Jianpu Technology Inc. [JT]
Q3 2018 Earnings Conference Call
Monday, November 19, 2018, 8:00 AM ET

Company Participants:
Qiuya Chen, IR Manager
David Ye, Co-Founder, Chairman and Chief Executive Officer
Oscar Chen, Chief Financial Officer

Analysts:
Richard Xu, Morgan Stanley
Piyush Mubayi, Goldman Sachs
Julie Hou, UBS
May Yan, UBS

Presentation

Operator: Hello, and welcome to Jianpu Technology Inc.'s Third Quarter 2018 Earnings Conference Call. Today's conference is being recorded. (Operator Instructions)

At this time, I would like to turn the call over to Qiuya Chen, Jianpu's Investor Relations Manager. Please go ahead.

Quiya Chen: Thank you, Operator.

Please note the discussion today will contain forward-looking statements relating to future performance of the company. These statements are within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act. Such statements are not guarantees of future performance and are subject to certain risks and uncertainties, assumptions and other factors. Some of these risks are beyond the company's control and could cause actual results to differ materially from those mentioned in today's press release and this discussion.

A general discussion of the risk factors that could affect Jianpu's business and financial results is included in certain filings of the company with the Securities and Exchange Commission. The company does not undertake any obligation to update this forward-looking information, except as required by law.

During today's call, management will also discuss certain non-GAAP financial measures. For the difference between GAAP and 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 2018 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 will be available on the Jianpu website at ir.jianpu.ai.

Joining us today on the call from Jianpu's senior management are Mr. David Ye, Co-Founder, Chairman and Chief Executive Officer; and Mr. Oscar Chen, Chief Financial Officer.

I will now turn the call over to Mr. Ye, who will provide an overview of the company, as well as performance highlights of the third quarter. Mr. Chen will then provide updates on the company's financial results and business outlook before opening the call for your questions.

Mr. Ye, please go ahead.

David Ye: Thank you, Quiya. Hello, everyone, and thank you for joining our third quarter 2018 earnings conference call today. Last Friday was one-year anniversary of Jianpu Technology's listing on the New York Stock Exchange. Four quarters have passed; through our continuous efforts to execute our strategy and innovate our products, our team have navigated through the turbulent operating environment, exceeded our guidance in the past four consecutive quarters. We have strengthened our position as an independent open platform, continued to add value to our users and financial service providers, fulfilling our mission to become everyone's financial partner. Today I'm very excited to share with you the results for another better-than-expected quarter and our view on the road ahead.

During the third quarter, we kept our focus on capturing market dynamics through our uniquely technology-driven and diversified platform. Despite the weak sentiment on the macro front and the credit tightening in July and August, we maintained robust momentum in our credit card recommendation service by posting a 197% year-over-year increase in revenue, and we also exhibited strong growth in our big data and risk management business, which achieved around 180% year-over-year revenue increase. As a result, we recorded RMB 444 million in revenue, exceeding our previous guidance by 7%.

On November 8, we hosted a banking partners summit celebrating the successful partnership between Jianpu banks, credit card issuers and other financial institutions. Over 600 industry leaders, experts, professionals from banks, credit card issuers, consumer finance companies, third-party data and tech providers and media, as well as other partners, participated in this event. At the event, we proudly announced that the cumulative number of credit cards recommended on Jianpu's platform and approved by a bank had reached over 10 million. Furthermore, in third quarter, we have increased the total number of credit card issuing banks to 24 by adding three new banks. Through years of continuous dedication, we have developed strategic collaborations with all the five largest state-owned banks, 10 joint-stock banks out of 12 nationwide, as well as with a number of other rural commercial banks, city commercial banks and foreign banks.

Also, on the credit card front, we're glad to report good results of our social media and partners initiatives, which reflects our continuous efforts in managing a diversified network of acquisition partners that include news feeds, social networks, search engines, app stores among others, and more importantly, exploring new channels with broader user reach and higher acquisition efficiency. Our continuous investments in professionally generated contents, particularly a variety of video, audio and other contents columns incorporating socially conscious financial elements, have successfully attracted over 100 million viewership per month. We further leverage this large size of traffic along with our recommendation engine to reach and engage a wider range of target users, such as the new generation Y and Z in the Chinese consumers, and additionally population in the third-, fourth- and fifth-tier cities. Aided by these social media and partner initiatives, total credit card applications and approvals through our platform both saw significant increases during the third quarter. Starting in June, credit card volume generated through these new initiatives saw an exponential growth and expect further growth in the fourth quarter.

