

Event Name: Q2 FY2020 Hexindai Inc. Earnings Call (NASDAQ: HX)

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Corporate Participants

Xiaobo An Hexindai Inc.-Founder, Chairman & CEO

Kerrie Rui Zhang Hexindai Inc.-CFO

Daisy Wang Hexindai Inc.-IR Director

Other Participants

Joshua David Vogel Sidoti & Company, LLC-Analyst

Presentation

Operator

Hello, ladies and gentlemen, and thank you for standing by for Hexindai's First Quarter Fiscal Year 2020 Earnings Conference Call. (Operator Instructions) As a reminder, today's conference call is being recorded.

I would now like to turn the meeting over to your host for today's call, Ms. Daisy Wang, Investor Relations Director. Please proceed, Daisy.

Daisy Wang - Hexindai Inc. - IR Director

Thank you, operator. Hello investors, analysts and colleagues, thank you for joining us today. Our earnings release was distributed earlier today and is available on our IR website at ir.hexindai.com.

On the call today from Hexindai are Mr. Xiaobo An, Founder, Chairman and Chief Executive Officer, and Ms. Kerrie Zhang, Chief Financial Officer. Mr. An will review business operations and company highlights, followed by Ms. Zhang, who will discuss financials. 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 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 report 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 development, financial condition 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 its industry; and relevant government policies and regulations relating to the corporate structure, business and industry. Further information regarding these 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 Founder, Chairman and Chief Executive Officer, Mr. Xiaobo An. Mr. An, please go ahead.

Xiaobo An - Hexindai Inc. - Founder, Chairman & CEO

Xiaobo An^ (foreign language)

Daisy Wang^ [Interpreted] Thank you, everyone, for joining our call today.

Xiaobo An^ (foreign language)

Daisy Wang^ [Interpreted] The first quarter of fiscal year 2020 marked the beginning of a transition period for us. With an uncertain regulatory environment hanging over the P2P industry, the market has remained challenging. We took advantage of this period to begin strategically repositioning our business by developing a loan assistance business to drive future growth while at the same time maintaining our P2P business.

Xiaobo An^ (foreign language)

Daisy Wang^ [Interpreted] With market demand growing from institutions, we saw an opportunity to expand our relationships with them to grow our loan assistance business. Leveraging our extensive experience in borrower acquisition and strong risk management and operational capabilities, this loan assistance business will operate alongside our P2P business and is expected to drive growth across our business going forward.

Xiaobo An^ (foreign language)

Daisy Wang^ [Interpreted] Our partner institutions have shown strong interest in investing in underlying assets that are short-term and in small amounts which closely matches the profile of the high-quality microfinancing loans we facilitate. Our microfinancing loan

products typically mature over 2-12 months in amounts that range from RMB1,000 to RMB20,000.

Xiaobo An^ (foreign language)

Daisy Wang^ [Interpreted] To grow our loan assistance business and diversify our funding sources, we are working with financial institutions and trust partners such as Bohai International Trust, Kunming Aotou and Phoenix Intelligent Credit Group, a wholly owned subsidiary of Phoenix Financial Group, to provide them with access to our high-quality underlying assets and borrower base. Our partnership with each of them has already yielded solid results. Bohai International Trust has already extended around RMB40 million and Kunming Aotou RMB30 million to borrowers assessed and referred by us as of June 30, 2019. Our partnership with Phoenix Finance has also progressed well following our strategic investment at the beginning of this year. We expect total loan volumes for borrowers referred by us over the three-year partnership with Phoenix Finance to be about RMB10 billion. We will continue to develop partnerships with other financial institutions, which will greatly expand and diversify our funding sources. We are very pleased so far with the initial results from this new business. Loan volume funded by institutional partners during the quarter accounted for approximately 20% of total loans facilitated. We expect approximately 80% of loans facilitated by us to be funded by institutions in the calendar year 2020.

Xiaobo An^ (foreign language)

Daisy Wang^ [Interpreted] We have spent several months doing analytical work to carefully customize and fine-tune our risk management systems and algorithms based on big data generated by our legacy P2P products to ensure they continue to be highly-effective when assessing borrowers for our microfinancing loans. While this has strengthened confidence with our partners, the ramp up period was not quick enough to offset the decline of our P2P business which has been gradually recovering, but continues to be negatively impacted by a challenging industry environment. There were some bright spots however with revenue increasing slightly by 18.6% on a sequential basis.

Xiaobo An^ (foreign language)

Daisy Wang^ [Interpreted] Nevertheless, we are very confident about the future of our loan assistance business. We will continue to expand our institutional funding sources, including licensed financial institutions that operate in a highly regulated and clear framework. They also have strict processes put in place to prevent defaults. Any default under our loan assistance business will be reflected on the personal credit report of the borrower. What's more, demand from our partner institutions is continuing to grow which we believe reflects their trust in the quality of the underlying assets and the strength of our risk management systems.

