

**Event Name:** Q1 2019 Hexindai Inc Earnings Call

**Event Date:** 2018-09-25T12:00:00 UTC

**Corporate Participants**

**Daisy Wang** - Hexindai Inc. - IR Director

**Xinming Zhou** - Hexindai Inc. - CEO

**Johnson Zhang** - Hexindai Inc. - CFO

**Other Participants**

**Nicki Chen** - Essence Securities - Analyst

**Laza Draskovich** - Creation Investments - Analyst

**Bill Crocker** - Investor

**Presentation**

**Operator**

Ladies and gentlemen, thank you for standing by for the Hexindai's First Quarter Fiscal Year 2019 Earnings conference call.

(Operator Instructions)

I must advise you that this conference is being recorded today.

I would now like to hand the conference over to your first speaker, Ms. Daisy Wang, Investor Relations Director. Thank you. Please go ahead.

**Daisy Wang** - Hexindai Inc. - IR Director

Thank you, operator. Hello, everyone, and thank you for joining us today. Our earnings release was distributed earlier today and is available on our I.R. Web site at [ir.hexindai.com](http://ir.hexindai.com).

On the call today from Hexindai are Mr. Xinming Zhou, Chief Executive Officer, and Mr. Johnson Zhang, Chief Financial Officer. Mr. Zhou will review business operations and Company highlights followed by Mr. Zhang who will discuss financials and guidance. They will be available to answer your questions during the Q&A session that follows.

Before we begin, I'd like to remind you that this conference call may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended.

These forward-looking statements are made under the safe harbor provisions of the U.S. Private Securities and Litigation Reform Act of 1995. These statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "potential," "continue," "ongoing," "targets," "guidance," and similar statements.

The Company may also make written or oral forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission, the SEC, in its annual reports to shareholders in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties.

Any statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements that involve factors, risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements.

Such factors and risks include, but not limited to the following, the Company's goals and strategies; its future business developments, financial conditions and results of operations, the expected growth of the credit industry and marketplace lending, in particular, in China; the demand for and market acceptance of its marketplace's products and services; its ability to attract and retain borrowers and investors on its marketplace; its relationships with its strategic cooperation partners; competition in the industry; and relevant government policies and regulations relating to the corporate structure, business and industry.

Further information regarding this and other risks, uncertainties or factors is included in the Company's filings with the SEC. All information provided in this call is current as of the date of this call, and the Company does not undertake any obligation to update such information, except as required under applicable law.

It is now my pleasure to introduce our CEO, Mr. Xinming Zhou. Please go ahead, Mr. Zhou.

**Xinming Zhou** - Hexindai Inc. – CEO

Thank you, Daisy, and I thank everyone for joining our call today. We delivered another solid quarter of growth despite a challenging and a rapidly evolving regulatory environment.

Net revenue and the net income during the quarter both increased at a triple-digit pace to USD51.7 million and USD29.7 million, respectively. Total loan principal since our inception grew to USD3 billion as we facilitated loans to more than 28,000 borrowers during the quarter, an increase of almost 100% from the same period last year. I believe these solid results demonstrates our corporate flexibility -- ability to rapidly adopt and the commitment to maintain a full compliance as the regulatory environment shifts around us.

Our strategy to focus on medium-sized loans targeting borrowers with stable employment and income allows us to better control risks and strengthen the trust and the confidence users have in our platform, which is critical during this period.

The growth potential of the P2P lending industry should not be underestimated just because it's going through a period of short-term difficulties. P2P platform caters to segments of the economy that have been underserved by traditional financial institutions as banks, and this is all part of China's efforts to promote digital inclusive finance.

We fully support the government's efforts to clean up the industry and to ensure its long-term sustainable development. We believe the recent liquidation of a large number of platforms this summer is simply the continuation of a trend that has begun in August 2016 when the government first released regulations for the P2P sector.

The majority of the P2P platforms that terminated their businesses recently were either ones that were fraudulent, competing unfairly, or were those who would be unable to remain in full compliance with stricter regulations going forward.

The government began inspection of P2P companies earlier this summer to strengthen compliance with regulations by grading all platforms on 108 criteria. We are among the first P2P platforms to begin the inspection process and actively working to complete it as soon as possible.

