Jianpu Technology Inc. [JT]
Q4 and Fiscal Year 2019 Earnings Conference Call
Monday, March 23, 2020, 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

Presentation

Operator: Hello, and welcome to Jianpu Technology Inc.'s fourth quarter and fiscal year 2019 earnings conference call. Today's conference call 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 in 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 and fiscal year 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 and archived webcast of this conference call will be available on Jianpu's website at ir.jianpu.ai.

Joining us today on the call from Jianpu's senior management 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 fourth quarter and fiscal year 2019. 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 continue to enhance our vision and execute on our founding strategy and mission, which is to become everyone's financial partner. We are operating in a rapidly-evolving environment that brings with it both significant challenges, as well as new opportunities. And with our leading proprietary technologies and deep ecosystem, we are uniquely suited to capitalize on new developments and deliver solid value to our customers and other stakeholders.

With that, I'd like to start by outlining the backdrop of the operating environment in the fourth quarter and full year 2019.

Last year, we realized early on it was going to be a challenging year, and we proactively made significant changes in order to reposition our Company target to achieve the balance between growth and efficiency. The challenges were not only from a general macroeconomic perspective, which became more uncertain, but also due to the roll out of a new set of rules and regulations. These new rules and regulations were designed to address the important role of fintech in supporting economic growth, while at the same time, safeguarding users from undue financial risk and protecting them from new threats such as consumer privacy and security.

The general nature of our business model is one that is highly scalable and allows us to be nimble on a very asset light model with low risk fundamentals. We took several preemptive measures to not only prepare our business to face the aforementioned challenges, but to continue differentiating ourselves in the marketplace and better position and prepare ourselves for growth.

Let me outline three key steps we took in 2019, and will continue to deploy in 2020: Number one, a digital transformation. With our industry expertise, proprietary technology and deep data insights, as well as experienced team, we are well positioned to capitalize on opportunities in the digital financial services market. Our data science, modeling abilities, artificial intelligence, empower us to provide digitization solutions, customized for varying specific needs and therefore, empowering banks and other licensed financial service providers to implement digital technology.

Particularly, during the outbreak of the coronavirus, we heard more from our banking partners who want to accelerate their implementation of digital strategy, serving their customers online and remotely.

Number two, new business initiatives. We are heavily investing in innovation and new initiatives to drive growth. For example, we are pleased to announce that we have successfully secured a brokerage license for insurance products, which will pave the way for us to expand financial product coverage, enrich product offerings and provide more financial choices through our users' financial lifecycles. This is an exciting new area for us, and we look forward to updating you on this progress in the coming quarters.

Number three, operating efficiency enhancement and cost optimization. Started from Q3 2019, we ramped up our cost-cutting initiatives in order to drive operational efficiencies in our business. Specifically, we made progress with respect to marketing efficiency improvement and productivity enhancement.

While regulatory changes in 2019 continued to tighten the overall credit environment, regulators have been working to establish a comprehensive and sustainable framework that will benefit the industry and its participants in the long run. Aligning with these regulatory measures, as well as in response to the rising delinquency rates across the sector, financial service providers, including online lenders, have proactively reduced loan origination volume beginning in the second half of 2019. We expect that clarified regulations in retail finance and digital lending sector will help build an operating framework which will increase consumer confidence and financial stability.

In 2019, we ended with our core strengths and fundamentals intact, but as a leading organization capable of going after growth opportunities from a fundamentally stable and robust position. Although we had our share of challenges, both operationally and financially, in 2019, we found ways to thrive and differentiate ourselves from other fintech companies that carried more risks. One of our financial highlights includes net margin turnaround by 7 percentage points as a result of our efforts to improve efficiency and optimize cost structure, maintaining a strong balance sheet to provide ample resources to support our business.

While we are observing additional liquidity come into the economy and financial market, we should be able to scale more quickly because of the strength and network effect of our business model, and consequently, benefit from positive market trends in the future.

Despite the liquidity tightening felt across the board, our credit card recommendation business continued to gain market share with revenue increasing 6.5% sequentially. In Q4, we added 2 new banks to our credit card business partnership network, bringing the total number of banks in the network to 30 at year-end.

In addition to continuous efforts made to expand our number of bank partners, we also are deepening our collaborative relationships with existing banks in the network. The initiatives include product expansion from credit card to wealth management and deposit products, and a deeper cooperation throughout users' lifecycle by leveraging our cutting-edge technologies and operational expertise. With banks increasing their focus on the consumer finance industry in the new era of digitalization, such cooperation will enable banks to improve their risk management and technological capabilities, as well as bring us more monetization opportunities and fuel our future growth.