Xiaobo An^ (foreign language)

Daisy Wang^ [Interpreted] In conclusion, I'm pleased with the progress we've made during the quarter while we make the transition of our business and am fully confident that this will allow us to create value for our users and shareholders and position us to generate long-term sustainable growth. Given our extensive experience in operating a P2P platform over the past few years, we already have the key capabilities needed to efficiently run and generate steady revenue from the loan assistance business. Our diverse revenue streams and new business lines will ensure growth of our overall business going forward, regardless of what regulatory environment finally emerges for the P2P industry. With our strategy gradually building out to scale, we look forward to leveraging our strong financial and operational resources to grow this diverse business for the long-term.

Xiaobo An^ (foreign language)

Daisy Wang^ [Interpreted] With that, I will now turn the call over to Ms. Kerrie Zhang who will review the financials. Kerrie, please.

Kerrie Rui Zhang-Hexindai Inc. -CFO

Thank you, Mr. An, and thank you, everyone, for joining our call today. This is Kerrie, the company's new CFO. It's been a real pleasure to join the management team and look forward to working with everyone to drive long-term growth and increase shareholder value. I will now review our financial performance during the quarter. Further details can be found in the earnings release and company presentation.

As Mr. An mentioned, this was a quarter of transition for us as we reposition our business by developing our loan assistance business to drive future growth. This has strengthened confidence in us among our partners but the ramp up was not quick enough to offset a decline of our peer-to-peer business.

During the first quarter of fiscal year 2020, net revenue was USD 4.9 million, a decrease of 90.5% from the same period last fiscal year. Volume of credit loans facilitated through our peer-to-peer marketplace was USD 28.2 million, or RMB 0.2 billion, a decrease from USD 0.5 billion or RMB 2.9 billion during the same period of last fiscal year. On a sequential basis, however, our performance is steadily improving as the market recovers and our loan assistance business is rolled out, with net revenue increasing by 18.6%.

Operating costs and expenses were USD 12.6 million, a decrease of 18.9% from the same period of last fiscal year. The decrease was primarily due to decrease in sales and marketing expenses. Sales and marketing expenses were USD 7.5 million, a decrease of 35.5% from same period last year, due primarily to a decrease in advertising expenses as we continue to carefully control cost during this period.

As our business grows to scale, we expect to gain greater operating leverage going forward. Service and development expenses were USD 1.9 million, an increase of 42.3% from the same period last year, primarily due to an increase in employee expenses. General and administrative expenses during the first quarter of fiscal year 2020 were USD 2.3 million, stable when compared to the same period of last fiscal year.

Finance cost during the first quarter of fiscal year 2020 were USD 0.6 million compared to nil during the same period of last fiscal year. The increase was mainly due to the interest expense for senior notes.

Share-based compensation during the first quarter of fiscal year 2020 was USD 0.2 million, stable when compared to the same period of last year.

Net loss was USD 7.2 million compared to net income of USD 29.7 million during the same period last year. Net loss attributable to the company's shareholders was USD 7.2 million compared to net income attributable to the company's shareholders of USD 29.7 million in the same period of fiscal year 2019. Accordingly, basic loss per common shares was USD 0.15 compared to basic earnings per common share of USD 0.62 in the same period of fiscal year 2019. Diluted loss per common share was USD 0.15 compared to diluted EPS of USD 0.56 in the same period of fiscal year 2019.

Adjusted net loss attributable to the company's shareholders, which excludes share-based compensation expenses, was USD 7.0 million compared to adjusted net income of USD 29.9 million during the same period of last year.

Adjusted EBIT, which excludes interest income, income taxes and share-based compensation expenses was a loss of USD 5.8 million compared to USD 36.6 million during the same period of last year.

We remain confident in our long-term business prospects and are committed to creating value for our shareholders through our share repurchase program. As of June 30, we have repurchased nearly 1.2 million ADS for approximately USD 4 million in total at an average price of USD 3.4 per share.

I'm pleased with the progress we have made during the quarter in positioning our business for future growth, regardless of what regulatory environment emerge. Our loan assistance business will allow us to strengthen our relationship with financial institutions and create enormous growth opportunities for us going forward.

And now, I would like to turn the call back over to operator to begin the Q&A session.

Questions and Answers

Operator

(Operator Instructions) Your first question comes from the line of Josh Vogel from Sidoti Investments.

Joshua David Vogel -Sidoti & Company, LLC -Analyst

I have 4 questions, please. The first one is, can you please talk about the percentage of borrowers that were acquired from online channels in the first quarter? And how that compared to a year ago? And if there was any change, why so?

Kerrie Rui Zhang-Hexindai Inc. -CFO

In terms of loan volume facilitated, we acquired 42% of our borrowers online and 58% of borrowers offline in this quarter.