The overall P2P inspection campaign should be completed by the end of 2018. P2P platforms will not be able to complete the subsequent filing and registration process until they have passed the compliance and inception phase and have maintained full compliance for a certain period of time.

As a result, we expect the entire process to be over sometimes during the second half of 2019 at the earliest. And we believe these liquidations and the increased regulation are a positive development for us and the entire sector.

We believe we already made the necessary adjustments to our products and services in response to the changing environment and are ready to take advantage of any opportunities that arise from industry consolidation.

The August 2018 transaction volumes for the top 30 P2P platforms amounted for 68% of total transaction volumes, which demonstrates the advantage that the largest platforms currently enjoy and are expected to enhance going forward.

Increased regulation will create a healthier market environment in the long term and will raise the barriers to entry, which we believe will ideally position us to be a market consolidator given our strong cash position, operational efficiency and solid risk management and marketing capabilities.

To further differentiate ourselves and strengthen the trust and the confidence users have in us during this critical time, we enhanced our risk control systems during the quarter to better protect the investors throughout the entire process of borrower acquisitions, risk-based pricing, post-loan management and the default risk coverage.

We also were among the very few platforms to receive iTrust AAA certification, which is the highest level possible. iTrust certifies platform's financial and commercial reliability and ensures that the authenticity and security of information based on National Enterprise Credit Evaluation and Bank Credit Rating standards. Only 6.6% of companies in this industry have received this certification.

We also diversified our business with our first cross-border investment during the quarter by buying 20% equity stake for USD1.6 million in Musketeer, an Indonesian online lending platform that offers consumption installment loans. This marks the first step in our larger strategy to explore overseas opportunities by leveraging our extensive experience in new high-growth markets.

I'm pleased with our performance during the quarter despite the challenging situation and with the progress we have made in ensuring we will be fully compliant with regulations going forward.

Growing confidence in our future growth prospects and strong cash position has allowed us to return value to shareholders in the form of an annual dividend policy. We will continue to invest in strengthening our risk management systems and developing new market opportunities to ensure we are able to quickly take advantage of opportunities that emerge as the market consolidates.

We will also focus on growing our business to scale by improving operational efficiency and enhancing investor and borrower acquisition. I'm confident that these initiatives will help us solidify our competitive advantage in China's rapidly growing consumer lending marketplace and generate long-term sustainable value for our shareholders.

Okay, now, I will turn the call over to Johnson who will review the financials. Johnson, please?

**Johnson Zhang** - Hexindai Inc. - CFO

Thank you, Mr. Zhou. Hello, everyone. Thank you for joining our first quarter of fiscal year 2019 earnings conference call today. We are pleased to start our financial year 2019 with a strong quarter in our business.

First, I will go over some highlights. During the first quarter of fiscal year 2019, total volume of loan facilitated increased by 130% year-over-year to RMB2.9 billion or USD4.611 billion, beating our guidance.

The increase was primarily attributable to the increase in the number of borrowers from 14,736 to 28,979. Our net revenue increased to 242% year-over-year to USD51.7 million, and net income increased to 234% year-over-year to USD29.7 million.

Now, I would like to walk you through more details of our financial results during the first quarter of fiscal year 2019.

As I mentioned, net revenue was USD51.7 million, an increase of 242% from same period last year. The increase was primarily due to the significant increase in the volume of credit loan facilitated through our marketplace with an increase from USD0.2 billion or RMB1.3 billion in the first quarter of fiscal year 2018 to USD0.5 billion or RMB2.9 billion in the same quarter of fiscal year 2019.

Operating expenses were USD15.6 million, an increase of 224% from first quarter of fiscal year 2018. The increase was driven primarily by an increase in sales and marketing expenses, G&A and share-based compensation.

Sales and marketing expenses were USD11.7 million, an increase of 354% from the first quarter of fiscal year 2018. The increase was primarily due to an increase in employee expenses and advertising expenses associated with enhancing the Company's brand recognition and acquiring more customers.

Service and development expenses were USD1.4 million, an increase of 2% from the same period of fiscal year 2018. It has remained stable when compared to the same period of last fiscal year, which was primarily due to improvements in operational efficiency.