Before closing, I'd like to speak about the COVID-19 situation and its impact on our operations. As everybody knows, the outbreak of coronavirus in January set in motion a series of ongoing developments that have caused, and are causing, immense economic disruption and personal suffering. Our hearts go out to all those on the front lines fighting COVID-19 and who have been impacted.

Our number one priority has always been the health and safety of our employees, and we took decisive actions early on. We tested working remotely before the Chinese New Year in late January, and enforced a full remote working environment on February 3. We are making operational adjustments to minimize the impact of COVID-19 pandemic, and are pleased to report that as of last week, over 90% of our employees have returned to work, either remotely or onsite. We have roughly about 20% returning physically to our physical office.

This has allowed us the ability to maintain continuity in serving our users, customers and partners, and pushing forward our business activities as much as possible. We will continue to closely monitor the evolving situation, and make adjustments accordingly.

We also realized that we are part of the fight as a corporate citizen, and have sourced and donated medical protective gears, masks, through our network in China and overseas.

While acknowledging the severity of current macroeconomic conditions, we believe the negative impact to overall consumption and SME activities will be contained and relatively short-lived, and that economic activities will rebound as soon as greater levels of containment are realized.

We are encouraged by the central bank's effort to inject more liquidity into the economy through a portfolio of monetary tools, including interest rate reductions and increased credit facilities available to SMEs and consumers, as well as other government initiatives.

We expect the ramifications of the COVID-19 pandemic to have an impact to our business, and that this impact will be relatively short-lived, as we have seen encouraging signs of early recovery in China.

In conclusion, 2020 presented us with a challenging start after the outbreak of coronavirus. Our business was partially suspended for over 2 months, as financial service providers closed and people quarantined themselves at home. Until now, we still have limited access to taking care of our users, customers and partners, and our business has been impacted and will take some time to make a full recovery.

Encouragingly, our business volume as of last week has returned to around 60% of the weekly average in the fourth quarter, which demonstrated a healthy and stable trend of recovery.

In addition to COVID-19, we will monitor other factors which may impact our business, including the evolving situation from last year's regulatory change. Overall, the stimulus measures on consumption conducted by the authorities, and their support to grow the economy, will bring us more growth opportunities in the future. The strengthened regulatory framework now in place is set to support healthy and sustainable growth in the digital financial services market for the foreseeable future.

We are optimistic about our long-term growth prospects. We actively embrace these changes, and have strong confidence in our fundamentals, including our team, our technology, as well as our business model, which is inherently more scalable and carries less risk, allowing us to be more prepared and better positioned for full recovery and the new growth opportunities in the 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. Our fourth quarter 2019 performance demonstrated the results of our continuing efforts to optimize business and improve operating efficiencies. In spite of tightening credit across the board, the number of credit cards issued on our platform through all channels hit 7 million for the full year, a market share gain, further demonstrating our strong competitive strength in the market.

The proactive cost optimization measures we introduced in the third quarter began to take hold in this quarter. Sales and marketing expenses, as a percentage of total revenue, decreased by 11 percentage points compared with the third quarter. The impact from optimization program regarding productivity per head also started to kick in in this quarter. Such measures consequently contributed to a non-GAAP adjusted net margin sequential improvement of over 7 percentage points.

We are pleased with the results out of our optimization efforts, which give testimony to the ongoing resiliency of our platforms in the midst of a volatile operating environment and challenging macroeconomics conditions.

At the same time, we continue to delivery our strategy to balance growth and efficiencies. The costs and expenses include certain upfront investment for our new business initiatives. The expenses incurred in this area were around RMB 26 million in the fourth quarter and around RMB 61 million for the full year. The management strongly believes that this investment will fuel our future growth and create shareholder value in the long run.

For the fourth quarter, we reported total revenue of approximately RMB 290 million, exceeding the high end of our guidance by over 10%. Non-GAAP adjusted net loss narrowed sequentially by around 32% to approximately RMB 69 million from a net loss of RMB 101 million in the previous quarter.

Total revenues for the fourth quarter of 2019 decreased by 61% year-over-year and 10% quarter-over-quarter. Such trend fairly reflects the credit tightening across the board and the impact of evolving industry dynamics, which led to the decrease of number of financial products available on our platform.

In addition, the Company proactively scaled back certain advertising business, given the lower efficiency amidst the challenging macroeconomic environment.