In the third quarter, due to the turbulent operating environment, we have opted for a more balanced acquisition strategy between growth and operating efficiency. Benefiting from such strategy and the user growth driven by social media and partner initiatives, we achieved strong return-on-investment improvement for the quarter. We saw sales and marketing expenses, excluding share-based compensation, as a percent of revenue was approximately 76% in the third quarter of 2018, compared with approximately 83% from the same period of 2017. This is a 7% decrease year-over-year. Despite the challenging marketing conditions, we maintained our strategic focus on deepening collaborations with financial service providers and continuously enhancing our user engagement. We expect to execute the current strategies in the following quarters and consequently continue to improve our operating efficiency down the road.

As the platform offering diversified financial products across full credit spectrum, our collaborations with financial service providers are not limited to facilitating loans and issuing credit cards, we increasingly focus on leveraging our big data and risk management technology to enable financial service providers to further enhance their operating efficiency and improve their decisioning capability in the past quarter. In July we launched a joint modeling laboratory where we can closely work together with financial institutions to develop statistical models that integrate our big data and AI technology into financial service providers' application environments. With the efforts, we have initiated new engagements and advanced existing collaborations with banks and other licensed financial institutions in the industry.

Notably, our AI technology capabilities also received a significant boost during the quarter as Mr. Yu Zou, a leading expert in the field of AI, joined our Artificial Intelligence Research Institute as Chief Scientist. Mr. Zou's experience and expertise will be invaluable to the next phase of our tech-driven growth as we further explore a series of AI technologies such as machine learning, natural language processing, as well as image recognition and voice interaction, in the financial service industry. Recently, we further enhanced our smart recommendation engine and initiated our AI-driven customer service systems. The systems are designed to improve recommendation accuracy and conversion rate, improving the effectiveness of our customer service. Our big data and risk management business have made remarkable progress and saw close to 180% year-over-year revenue growth in the past quarter.

As we mentioned in our previous earnings call, overall lending activities were slowed down in July and August, which had a negative impact in our loan volume. We have observed a subsequent pickup in September and coming into the fourth quarter. The loan volume on our platform reached approximately 5.8 million in the month of September. We saw 55% higher than the average of July and August numbers.

On August 18, the China Banking and Insurance Regulatory Commission, or CBIRC, issued regulatory guidance intended to strengthen consumer finance’s role in serving the economy. This guidance includes "to actively develop consumer finance and enhance consumption-driven economic development; to adapt to diversified and multi-level consumption demand; to provide and upgrade differentiated financial products and services; and to support growth in consumer loans and SME loans to satisfy the increasing demand for a better life in China."

With more support and positive signals released and better initiatives applied by our government and by the industry, we have definitely seen a good sign of increasing in consumer lending, SME lending, financial inclusion and innovation. We have seen positive impacts on lending activity and the market sentiment recently. Historically, the fourth quarter is seasonally a strong quarter for our business. We are confident that we are in a position to further benefit from stronger consumer and SME demand and growth at financial service providers' side as the operating environment further improves in the next quarter.

In addition, we are very excited and honored to welcome Mr. Kuang-Yu (Jeff) Liao to our board to serve as our independent director. Jeff will also serve as the Chairman of our Nomination and Corporate Governance Committee, and as well as a member of the Audit Committee and the Compensation Committee on the board. Jeff has extensive leadership experience in leading fintech companies, consumer finance and online retail firms worldwide, including acting as the head of Apple Pay Asia, Visa China and PayPal China, CEO of eBay in Greater China, and General Manager at Standard Chartered Consumer Bank of China. We look forward to learning from Jeff's business acumen and strategic vision and improving our overall corporate management and corporate governance.

With that, I will now turn the call over to our CFO, Oscar Chen, who will discuss our financial results.