General and administrative expenses were USD2.3 million, an increase of 159% from the first quarter of fiscal 2018. The increase was primarily due to the increase in employee expenses and professional service fees and rental expenses.

Share-based compensation during the first quarter of fiscal year 2019 was USD0.2 million, increased from nil during the same period of last fiscal year. The increase was attributable to awards granted under the 2016 Equity Incentive Plan since November 3, 2017, on which date, the Company completed its IPO.

Net income increased by 234% to USD29.7 million from USD8.9 million during the first quarter of fiscal year 2018.

Adjusted net income attributable to the Company's shareholders, which excluded share-based compensation expenses, increased by 236% to USD29.9 million from USD8.9 million in the same period of last fiscal year.

Adjusted EBIT which excluded interest income, income tax and the share-based compensation, increased by 251% to USD36.6 million from USD10.4 million in the first quarter of fiscal year 2018.

We generated a strong operating cash flow and cash position. Net cash provided by operating activities was USD23.4 million during the first quarter of fiscal year 2019, compared to USD12.4 million in the same period of fiscal year 2018.

As of June 30, 2018, our cash position stood at USD148.4 million, compared with USD132.6 million as of 31st of March 2018. The increase in the total balance of cash was mainly due to increased operating cash as a result of our accelerated business growth.

As we have continuously emphasized, we are investing in qualified borrower acquisition by developing the partnerships and innovating new technologies, security tools and products. We believe that acquisition of qualified borrowers and our ability to rapidly generate recurring revenue will directly impact our ability to grow sustainably over the long term.

Turning to revenue guidance for the second quarter of fiscal year 2019, we expect loan volume to be in the range of USD32 million to USD36 million, total net revenue to be in the range of USD3 million to USD3.3 million and the adjusted net loss to be in the range of USD11 million to USD13 million.

Given the recent challenging market conditions, investor sentiments turned cautious with many investors adopting a wait-and-see approach to investing. As a result, the demanding for loan transfer products increased sharply during July through September.

In order to strengthen confidence in our platform and the loyalty of existing investors, we made a strategic decision to prioritize the need of our existing investors. We reduced the release of new loan offering and promote loan transfers instead to increase liquidity of our loan transfers. We expect this temporary shift in strategy to impact earnings during our fiscal second quarter as we strike a careful balance between our short and long-term interest.

We remain optimistic about the market recovery and advantages the top P2P platforms enjoy, and thus reaffirming our annual guidance.

For full fiscal year 2019, we expect loan volume to be in the range of USD1.9 billion to USD2.1 billion, total net revenue to be in the range of USD240 million to USD260 million, and adjusted net income to be in the range of USD115 million to USD127 million.

This concludes our prepared remarks. And I would like to turn the call back over to the operator to begin the Q&A session.

## **Questions and Answers**

### **Operator**

(Operator Instructions)

Our first question comes from the line of Nicki Chen from Essence Securities. Please ask your questions.

**Nicki Chen** - Essence Securities - Analyst

Hello, management. Thanks for taking my questions. I have two questions. The first one is, as the growth of domestic retail market goes down, how do you see the impact on the customer demands for the products and services going forward?

And second will be regarding investment in the Indonesian company. Could you comment on the opportunities in the emerging market especially in Southeast Asia? And could you comment on the competition and the regulatory risks regarding overseas expansion? Thank you.

**Johnson Zhang** - Hexindai Inc. - CFO

As we mentioned the lenders for this industry have to come a kind of wait and see strategy and so this would negatively impact the whole industry for the loan facilitation.

As we expect at the demand side, there are still lots of medium-sized loan demands to our application. And those kind of liquidity would recover during the third quarter of our fiscal year, that would be from October to December.

Although our second fiscal quarter from July to September would be negatively impacted, but we remain our full year guidance as I've said before. We believe that after the consolidation of the industry and regulation reform, the top peer-to-peer platforms such as our Company would have more market share. In that way, in our third and fourth fiscal quarters, our operating result will recover, and we maintain our full fiscal year guidance as same as before.

And you also mentioned the regulation in Southeast Asia, after our research, we believe that Indonesia's regulation is quite clear and the authorities, OJK is issuing license and the company we invested in is also on the line waiting for the peer-to-peer license.