Gross margin remained stable at 90.8% in the fourth quarter, compared with 91.7% in the third quarter of 2019 and 90.9% in the same period of 2018.

Along with certain cost optimization initiatives to improve operating efficiency and productivity launched in the third quarter 2019, the total operating expenses in a non-GAAP measure seeing a declining trend. Sales and marketing expenses decreased by 51% to RMB 259 million year-over-year. R&D expenses decreased by 41% to RMB 48 million. G&A expenses was RMB 25 million. Some cost-cutting measures may have a lagging effect, which is expected to continuously benefit our operation in 2020.

As a result, non-GAAP adjusted net loss, which excludes share-based compensation, was RMB 69 million in the fourth quarter. At the same time, non-GAAP adjusted EBITDA was a loss of RMB 63 million.

As of December 31, 2019, we maintained a strong balance sheet with cash and other equivalent liquidity of RMB 1,069 million, and working capital of approximately RMB 947 million.

And now, on to our outlook for the first quarter. As David mentioned, we have ample resources to successfully run and grow our business for the long term. However, the first quarter is going to be a challenging quarter due to the outbreak of coronavirus, but we believe the situation has started to recover.

For the first quarter, we expect our business to be impacted by the outbreak of coronavirus as well as seasonality. In spite of huge uncertainties, we have encouragingly observed some early indicators of recovery. Based on our current estimates, we expect total revenue for the first quarter of 2020 to be in the range of approximately RMB 130 to RMB 140 million. We believe opportunities go alongside the challenges, and the impact from the COVID-19 outbreak will be short-term in nature, and remain optimistic about the robust long-term prospects of our growth.

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: Yes, thank you. We will now begin the question-and-answer session. (Operator Instructions). John Cai, Morgan Stanley.

John Cai: Hi. Good evening management. Thank you for taking my questions. So I have three questions. The first one is on the recovery trend that we are seeing, so maybe management can share more colors on the breakdown of the recovery in terms of the loan applications and credit card recommendations and advertising. Just want to see the segment breakdown. And also we mentioned the last release, roughly about 60% of the normal term volume. How long does it take for us to maybe expect an 80% to 100% recovery, maybe in the second quarter or maybe later? Just want some colors on the potential recovery trajectory.

The second question is about the new initiative, particularly on deepening our cooperation with the current partners. It's two-part. The first one is we mentioned about rising demand for funding partner to accelerate digital transformation. Just wonder is there any more details on that? What type of corporations are they looking forward to work with us? And also, is other competition of this corporation, what is the competitive landscape? I think there are plenty maybe tech giants are trying to work with the banks on the digital transformation part.

So the final question is on cost. Just wonder how much room for us to optimize the costs going forward?

Oscar Chen: Thank you John, let me firstly take your first and third questions, regarding the recovery trend and cost optimization initiatives. In the first quarter, normally we face seasonality, among the seasonality, we have 2-3 weeks because of the Chinese New Year, For this first quarter, because of the outbreak of the coronavirus, such kind of period in which our business was partially suspended, has been expanded more than double or close to triple. That's how we set the expectation for our first quarter guidance.

In the sense of recovery trend by category, now I think the overall weekly volume is around 60% benchmark through the weekly average in the fourth quarter 2019. So by category, I think the credit card is ahead of the average volume recovery, and loan is a bit behind, but not that much, I think the overall range well between 50% to 70% by category respectively.

Regarding your second half of the question about when we expect to recover to the 80% to 100%, I think we are optimistic about a recovery in the long run. But it's a bit early to estimate at the current stage. What I can say is that in the first quarter, the lowest weekly, we are seeing the overall business volume is around 30%, 40% of the normal. Now, we climb back to around 60% and we continue to see week-over-week recovery for now. The 60% is as of the latest week data we observed.

So I think probably we can have a so-called full recovery into the second quarter, but it depends on how we recovered from the COVID-19 outbreak. So probably it will be something close to the April end or the May end; it's something that we cannot control.

I hope this answers your questions.

John Cai: Yes.

David Ye: Could I just add one more thing about the recovery time. John, from our perspective, our team are prepared, our technological solutions are prepared. Keep in mind that we just started, folks just started returning back to the office last Monday, it is only a week. We are 60% full volume in terms of productivity, right? But there are other factors beyond our control, for example, the Beijing municipal government guideline, timing, like productivity. So right now, we are restricted to only 50% of people can go to the office, right?

