Jianpu Technology Inc. [JT]
Q2 2019 Earnings Conference Call
Monday, August 26, 2019, 8:00 AM ET

Company Participants:
Liting Lu, Investor Relations Manager
David Ye, Co-Founder, Chairman and Chief Executive Officer
Oscar Chen, Chief Financial Officer

Analysts:
John Cai, Morgan Stanley
Wendy Chen, Goldman Sachs
George Cai, JPMorgan
Julie Hou, UBS

Presentation

Operator: Hello, and welcome to Jianpu Technology, Inc.'s second quarter 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 Relation. Please go ahead.

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

A general discussion of the risk factors that could affect Jianpu's business and financial results is included in certain filings of the Company with the Securities and Exchange Commission. The Company does not undertake any obligation to update 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 second quarter 2019 earnings press release issued earlier today via wire services and also posted in the Investor Relations section of our website.

As a reminder, this conference is being recorded. A live webcast and the replay of this conference call will be available on the Jianpu website at ir.jianpu.ai.

Joining us today on the call from Jianpu's senior management are Mr. David Ye, Co-Founder, Chairman and 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 second quarter. Mr. Chen will then provide details 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, Liting. Hello, everyone, and thank you for joining us on our call today as we continue to accomplish our mission to become everyone's financial partner. We feel positively about the long-term outlook of the digital transformation of China's retail financial services industry.

To balance this perspective over the short and medium term, China's retail financial services industry is currently being shaped by a mix of uncertain macro-economic environment, tightening regulatory policies, the rapid pace of digitalization in the society and an increasing demand for access to financial products and services by consumers and SMEs.

As the largest independent open platform for discovery and recommendation of financial products in China, Jianpu's mission is to become everyone's financial partner by empowering users to make smarter and better choices, and enabling financial institutions to make better digital marketing, big data and risk management, and integrated solutions. This is very important, as Jianpu's open platform model is well positioned to capture this macro trend and secular growth to serve both consumers, SMEs and financial service providers, who provide a full spectrum of financial products and services.

To give the market a sense of what is happening in China's retail financial services industry, we'd like to provide a macro view of what we are seeing, and why Jianpu's business is at the forefront of driving transformation to better serve Chinese consumers and SMEs.

China's economy grew at a lower pace amid the uncertain global macro environmental factors. From the supply side of the retail financial services sector, liquidity remains weak for consumers and SMEs. As financial institutions tightening their credit policies and risk management practices, access to financial products and services is getting harder for consumers and SMEs in some credit segments, demographic and geographic areas.

For the first half of this year, some of the top-20 credit cards issuers tightened their credit policy, slowed down acquiring new customers, or only extend credit to existing customers and organic customers. As peer-to-peer lenders follow regulatory guidance by switching from retail individual funding to wholesale institutional investment funding, top P2P lenders slowed down new acquisition and market expansion.

For the mortgage sector, tier-one cities such as Shenzhen, Shanghai, we have seen mortgage rates have declined recently. However, most of the tier-two cities such as Suzhou, Dalian, Hanghzou, Wuhan, Changsha, mortgage rates are increasing. We have seen personal mortgage applications are not growing as fast as before. It is more difficult for potential homeowners to get a mortgage approved by banks in some cities.

On the other hand, demand from consumers and SMEs remains strong in this uncertain economic environment.

Total number of credit cards and bank cards issued as of the end of Q1 reached 690 million, and the average number of credit card reached 0.49, and we expect this trend to continue in the future. We do see rising demand in SME financing, auto financing, wealth management and insurance sectors.

The government authorities are tightening grip in some financial regulations, but relaxing other sectors' regulations. Since the government announced and clarified P2P rules and guidance last quarter, the P2P industry consolidation has been intensified and will be expedited in the next 2 quarters. By the end of July, the number of P2P platforms has concentrated down to 970 platforms.

Top P2P lenders with diversified funding sources supported by wholesale institutional investors will be least impacted, and will recover their businesses rapidly.