**Operator**

Thank you. Our next question comes from the line of Laza Draskovich from Creation Investments. Please ask your questions.

**Laza Draskovich** - Creation Investments - Analyst

Hi, everyone. Thank you so much for taking my question and congratulation to the great result this quarter. I was just wondering if you could elaborate one on what -- how delinquencies on outstanding loans we're looking this quarter. And if you can just clarify, so, again, what your origination -- what your origination forecast for next quarter is (inaudible). Thank you.

**Johnson Zhang** - Hexindai Inc. - CFO

The key reason of negative results for the guidance for the next quarter is mainly because the operating expenses are as same as before, but the revenue decreased dramatically, only our new loan products could be charged for loan facilitation revenue from borrowers. But we will not charge any party for the loan transfer.

From July to September, more and more lenders from our platform preferred to transfer their existing loans. In that way, we're shifting our strategy to provide the existing investor a kind of priority to transfer their loans. In that way, we reduced to release of new loans. Does that answer your question?

**Laza Draskovich** - Creation Investments - Analyst

Yes. So, actually, so what do you mean when they're transferring loans? Can you explain that?

**Johnson Zhang** - Hexindai Inc. - CFO

The loan transfers, that means before the loan agreement expires, the lenders want to exit for liquidity, which means they can transfer the loans under secondary market to other lenders.

In that way, the new investors invested in existing loans but not invested in kind of new loans. Only new loans could we charge loan facilitation service fee.

**Laza Draskovich** - Creation Investments - Analyst

Okay, great. And are there any updates on maybe some institutional funding or any other source of funding to replace the retail supply?

**Johnson Zhang** - Hexindai Inc. - CFO

We do not rely other source of funding. Our 2.5 million registered investors are our source of funding. And every quarter there are at least 65,000 active investors to invest in and -- although from July to September, it's a difficult period for China peer-to-peer industry, but there are still -- there are still 50,000 active investors invested in our platform and still have new cash flow to our platform. The majority of them invested in existing loans instead of in new ones.

**Laza Draskovich** - Creation Investments - Analyst

Okay, great, thank you. And then if you can speak about the delinquency of the outstanding portfolio, that will be great.

**Johnson Zhang** - Hexindai Inc. - CFO

The delinquency is still on our expectation and a cumulative default rate for our first vintage is close to 5%.

**Laza Draskovich** - Creation Investments - Analyst

Great, thank you. Yes, that concludes my -- but -- so, you think that you expect to resume origination growth from your investors in Q3?

**Johnson Zhang** - Hexindai Inc. - CFO

The only thing I'll provide to you is the full year guidance and we expect to recover our business on the third quarter and the fourth quarter.

**Operator**

Our next question comes from the line of Bill Crocker from Investor. Please ask your question.

**Bill Crocker** - Investor

Hey, guys, really nice numbers. I guess can you talk a bit more about some of the factors driving your revenue growth? I mean how much of the new growth do you think is coming from you gaining market share versus your competitors and how much of it do you think is coming from the mix of loan volume and yield? Thank you.

**Johnson Zhang** - Hexindai Inc. - CFO

For peer-to-peer companies, it is still a very fragmental market and even though the -- even though the top five players only take 32% of the total market share, it is very hard to conclude our market share.

But if we look at the medium-sized consumption loan market by ranking, according to wdzj.com and p2peye.com, we rank at sixth of the whole medium-sized consumption loan market. And we still believe that only medium-sized consumption loan segment is the only segment with the most potential to growth.

**Operator**

Thank you. (Operator Instructions). There are no further questions at this time. I would now like to hand the conference back to Mr. Xinming Zhou for closing remarks. Thank you.

**Xinming Zhou** - Hexindai Inc. - CEO

Thank you, operator.

In closing, on behalf of the entire Hexindai management team, I'd like to reiterate our confidence in the enormous opportunity China's online consumer lending marketplace presents, our further business prospects, the strength of our risk management system and our ability to remain compliant in an evolving regulatory environment.

**Daisy Wang** - Hexindai Inc. - IR Director

With that, we'd like to thank you for your interest and participation in today's call. If you require any further information or have any interest in visiting us in China, please let us know. Thank you for joining us today. This concludes the call.

**Operator**

Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.