During the past two quarters, we began strategically repositioning our business by developing a Loan Assistance Business to drive future growth. Our partner institutions have shown strong interest in investing in underlying assets that are short-term and in small amounts which closely matches the profile of the high-quality microfinancing loans we facilitate. Borrowers for our microfinancing loan products are acquired purely online. Microfinancing loan products accounted for approximately 22% of total loan volume during FY20Q1 and significantly contributed to the overall percentage of borrowers acquired online in FY20Q1.

We have spent several months doing analytical work to carefully customize and fine-tune our risk management systems and algorithms based on big data generated by our legacy P2P products to ensure our systems continue to be highly-effective when assessing borrowers for our microfinancing loan products. As we continue to put more efforts and resources into developing our Loan Assistance Business, the proportion of borrowers acquired online will continue increasing.

Joshua David Vogel -Sidoti & Company, LLC -Analyst

That is helpful. It's nice to see you diversify into the loan assistance business. Can you please discuss some advantages that you see in loan assistance compared to the P2P business?

Kerrie Rui Zhang-Hexindai Inc. -CFO

With an uncertain regulatory environment hanging over the P2P industry, the market has remained challenging and short of funding from individual investors. We took advantage of this period of uncertainty to begin strategically repositioning our business by developing a

Loan Assistance Business. Regardless of what regulatory environment finally emerges for the P2P industry, this loan assistance business will operate alongside our P2P business and is expected to drive growth across our business going forward.

Loan assistance business has several advantages when compared to P2P business:

First, demand for good investment opportunities is still strong. There is a massive amount of funding available for investment in the market, but investment options are very limited. Institutional fund has shown great interest in investing in loans facilitated by consumer finance companies.

Second, we will continue to develop partnerships with other funding partners that are licensed financial institutions that operate in a highly regulated and clear framework. Given the regulations governing licensed financial institutions are very clear, this will allow us to operate a loan assistance business without regulatory uncertainty and ensure the sustainable development of our loan assistance business.

Furthermore, licensed financial institutions have strict processes put in place to prevent defaults. Any default will be reflected on the personal credit report of the borrower issued by the Credit Reference Center, the People's Bank of China (CCRC). This will strengthen deterrence against defaults.

We also possess certain competitive edges when it comes to running a loan assistance business and attracting funding partners. We have extensive experience in borrower acquisition, solid risk management capabilities, and strong operational capabilities derived from our legacy P2P business. We are very confident in the future growth prospects of our loan assistance business. This new business will drive growth going forward regardless of what regulatory environment finally emerges for the P2P industry.

Joshua David Vogel -Sidoti & Company, LLC -Analyst

That is helpful. My third question, can you tell me please, how much is left remaining on the current share repurchase authorization and maybe discuss your appetite for buying back shares and at what prices would you get aggressive in perhaps repurchasing shares?

Kerrie Rui Zhang-Hexindai Inc. -CFO

Okay. We have repurchased 1,165,883 ADSs under the share repurchase program so far, representing a total value of approximately US\$4 million.

We purchase shares on the open market at prevailing market prices, depending on a number of factors, including but not limited to share price, trading volume and general market conditions, along with our working capital requirements, general business conditions and other factors.

We believe our share repurchase program aligns with the Company's commitment to maximize shareholder value, and demonstrates our confidence and optimism in the long-term future potential of our business and strategy.

Joshua David Vogel -Sidoti & Company, LLC -Analyst

Okay. And my last question. Looking at the press release from earlier this month about regulator's decision to include P2P platforms in the central bank's system, can you please share what the proposed timing is for when the P2P lending companies are required to be connected to the Credit Reference Center at the PBOC? And are you already in compliance given that it requires a relationship with Baihang Credit, which you currently have?

Kerrie Rui Zhang-Hexindai Inc. -CFO

Thank you for your question. China's regulators for the internet finance industry issued an official guideline on September 2 that requires P2P lending companies to be connected to the Credit Reference Center at the People's Bank of China (PBOC) and Baihang Credit. This is a significant progress to improve the development of China's credit system.

We are committed to remaining in full compliance and protecting investors' interests. As a first mover, we connected our systems and begun sharing credit data with Baihang Zhengxin in January this year.

We make regular transfers of credit data to Baihang Credit which integrate and process the data collected to provide individual credit data. On the other hand, we will leverage the data generated from Baihang Credit to more accurately assess a borrower's creditworthiness and potentially reduce the cost of risk management. Baihang Credit's platform will greatly enhance our credit services and strengthen compliance. Thank you.

Operator

There are no further questions at this time. I would now like to hand the conference back to Daisy Wang, please continue.

Daisy Wang - Hexindai Inc. - IR Director

Thank you, operator. In closing, on behalf of the entire Hexindai management team, 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.

Kerrie Rui Zhang-Hexindai Inc. -CFO

Thank you.

Operator

Ladies and gentlemen, that concludes the conference for today. Thank you for participating.
You may now disconnect.