And also our financial partners are actually based pretty much like all over the country, given the city and given the rules in terms of companies or institutions can fully go back to work. So we do rely on the schedule timing of our partners. And also the other factors impacted it as well. So Oscar and I, we have a discussion. We have seen some data and we have seen week-over-week, we are picking up our productivity like rough 10% last two or three weeks. We expect that this trend continues.

However, given the large global macro situation, we still believe middle or late second quarter, around June, would be a realistic timeline, and we will report as of today. But of course, the situation may change almost on a weekly or daily basis. We are keeping monitoring that, so we are doing some conservative approach in terms of going back to work.

Now, Oscar continue with the first and third questions, yes. Please go ahead.

Oscar Chen: Okay. To your third question about the cost initiatives and any further room for us to improve the efficiency, firstly, I think our initiatives is in both ways to improve the efficiency and at the same time to cut the cost. So from the efficiency perspective, we focus on the efficiencies of our marketing dollar spend, so we're seeing a clear trend. In the fourth quarter, we improved our ROI of the sales of marketing. Although, in terms of top-line, it's still sequentially downwards trend. But we managed our business better and improved sales and marketing efficiencies, so we will keep doing that.

So for 2020, I think we still have the room to improve the sales and marketing efficiencies throughout the year. But again, it depends on when the business is fully recovered and we can have the scale back. Now our target is to improve the sales and marketing efficiencies back to the level of 2018. That's around 130 ROI we achieved for the full year 2018. We target to achieve around that.

And also in terms of the cost-cutting, particularly, we do some cost optimization in terms to improve our productivity per head. So from the third quarter to fourth quarter last year, we cut our headcount by around 20% plus. But at the same time, we incurred some N+1 compensation for such kind of cost-cutting. So there will be some lagging effects, which will benefit our operation in 2020.

And we also have some small initiatives, including optimize the usage of server and bandwidth, adjust our office space according to our new headcount and the new plan; that will all benefit the cost structure for 2020.

I think that's your first and third question. For the new business initiatives, David, do you want to comment a bit first?

David Ye: Yes. John, I believe your second question is about initiatives and also more specifically about type of partnership and competition, etc. Let me lay out our plan for new initiatives. We have been working in the last couple of quarters. We look at the new opportunities and new initiatives in three dimensions. The first one is expand into new verticals and new financial products. We want to enrich our user or consumer and SME financialized, they may have applied a loan before; they might are also able to consider insurance products or maybe non-secured credit, or mortgage loan, that expands the new financial verticals.

And the second dimension we also briefly mentioned like emerging markets. We 're doing lots of tests in South Asia, like Indonesia, India. We have testing in Hong Kong. We have teams on the ground in the last few quarters, and they're making good progress. Of course, we need to set up a team, get a license, working with the local regulators. So it's a challenging test as well, right?

And also given overseas market, we are also being impacted by the coronavirus situation. So those markets were covering before the virus spreading curve, right? It's coming, so we will see that probably a little slowdown as well.

The third dimension, we are actually working with the financial institutions. We've mentioned briefly the digital transformation. So we actually, in the past, we've always been a partner to enable financial institutions to increase their digital marketing capabilities, risk management, leveraging AI, big data and the modeling to build and enhance their online financial decisions. So we have been very proactive and we are prepared for this.

And recently, the coronavirus situation is actually forcing the financial institutions to serve the customer and approve their loan and taking care of the customer online. So the digital banking or digital lending was nice to have before the coronavirus situation. Starting from this year, this quarter, it's going to be a necessity for banks.

I want to give you a few examples of our type of partners that we have. We have one of the big five Chinese banks. We were their credit card partner, generating credit card approval before. Now they've started working with us to help to build a risk model for their non-secured credit portfolio. That's one of the top five banks.

And we also have a joint list bank, that's one of the top 10 banks in China. They build online decisioning with instant approval engine. In the past, it didn't work well during this corona situation. Now they need to make almost instant decisions within 60 seconds; they were not able to do that before. So behind the scenes, with data collection, screening, risk enhancement and digital marketing and also some of the IT solutions. So we actually won a competitive bid, last quarter in Q4 2019. This quarter, we started implementing this type of initiatives.

And smaller banks, we have smaller rural commercial banks, with rural commercial bank in Zhejiang Province. Their challenge is to build the end-to-end online mobile capability. It's a relatively big rural commercial bank. It's not national, it's regional, but they need more help compared to a big five bank, or even larger, joint stock, state-own bank. So that's the type of customers or partners or institutions, we're partnering with.

I would say we're working with over 2,000 financial institutions in China. We do expect that the digital transformation project across the board in terms of type of financial institution, geographical coverage and the type of licenses, so that's the market space.