Oscar Chen: Thank you, David, and hello, everyone. We are pleased to report that Jianpu delivered respectable financial and operational results for the third quarter of 2018 in spite of the macro slowdown. Total revenue for the third quarter of 2018 reached approximately RMB 444 million, 7% exceeding our previous guidance. Also, through our continuous efforts of improving operational efficiencies, we successfully narrowed down our adjusted net loss margin to minus 4.5% in this quarter from minus 5.8% in the last quarter.

Our technology-based, diversified platform model enabled us to navigate through the challenging macro environment. Although lending activities slide down in July and August due to the liquidity and credit tightening across the retail financial services sector, our credit card recommendation service continued to grow 197% year-over-year and achieved RMB 184 million of recommendation revenue. Combining the credit card business from both recommendation services and advertising, we recorded the credit card volume of approximately 2 million in the third quarter of 2018, representing a year-over-year increase of approximately 82%. The revenue growth is also driven by the increase of average fee per credit card, which is RMB 103.6, in the third quarter of 2018, representing a 48% increase year-over-year.

Attributable to the macro downside in the third quarter, revenues from loan recommendation decreased by 49% year-over-year to RMB 193 million in the third quarter of 2018. The liquidity and credit tightening in July and August resulted in a slowdown of lending activities, and the number of loan applications on our platform was negatively impacted, down to 13.3 million in the third quarter of 2018. However, such tightening had limited impact on our pricing. Our average fee per loan application continued to grow, which increased to RMB 14.5 in the third quarter of 2018 from RMB 13.4 in the third quarter of 2017 and RMB 13.8 in the last quarter. As David mentioned previously, we have observed that the lending activities resumed growth in September and we are confident such growth will continue into the next quarter and onward.

During the third quarter of 2018, our revenues from credit cards and loans accounted for 46% and 44% of total revenue respectively. Also, our big data and risk management services achieved a 180% year-over-year growth, contributing approximately 7% of total revenue. The current revenue structure demonstrated the robustness of our platform model that is well positioned to capture the dynamics of the retail finance market.

Responding to the changing environment, we fine-tuned our strategy to be more balanced between growth and efficiency. Some new initiatives have also contributed to our efficiency gain in the third quarter. As a result, our gross margin improved to 89% in the third quarter of 2018 from 88% in the last quarter. Also, sales and marketing expenses, excluding share-based compensation, as percentage of revenues was significantly improved to 76% in the third quarter of 2018, representing approximately 7 and 9 percentage points down year-over-year and quarter-over-quarter respectively.

At the same time, we continued our pace in respect of R&D investment, which we believe will benefit our business in the long run. In order to further optimize our technological infrastructure, we have continued to invest heavily in talent acquisition in the big data, AI and machine learning space, driving our R&D expenses increase in absolute amount by 69% year-over-year, as well as R&D expenses, excluding share-based compensation, as percentage of revenue up to 13% in third quarter of 2018.

From what has been discussed above, finally we come down to the improvement of net loss and corresponding margins quarter-over-quarter. Non-GAAP adjusted net loss was RMB 20 million in the third quarter of 2018, improved from adjusted net loss of RMB 29 million in the second quarter of 2018. Non-GAAP adjusted net margin improved to minus 4.5% from minus 5.8% quarter-over-quarter. Net loss was RMB 54 million in the third quarter of 2018, improved from net loss of RMB 61 million in the second quarter of 2018.

As of September 30, 2018, the company had a strong balance sheet with cash and cash equivalents, restricted time deposits and short-term investments of RMB 1,379 million and working capital of approximately RMB 1,453 million.

Next, we want to give a quick update on the share repurchase plan. We announced during the last quarter earnings call that our board had approved a share repurchase program which authorized the company to repurchase an aggregate value of up to USD 20 million during the next 12-month period. As of November 16, 2018, the company had repurchased approximately USD 5 million of shares under this program, and we will continue our share repurchase efforts during the next three quarters. We maintain our utmost confidence in our business strategy, strong fundamentals and long-term prospects, as well as our commitment to maximize shareholder value.

Now for the guidance. Based on the company's current estimates, total revenues for the fourth quarter of 2018 are expected to be approximately RMB 680 million, representing an increase of approximately 53% on a quarter-over-quarter basis and 16% on a year-over-year basis.

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: We will now begin the question-and-answer session.

(Operator Instructions)

Richard Xu, Morgan Stanley.