On the other side of regulatory environment, the government is pushing for interest rate liberation, increasing liquidity to small and medium-sized enterprises.

We also have seen government increasing liquidity to SME consumers and also want to support the real economy, encouraging competition among financial institutions. Also, there are more loosening rules and regulations for foreign investors to set up lending, payment, insurance and other domestic financial service entities.

Notably, the recent launch of LPR, loan prime rate, by China's central bank will enable lenders set interest rates more freely. It is a very good move expected to bring borrowing costs lower at a time when the economy needs a boost.

Most recently, the central government promulgated new guidance to nurture a digital platform economy in China, highlighting the important role of a digital platform in stimulating economic growth. In this uncertain period, not all financial institutions share the same view in terms of risk, or have similar risk appetite.

To mitigate risk and uncertainty in the short term, and capture the industrial growth in the medium to long run, we're seeing increased investments and spending by banks, licensed financial service providers and fintech players, who are relying on artificial intelligence, data science, digital, cloud computing to enhance the growth and improve risk management capabilities of their retail banking businesses.

Last year, large commercial banks increased investments in technology to RMB112 billion, of which RMB42 billion was invested in fintech applications. Long-term prospects for the industry remains extremely promising, as JT is uniquely positioned, supported by technologies, data assets and FSP network to capturing on the growth of the digital financial services industry.

Moving to our quarterly performance summary, we saw strong credit card revenue growth of 25% year-over-year, outpacing peers, even though the credit card market was relatively slower the first half of this year compared to the second half of 2018. Credit card volume from both recommendation services and advertising reached approximately 1.9 million in Q2. This growth reaffirms our capabilities to capture the evolving dynamics of the market.

As we look into the drivers behind the growth in the credit card recommendation business, from the bank credit card issuers' standpoint, the number of bank partnerships increased to 28 in Q2 from 25 in Q1. We're now partnering with 16 out of 18 largest state-owned banks and joint-stock commercial banks nationwide in total. The average number of cards issued on Jianpu's platform per month reached over 600,000.

Currently, more than 40% of the credit card volume are generated through social media, MCN, or multi-channel network, marketing initiatives leveraging short-video content, Weixin, mini-programs and other strategic partners with technology-driven financial products, such as China UnionPay mobile QuickPass.

We have seen more and more users coming from second, tertiary, fourth-tier or less affluent cities and new urbanizing areas. The economy of those lower-tier or less affluent cities actually grow faster than the major metro cities. Consumptions are stronger. From credit risk prospective, less affluent cities have more affordable houses. Consumers' finance burden is lower; consumers' ability of servicing their debt is much better compared to those consumers living in major metro cities.

Financial institutions, such as credit card issuers, actually are capturing the secular trend by providing innovative digital banking products to less affluent cities and the younger generation Y and the generation Z.

Another big secular trend in China's retail financial services sector is the adoption of big data, artificial intelligence, cloud computing, and digital, and in the future, 5G, will transform how financial service providers communicating and marketing to their consumers, managing risks and servicing them. We have been investing in those areas in the last couple of years, and have seen strong growth into the second quarter, continuing to deliver triple-digit year-over-year growth. We expect the growth momentum will continue in the future.

SkyKey, or (Speaking Foreign Language), our branded big data and risk management service, is deployed on a software-as-a-service model tailored for demand across different type of financial service providers with a wide range of needs from credit decision, fraud detection risk modeling, and other risk management decisioning.

At present, there are more than 1,000 paying financial service providers within our SkyKey platform. FSPs can adopt SkyKey's full solution or choose one or several specific modules to meet their sales and marketing risk management and decisioning needs.

Given the strong demand for our services, we have enjoyed high growth; we have seen the ramping up of average spending per financial institutions. We have also seen high retention rate among financial institutions. But at the same time, we have actively developed a more diversified data ecosystem through the exploration of deep financial and non-financial data analytics, continuously optimizing our proprietary technology, and further improving upon our risk management products and better improving credit risk models.