In terms of the competition, I would say that the overall market of digital transformation, online decisioning, software as a service solution, analytical solution in China is still in early stage. We do see a lot of players; they may be a niche player focusing on data or modeling or just providing IT solutions. And also, they may focus on just a few clients.

But our strength, as the largest online platform serving more financial institutions than other single player, number one, we have been working with those banks for 5, 6, 7, almost 8 years, right? We may have built relationships with one of their credit card or SME loan, right? We're able to expand our service to different units, different group within the same financial institutions. We may launch our lead generation or digital marketing service a few years ago.

Now we are extending that more in-depth into more technological-driven or data-driven or analytical-driven decision-based service. So that's the way we go.

Does that answer your question, John?

John Cai: Yes, yes, it's very helpful. Thank you.

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

Julie Hou: Thank you for taking my questions. I have three questions. First, from your observation, what kind of financial service providers are mostly hit by COVID-19, and the least hit in February? And how about the recovery rate versus pre-Chinese New Year holiday or versus January for the financial service providers?

And the second question is on the cost side. Did you get any city or cut in fixed costs such as rent cuts from landlords or delay in social contribution payments? Just want to get a sense of how much cost you could save from this perspective?

And the third question is a follow-up question on new initiatives. When do you expect to contribute meaningful revenue from these new initiatives?

Oscar Chen: Okay. Thank you, Julie. Let me answer part of your questions. Your first question, what type of financial service providers are most impacted in the coronavirus outbreak. From our view, it's a volume decrease across the board as we observed in the coronavirus outbreak. But as David mentioned, for the financial service providers with certain online capabilities, they can still reach out to the consumers and provide services and do the online acquisition and online decisioning. Although the volume also decreased, they can still serve their customers.

I think the volume decrease is mainly driven by less activities during the Chinese New Year, and then the outbreak of the coronavirus. And also probably the trend of rising delinquency make the financial service providers further tighten their credit policy.

But for the financial service providers whose capacity is most offline, I think they will be more impacted during the coronavirus outbreak because people quarantined, people cannot meet in person. So the service probably cannot be delivered in person. This kind of financial services providers may be more impacted during the coronavirus outbreak.

Your second question about the cost saving, you talked about the rental and you talked about the delay of the social security fund payment. For the rental, we already adjusted our office space, we will have some rental benefit from the office space cuts in 2020, but the rental part is a very small percentage in terms of our total cost and expenses.

For the delay of the social security fund or other charged by the government, yes, we acknowledge a policy published by the local governments like in Beijing and in some other cities. Our HR department is exploring this with the local labor bureau or some other authorities who are in charge of this. So we have to have a quantified overall cost savings in this regard. As long as we have the clear picture, we can report back.

I think for your third question is about the new initiatives. We are pleased to say for the new initiatives of geographic expansion, and also category expansion, as David mentioned before, all these new initiatives have generated revenue in the fourth quarter last year, but it's not significant. And now our new business and existing business both were impacted by the coronavirus outbreak.

In the coming quarters, when we have something significant we can share with you, and also the investors.

David, I'm not sure whether you have anything to add.

David Ye: Yes, you pretty much covered everything. Just one more, just a comment about your first question, what type of financial institutions recover faster. It depends on the type of financial products. For financial products, you need to KYC (know your customers) face-to-face, like mortgage, or some of the commercial or SME loans, you need to sign face-to-face. Of course, that's going to be slow recovery across the board for all banks. That's pretty much the regulatory kind of requirement, the KYC face-to-face.

And we do have seen like the credit card business recovered a few weeks back. Keep in mind that the majority of the country is still partially locked down or partially back to work. We see even in Beijing and Shanghai, or even Shenzhen, Guangzhou, they all enforced the quarantine or lockdown policies differently.

So we do find some nice recovery for some of the digitally-capable or more powerful banks who have invested heavily in the last few years. They're able to launch or resume their monthly credit portfolio faster, right? Now if you get more and more calls to offer your loan, you're not in good shape. However, if you're able to quickly identify consumers online, because people are still online, we don't take phone calls, don't go to a branch, you're able to serve them, approve them, providing good financial products(online), and then you are actually the leader.

So that's why the lockdown situation pushed and forced the financial institutions to go digital, go mobile, go data-driven, go online decisioning. So that's a wakeup call for some banks who have been talking about a digital transformation but haven't done anything yet. Now it's their chance.

Operator: Thank you. And as there no more questions at the present hour, I would like to return the floor to management for any closing 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.

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