Richard Xu: Thanks, David and Oscar. Quick question on the guidance, actually. You mentioned basically you're seeing some rebound in loan activity, so obviously there's some seasonality for fourth quarter as well. So in the guidance, what are the key assumptions for credit cards and loan business, things that -- largely driven by rebound in the loan facilitation business, or you think the credit card business will accelerate further in fourth quarter? Thank you very much.

Oscar Chen: Thanks, David. Thanks, Richard. Let me firstly answer your question regarding our guidance into the fourth quarter. Yes, fourth quarter is historically our peak season for both loan and credit cards. We expect to see higher credit demand from users, as well as higher supplies from the financial service providers. Because approaching to the end of the year, users normally want to take on credit for consumptions and probably some other purposes. And for the banks, financial institutions and other tech-enabled lenders, they will have some yearly target to meet. So, they will have an incentive to speed up their customer and the revenue growth in the fourth quarter. So historically, this is the reason why the fourth quarter is normally the peak season for both loans and credit cards. And for this fourth quarter, we're also seeing the easing of the tightening policy and a more stabilized regulatory outlook, these will contribute to our fourth quarter loan volume, credit card volume and, as a result, the revenue.

So as David just mentioned, when we looked back to the September, we saw a nice resumed growth of our loan volume. So we recorded close to 6 million loan application volume on our platform. Then in October, we also saw a sequential loan volume growth. I think that's an ease of the credit tightening in July and August. As a result, we have more confidence with our business in the fourth quarter.

And lastly, we will see, with stronger demand from the user side and resumed growth at the supply side which is the financial service provider side, our improved matching capabilities driven by the big data and AI technology will play an important role matching the users' demand and the financial service provider supply. As a result, I think that's peak season, the changing environment and also our core capabilities will all contribute to our confidence of the guidance into the fourth quarter.

I may want to give some more color regarding the composition of fourth quarter revenue, RMB 680 million. In the third quarter, we saw our loan recommendation contributed around 44% of total revenue. And our credit card revenue combining recommendation and advertising contributed 46% of our total revenue. Besides, the big data and recommendation services contributed around 7% of total revenue. Looking to the fourth quarter, we would expect sequential growth, credit card revenue will continue to grow, the resumed growth of the lending activities will lead to higher growth rates for loans. So, among the amount of RMB 680 million revenue, we would expect around 45% to 48% from the loan recommendation and 40% to 45% from recommendation and advertising for credit cards, as well as big data and risk management will also achieve a high-single-digit percent in terms of the revenue contribution. Richard, does that answer your question?

Richard Xu: Sure, yes. Thank you very much.

Oscar Chen: Yes, thank you, Richard.

Operator: Piyush Mubayi, Goldman Sachs.

Piyush Mubayi: Thank you. Thank you for that guidance. You talked about encouraging trends coming through in the month of September; could you just comment through for the next two months of that, of -- the last two months of 2018? And one of the challenges with 2018 4Q is the very high base that we have in the fourth quarter of '17, so I wonder if you could talk through the growth outlook for the two different businesses in 2019 as we stand today? Thank you.

Oscar Chen: Okay, thank you, Piyush. Yes, so as I just mentioned, in October, we have seen the sequential growth of the loan volume which was around 10% month-over-month during the last two months. As we said before, an overall environment with more liquidity injected into the economy, and a more stabilized regulatory outlook will benefit all the participants in the industry, including banks, loan banks, licensed financial institutions, as well as tech-enabled lenders. Because we have seen our loan volume increase across all these types of financial service providers.

I think in the fourth quarter, both volume and the unit price of credit cards will growth. This year is a very good year for the credit card online issuance. In every quarter, we almost achieved triple-digit year-over-year growth for the credit card. So, entering the fourth quarter, we expect that the momentum will continue. And also, in the fourth quarter, as I just mentioned, the banks will be more incentivized to achieve the yearly target. I think we will be given more volume-based year-end incentive for helping them to achieve the annual credit card issuance target.

So yes, as you mentioned, your second half of your question is about last year, we had a high base. If I remember correctly, RMB 584 million revenue was recorded. So, our year-over-year guidance will increase 16%. I think partially, in fourth quarter of last year, the cash loans reached their peak. And in last December, there were more stringent regulation coming out. So I think if we take that part aside, that growth rate will be pretty much like the growth rate we achieved in the first nine months of this year. That's around 45% to 50% growth. We excluded the impact from the loan volume before the cash loan regulation. Yes.