As of current SkyKey, we have just achieved ISO27001 certification and CMMI3 certification, validating our commitment to implementing effective security to protect consumers and partner information and data. We are dedicated to helping customers mitigating risk while providing industry-leading products and services to better serve the evolving and challenging needs in this environment.

Before we go into the financials, we just want to continue our update following the (Speaking Foreign Language) event and the subsequent mobile application relaunch. As of the end of last week, our mobile apps are available on all app stores now. We took the time to conduct a comprehensive internal review, and continuously drive certain self-imposed improvement, in terms of the internal process regarding to FSP on-boarding procedures and ongoing monitoring and supervision. We have implemented as a necessary risk control to better protect users from participating in products that are out of the scope in terms of industry standard.

Being the leading player in this market, we have also been invited by the regulators to participate in developing industry standards and promoting industry best practices, including defining guidance for digital financial platforms, corporate responsibility and the product standard, as well as consumer rights protection.

However, the event did have a big impact last quarter due to that our mobile apps were unavailable for a long period of time; our loan recommendation business was handicapped with disappointing results. That may also impact the coming quarter, given the later-than-expected relaunching schedule, as well as time for us to recover before we can fully optimize our scale and efficiency.

For the second half of 2019, we will continue investing in our capabilities and infrastructure of technology, data science, AI capabilities and our people, to better serve banks and other financial service providers. We will focus on a balanced operational strategy, striking to achieve better operating efficiency or smart scale, including optimizing user acquisition strategy, deep cultivating relationship with banks and other financial services provider, as well as streamlining our organization.

As we shared in previous earnings calls, we are committed in exploring the new initiatives in terms of financial product category expansion and global opportunities. Leveraging our strong technological capabilities and strong relationship with financial service providers, we are exploring and testing market segments related to wealth management, financial contents and tools.

Recently, we acquired a Hong Kong-based loan and credit card recommendation platform. We plan to use the Hong Kong platform as a starting point to explore cross-border opportunities. We can share information about our cross-border plan in the next 1 to 2 quarters.

There is huge untapped potential in China's retail financial services industry, as artificial intelligence, data science, cloud computing, digital and 5-generation of further communication, transforming the financial service industries and potentially changing hundreds of millions of people's life in China and worldwide.

We strongly believe that Jianpu is well positioned and remains a leader and innovator in this industry, with strong technical capabilities, massive volumes of valuable data, and a unique open platform model connecting over 100 million consumers and 2,000 financial institutions. Our team maintains a positive view toward the end of the year and in the medium to long run.

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 results in the second quarter fairly reflect the challenges and uncertainties we are facing, as well as our efforts and performance. The performance varies among business lines. Impacted by the voluntary suspension of app downloads since mid-March, our loan recommendation suffered a significant year-over-year decrease in the second quarter.

However, our credit card recommendation and big data and risk management services were less impacted. We're pleased that the credit card business remains strong, as we keep up with the optimization of our product offering mix for current conditions. We are also confident that our big data and risk management services are in strong demand by the banks and other financial service providers.

As discussed in the last earnings conference call, and as a result of our voluntary suspension of the mobile app downloads for our internal review since mid-March, we expected a negative impact on our financial results. For the second quarter, we reported total revenues of approximately RMB362 million, a decrease of 26% year-over-year, and non-GAAP adjusted net loss of approximately RMB57 million, as compared to an adjusted net loss of RMB29 million in the year-ago period.

Total recommendation services revenues decreased by 32% year-over-year to RMB300 million in the second quarter due to a 65% year-over-year decrease in loan recommendation services revenues, offset by a 32% year-over-year increase in credit card recommendation revenues.

Combining the credit card business from both recommendation services and advertising, we recorded credit card volume of approximately 1.9 million in the second quarter of 2019, representing a year-over-year increase of approximately 19%.

