Chen: Great. Thanks very much, Oscar and David, very helpful.

Operator: That concludes the question-and-answer session. I would like to turn the conference back over to management for any additional or closing remarks.

Liting Lu: Thank you once again for joining us today. If you have any further questions, please contact us at ir@rong360.com. Thank you for your attention, and we hope you have a wonderful day.

David Ye: Thank you.

Oscar Chen: Thank you, everyone.

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