David Ye: Okay, Piyush, this is David. I will just add a few more data points. We know in China, the retail financial service sector has high growth. We expect the growth for the next two to three or five years will be around 20% to 25%. In 2020, China will become the largest retail financial services market in world, will exceed the U.S. And the 20 % to 25% market growth is one of the drivers. The second driver we see, the digitalization of financial service, more loans, credit cards, wealth management and other loan will be acquired and will be managed online. That's the macro trend.

So, related to our data, Oscar mentioned that in Q4, we are going to grow around 53% from Q3 to Q4 and16% comparing to Q4 of last year. For next year, we also expect a growth of double-digit. So those are the macro numbers and what we will be able to deliver in the Q4.

As Oscar mentioned, the growth of users' demand, which means the consumer, SME helps a lot. And also the increased liquidity. We have seen huge liquidity boosts across the board from banks, credit card issuers, small business lenders, as well as all the other lenders, the fintech lender companies. So, deleveraging of the financial sector basically slowed and stopped around August. August is overall the turning point for consumer and SME lending. So that's why we saw a lot of liquidity in September and October. We will see this trend continue going forward.

And we, as a tech and AI-driven open platform, we are able to capture the growth better than other lenders or fintech companies in the world. So, we have built across more in the last seven years. As we add more financial institutions, more financial institutions to provide a differentiated product to different geographic areas, different consumer segments and different products. And also, on the other side, on the user side, our social media and partnership initiative enabled us to capture the younger generation and population from third-, fourth-tier cities which are the relatively underserved market. So, this is a very healthy and diverse circle.

We were able to match more users with more tailored or personalized products. Our conversion rate has been improved a lot during last two or three months. We saw a higher prorate rebate by different types of financial service providers. Lenders or credit card issuers pay us more per approval. So the growth is a combination of macro growth, industry growth, of course, traffic growth, of better conversion, better user experience and better monetization. So that's why, in the macro level, we are very confident in delivering the around 16% growth for next quarter.

Oscar Chen: So also, Piyush, I think you also mentioned the number for 2019. Our practice is to give quarterly guidance, but talking about the next year, what we can share on the call is that the Chinese economy will continue to grow, and there is a more stabilized regulatory outlook. From that, as long as we see stronger user demand and also stronger supply in the financial service provider side, as being a platform, we're definitely confident in next year's growth, yes.

Piyush Mubayi: Thanks for the detail.

Oscar Chen: Okay, thank you.

Operator: Julie Hou, UBS.

Julie Hou: Hi, David and Oscar. Thank you for taking my questions. I have two questions. First, could you share with us some data on the loan side, like revenue contribution of top 50 FSPs, loan size breakdown in -- for the quarter, and revenue split between -- by FSP types? And my second question is the improving ROI for the quarter, as you're opting for a more balanced structure between growth and efficiency. Could you provide more color on the ROI for loan and credit card business? And how should we think about it going forward? With higher ROI, when do you plan to make profit? Thank you.

Oscar Chen: Okay. Julie, may I clarify? Your first question is about the loan volume contribution from different types of financial service providers. And what was the second part? Probably it's a bit broken.

Julie Hou: Revenue contribution of top 50 financial service providers, loan size breakdown in third quarter and revenue split between different types of FSPs.

Oscar Chen: Oh, okay. Yes, the loan in the third quarter, firstly, let me talk about the contributions by different financial service providers of total revenue. So because of credit card continued to grow in the third quarter and the revenue from loan recommendation reduced in the third quarter. The overall contribution of credit card already accounted for 46% of my total revenue. The revenue contributed by the banks in the third quarter reached close to 60% of my total revenue.

If we're looking to the revenue from the loan recommendation in the third quarter, I would say that one third was contributed by the banks and one third by the P2P companies. The remaining one third was contributed by the non-bank licensed financial institutions, including consumer finance companies and the microlending companies. That's the recommended contribution by the different types of financial institutions.