The average fee per credit card increased to RMB107 from RMB99 in the second quarter of 2018. As a result, revenues for credit cards for recommendation and advertising services in the second quarter increased by 25% to RMB202 million from RMB162 million in the year-ago period.

Among the revenues generated from advertising and marketing services and other services, our big data and risk management services remained in strong demand amongst financial service providers, growing 139% year-over-year to RMB50 million, as this segment of customers seek us out for our big data and risk management services.

In the past tough quarter, given the weak sentiment of top line, which were negatively impacted by the voluntary suspension of app downloads and other industry dynamics, we conducted a couple of adjustments aiming to maintain our operational efficiencies, including organizational change, cutting off low-efficiency business and etc. However, such adjustments had certain lagging effect, the benefit of which may kick in in later quarters.

At the same time, we continued our commitment in exploring new initiatives, as David mentioned earlier, which resulted in some upfront investments in people and technology. As such, our efficiency level measured by various expenses line items as percentage of revenue were not performing well in the second quarter 2019.

We strive to maintaining a balanced strategy with profitability and margins in mind. Gross margin increased to 93% in the second quarter of 2019.

Sales and marketing expenses, excluding share-based compensation, as a percentage of revenues, was 87% in the second quarter of 2019, compared with 85% in the year-ago period.

Our R&D expenses, excluding share-based compensation, increased by 46% year-over-year to RMB68 million. R&D expenses, as a percentage of revenue, rose to 19%.

Our G&A expenses, excluding share-based compensation, increased to RMB20 million in the second quarter from RMB15 million in the same period of 2018. G&A expenses, as a percentage of revenue, rose to 6%.

As a result, our non-GAAP adjusted net loss, which excluded share-based compensation, was RMB57 million in the second quarter of 2019, and net loss was RMB85 million. At the same time, non-GAAP adjusted EBITDA was a loss of RMB51 million, compared to a loss of RMB36 million in the year-ago period.

As of June 30, 2019, we maintained a strong balance sheet and cash position, with cash and cash equivalents, restricted time deposits and short-term investments of approximately RMB1.2 billion, and working capital of approximately RMB1.2 billion.

A quick review of our share repurchase program. Starting from August 2018, our board approved a share repurchase program with a total authorization of US$30 million. As of August 25, 2019, the Company had repurchased approximately US$29.7 million of shares under this program.

And last for the guidance, the Company anticipates the external environment to remain uncertain and challenging in the third quarter. Although our app has been fully relaunched and available in all app stores, the impact from the voluntary suspension may also have some lagging effect into the coming quarter.

Based on the Company's current estimates, we expect our total revenues for the third quarter of 2019 to be approximately RMB300 million to RMB320 million.

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: Thank you. We will now begin the question-and-answer session. (Operator Instructions). For the benefit of all participants on the call today, if you wish to ask your question to management in Chinese, please immediately repeat your question in English.

The first question today comes from John Cai with Morgan Stanley. Please go ahead.

John Cai: Hi management. Thank you for taking my question. So I have three questions. The first one is on the guidance. I think that this revenue guidance seems to imply a quarter-on-quarter decline. So just wonder what sort of external environment uncertainty that will lead to that? Do we see weakening lending activities from financial institutions and lenders? It seems that we already relaunched the app; it should express increase on a sequential basis in terms of the revenue.

And my second question is about the second quarter sales and marketing. I think most of the second quarter, our app is not available. Just wonder why there's still over RMB300 million sales and marketing expense here. And the ROI obviously, deteriorated, I think, can management share more colors about the portion of organic users and customer acquisition costs and the conversion rates? And how do we see that in second half?

The final question is about cash. It seems we have some QoQ decline on the cash and also, David mentioned some investments. Just wonder, and based on the revenue, it seems the third quarter could also be a challenging quarter. So just wonder how we see the cash position going forward. Thank you very much.

Oscar Chen: Okay. Thank you, John. I'll answer your questions. First, I think regarding the guidance we provided for third quarter, it's still a bit I think disappointing, but we do see some uncertainties and challenges in terms of the external environment. As we mentioned in our last conference call, we expected that the second quarter, given that our applications, our mobile apps, were not online, so we would suffer a decrease in terms of the top line.

But we also mentioned that entering the third quarter, when we got our apps relaunched, we still need to spend quite some effort to optimize our acquisition strategy, our operating strategy, to achieve balance between the scale and efficiency.

So I think firstly, I can give an update about our app relaunch. So the app relaunch is almost 1 month behind our schedule. We got our apps relaunched in iOS in May in the mainstream medias like Tencent, Baidu and Toutiao in June, and the OEM app stores through July to August. So firstly, I think the relaunching is a bit behind our schedule, so that may have some impact on the third quarter performances.

And also, I think in terms of the optimization of our acquisition and operational strategy, we are seeing the external market challenges and uncertainties. So that translates into, even though we want to burn some cash to scale up our business, but it may not be justifiable, so we still want to keep a balance between the scale and efficiency.

And in addition, I think the challenges and uncertainties are more at the macroeconomic and regulatory environment. So with this observation, we will have to weigh on more efficiency than scale in the second half of this year. I think David already talked about some challenges we are seeing in the market, including tightening of credit policy from the financial service providers and the overall liquidity. I think the social liquidity level is slow than we, the growth is slower than we expected.

So I think this is what impact us in the short term, particularly in the third quarter. But we are more optimistic in the medium to long run, given our resilient business model and the robust technology infrastructure. Yes, I think.

David Ye: Hey, John, this is David. I'd like to answer your first and third question just to add a little bit of what Oscar has said. So cash position, we have about RMB1.2 billion, that's roughly the number. We had a lost quarter, right? We burned around RMB50 million, RMB60 million last quarter, right? That's why our strategy for Q3 is smart growth, smart scale, right? If you look at the three segments, the big data and risk management, we're going to have a strong growth. However, last segment only accounted for roughly 20% of the revenue line?

Oscar Chen: 15% to 20%.

David Ye: 15% to 20%, so we have high-double-digit growth. That doesn't add much. The credit card business, we believe, is going to have a good Q3. However, we do see some effect, a little bit of summer flow for one of the two big banks.

So the challenge, of course, last quarter was loan recommendation businesses. We did not achieve the operating efficiency we'd like to; we lost the money mostly in that segment. That's why in Q3, our strategy is really optimizing of our efficiencies. Just think if we have a car, we shut down for a couple of months; we restarted the engine, right? We need to achieve the optimal fuel efficiencies, right? We are not going to try to get the revenue scale and losing money.

So that's why the management, we made a decision; we want to further improve the operating efficiency in the loan recommendation businesses. We lost some revenue, but of course, we're going to reduce that kind of impact. So that's the add-on for question one and three. Did I answer your question three as well, right?

John Cai: Yes. Then I have questions about the ROI. Then on the second quarter, it seems the sales and marketing is still big, given that our app is not available for the majority of the quarter. So just wonder why is that, in terms of ROI, organic traffics and conversion rates, customer acquisition costs, etc.? And also, David mentioned about efficiency improvement. Just wonder how we see ROI in the second half? Thank you.

Oscar Chen: Thank you, John. I think to your question, although our apps were not available for download during the second quarter, but you see we still grow our credit card business relatively nicely in the second quarter. So for this business line, firstly, I think there were also some impact from the (Speaking Foreign Language). So in that sense, we got a quick relaunch and the recovery of the banks' relationships to get the credit card product back online.

In that sense, we may not be able to get the best price, although you are seeing a year-over-year unit price increase, but we don't think it's the best price we can get for now, particularly under the current environment. So for credit card business, I think the ROI is, to quickly recover this business, I think the ROI is a bit lower than we expected.