For the breakdown of loan ticket size, I think it's quite similar to what we shared in the second quarter. So that's around 30% from the loan size lower than RMB 10,000, around 50% contributed by the loan size between RMB 10,000 to RMB 50,000, and the remaining 20% are from the loans with a size over RMB 50,000. So that's about your first question.

Regarding your second question, considering the changing environment in the third quarter, we intentionally adopted a more balanced strategy between growth and efficiency. As you may remember, we actively manage over 1,000 marketing channels for our acquisition. Firstly, in the third quarter, our organic traffic contributed 39% of our total traffic, and then we further manage the marketing channel by ROI and efficiency. We put more resources into the high-efficiency and the high-ROI channels for user acquisition. And also we have some new initiatives, as David mentioned, the social media and partner program, that also had some positive impacts on ROI. So this is why we significantly increased our ROI in the third quarter.

So looking to the fourth quarter and onwards, I would say the outside environment is always changing. So anticipating that, we will adopt the phased strategy into the fourth quarter. I would expect that sales and marketing as percentage of total revenue would be constant in the fourth quarter. I think the revenue will continue to grow according to the guidance we shared. The gross margin and sales and marketing as percentages of revenue will be stable into the fourth quarter. The R&D and G&A are mostly the headcount costs. We will just expect an ordinary growth into the fourth quarter. So, yes, that's one thing I can share. Julie?

Operator: And was there a follow-up?

David Ye: Did that -- does that answer your question?

Operator: Was there a follow-up, Ms. Hou?

Julie Hou: Very helpful, thank you.

Oscar Chen: Yes, thank you, Julie.

David Ye: Thank you.

Operator: Okay. (Operator Instructions)

May Yan, UBS.

May Yan: Hi, Oscar and David. Thanks for answering our questions. I have two questions. One is, you've mentioned big data/AI contributed 7% to the revenue this quarter. And how do you see this business going forward? Is it going to account for, you said, a high-single-digit in fourth quarter, and next year, and maybe in the next one to two years, is it going to be a bigger, sort of meaningful part of the business, more than 10%, as you said before, that you would break down the detail? Can you explain a bit more how this business has developed and how do you charge, and how -- what type of key sort of income is -- or you're able to charge? And how is it going to grow?

And then secondly, we have seen a slowdown in the industry, credit card total issuance for the whole industry. And what's your -- in the third quarter. And you mentioned about there's policies coming out supporting consumer lending, et cetera. Is it somewhat different? Maybe in reality the credit card market is saturating. And next year or going forward, do you see that can be a smaller part of contribution to your revenue? And -- okay, thanks for that.

Oscar Chen: Yes. Thanks, May. To your first quarter, the big data. Yes, the big data and the risk management services, as of last year, was less than 2% of my total revenue. That was in 2017. So, tht is why this revenue line was embedded in the advertising, marketing and others. Earlier in this year, due to the overall regulatory and the environmental reasons, we found that the financial service providers focused more and more on data and risk management, particularly for the online lending products. And nowadays, we have also seen opportunities for credit cards.

Our big data and risk management services helps financial service providers on both online acquisition and online decisioning. As for online acquisitions, we can use our data and our profiling model to do a better segmentation for different financial service providers. That means we can match the users' demand with a particular financial product better and more efficiently. On the decisioning side, we can also help them to enhance the approval rate and to lower the charge-off. We shared some case studies of how we collaborated with credit card issuers in terms of big data and risk management services as of last quarter's earnings call. For this quarter, as David just mentioned, we found that it is a good opportunity for us to further explore.

Therefore we launched our joint modeling laboratory and host the joint modeling between us and the financial service providers. We found that this laboratory is well received among the financial service providers. We have more dialog engaged with financial service providers in terms of joint modeling, this also helps us to cross-sell more products to the existing financial service providers.

Looking to the future, because the revenue for big data and risk management is still a small portion of the total revenue, their base is relatively low. If we look into the next four quarters or something, we expect to achieve triple-digit growth for the big data and risk management services. Regarding the revenue contribution, because our loan recommendation, the credit card recommendation and the other revenue lines will continue to grow into the next year, this is why we say it will be a high-single-digit contribution into next year. But looking forward, we believe it will contribute more because the risk management can help the financial service provider to lower the charge-off which is a main cost component for them.

David Ye: Hi, May. This is David. I would like to provide some macro-level information about the landscape of the China retail, financial services market. As you probably know, the whole market is still hugely underdeveloped or underserved compared to the U.S. or Japan or other European countries. There are a couple of numbers, like the average credit cards for a Chinese adult is about 0.46. In U.S., it's about five. And in China, there are 1.4 billion people. Less than 400 million people have a credit card, have a mortgage or have a good data in the central bank's credit bureaus. So that's why our growth is not only from the first-, second-tier cities, we also see the growth from generation Y, and the generation Z, population from the third-, fourth-tier cities. I mean, a lot of the Chinese farmers have a mortgage or have a credit card or they can receive the retail financial services.

So you find this segment of the market by their sales and marketing, big data, risk management or cost-based solution or system IT solutions for financial institutions. As we know, the overall market will grow around 25%, moreover shifting from offline to online. Digitalization will enable more lenders to make decisions online or serve customers online. We have the number, actually. The sales and marketing is growing at about 40% at the end of last year. Big data and risk management, the growth rate is over 100%.

If you tied the market size and the growth potential, different segments, into our business, overall, we'll grow around 50% in Q4. Our loan and credit card recommendation possibly manage around 60%. However, our big data and risk management service are expected the growth in triple digits. We're growing at a higher speed and for years down the road. If you compare the Chinese market conditions and growth, the adoption of AI or technology or IT used by the financial service companies can be compared with some of the trends in U.S., in Japan, or even in other markets like Taiwan or Korea, 10 or 15 or 20 years ago. They study the leverage in internet, the leverage in data, technology to serve customers online. That's why we feel confident in our big data, risk management service. It will provide professional fraud detection, like online decisioning and joint model development program, the account services and systems to financial institutions. It's a small size, but we expect higher growth.

And I just want to summarize our outlook for the whole sector, and also different segments of our business. If the market grows at around 20%, 25%, and the online part will grow at a faster rate, and the different product services will grow in Q4 and the next few years. But of course, the tech side, data side, technology side, analytical side, and the more value-added service side which means the part we're going to heavily invest, not only in talent, in people, in technology, but also in our overall capability.

Oscar Chen: And also, May, to your second question about the credit cards. We focused more on the online part of the credit card issuance. Probably you may notice some slowdown of the credit card issuance, but our observation is that the online channel is more efficient with a lower-cost compared to the offline according to the banks. So this is why we saw strong growth in the third quarter, and we are confident that such a trend will continue into the fourth quarter, because some banks have not achieved their annual target yet of credit card issuance.

David Ye: Yes, the credit card market is highly debatable. However, May, in our view, we actually feel the credit card market in China is still underdeveloped. I saw the numbers, the average credit card for a Chinese adult is about a tenth of U.S. and less than 400 million of Chinese have credit cards. And if you look at the strategy of Chinese banks, state-owned banks or joint-stock-owned banks, the credit card divisions of the banks are the most profitable and high-growth divisions. Banks are shifting their strategy or their investment away from wholesale lending, from SME lending, away from mortgage lending.

Credit card or large-scale credit is really the growth strategy and is a risk reverse. It's also a good strategy in this economic slowdown or slow growth. That's why the credit card divisions are trying to meet their target, and they exceeded expectations. We saw a number in China, first nine months, there were close to 100 million new cards issued. But the average is still very low. We have actually found that if the credit card business is doing well, the overall bank will do well. Now the wealth management, wholesale banking, real estate lending are not part of banks' core strategy.

I think that we probably underestimated the potential for the credit card, or maybe, virtual credit card. But credit card is a product that was combined with payments, installment, and credit. That's really the future of the credit card market. If you're talking about 800 million Chinese farmers living in the countryside, none of them now even have a card issued by a bank. And thus, the sky is the potential.

May Yan: Okay, thanks, David and Oscar. Just a follow-up: So how -- can you let us know how many, like, financial service providers do you work with on the big data/risk management side? And how many of them are fee-paid? And how much fee do you charge them? Thanks.

Oscar Chen: Nowadays we are working with over 200 financial service providers in terms of big data and risk management services. All of them pay us.

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

Quiya Chen: 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 at jianpu@tpg-ir.com. Thank you for your attention. And we hope you have a wonderful day.

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