For the loan recommendation, of course, your guess is correct. We have repeat users; Although the app is not online, but we still have the users who have already had our app who can submit the loan application through our platform.

Firstly, the repeat user, because of the (Speaking Foreign Language), the app is not available, so I don't think the data itself can tell the story. We have the repeat users. We have relatively high ROIs from the loan recommendation. But again, to keep the scale as it is, we still need to spend some marketing dollars to do the user acquisition through the mobile web, or through the PC channels, to keep the user activities and also to keep the scale of our business. So regarding the percentage of free traffic, I think it's higher than any quarter before, but I don't think the number here is relevant to telling the stories of the future.

And also, for the conversion rate, we are seeing the conversion rate from the active users to the number of applications, that's a bit lower than the previous quarters, because app is not online after (Speaking Foreign Language), we also put on more stringent financial service provider on-boarding rules. This makes our loan product less than before. So in that sense, if you look into the conversion rate of our business, I think it's 2 to 3 percentage points lower than the previous quarter.

David Ye: Yes. So John, I want to just add one point. The sales and the marketing cost, including traffic acquisition costs, TAC, as well as the staff, human costs, related to the sales and marketing function, keep in mind, we do have the fixed costs from Q2 to Q1, relatively, right? If you look at our TAC, traffic acquisition costs, divided by sales and marketing, we do see some efficiency increase optimized as well as, of course, the efficiency slowdown due to the delisting of the app.

I just want to share with you one number. Our repeat, returning customer, we have seen the number slightly increase in certain segments. So that's why you don't want to look at the number on average in terms of the ROI. We do see that there's some decreasing factor, as well as some increasing factor.

Oscar Chen: And also to your third question about the cash balance decrease, I think a couple of ways we deployed cash in the last 2 quarters. Firstly, I think the usage included the share repurchase and also a couple of investments we conducted in the last 2 quarters. And of course, as David mentioned, the operational cash flow is outflow, given our loss made in the second quarter.

John, I hope these answered your three questions.

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

Operator: And next question today comes from Wendy Chen with Goldman Sachs. Please go ahead.

Wendy Chen: Hi Divid, Oscar and Liting. Thanks very much for taking my question. I actually got three questions here. First, on our third quarter guidance, wondering that how do we see the different contribution on the third quarter from loan and credit card? Because in the second quarter, we actually see credit card business still recorded some year-on-year growth, and of course, loan business got more impacted by the (Speaking Foreign Language) incident. So just wondering how is our view for the contribution in the third quarter?

Second question is about our loan recommendation price. We noticed that in the second quarter also, our loan application number got impacted a lot by the download suspension, but we still recorded quite valid growth for loan CPA. So just wondering for into the second half, with the macro headwinds we are seeing, and probably need to recover from the app suspension, whether we'll see this loan price increasing trend change in the second half?

And the third question probably more on management view for the timeline, like when do we see the full recovery of our business, especially in the loan application business post this app download suspension? Thanks.

Oscar Chen: Okay. Thank you, Wendy, for your questions. So let me answer the question. Firstly, I think about the loan application unit price, yes, we see a healthy rise of the loan application CPA.

The reason is mainly we are seeing, as we discussed in earlier this year, we are seeing the loan products available in the market has larger ticket size, longer duration, including the loan product offered by the banks, consumer finance companies, and also the P2P companies, loan assistance model, micro-lending companies. Across the board, we are seeing larger ticket size, longer duration. So this is why we are happy to see a price increase starting from the first quarter this year and will continue into the second quarter.

So in the second quarter, if you want a breakdown of the loan application volume, we are seeing over 50% of our loan application volume with a ticket size over RMB10,000, and over 30% of the loan application volume with a ticket size over RMB50,000, and the remaining, still the loan size below RMB10 million.

So through the breakdown of the loan size of the applications we hosted on our platform, you're seeing a natural shifting towards the larger ticket size and the longer duration. It is why the CPA, the unit price increased, but we do believe this price trend will continue into the second half of this year.

And then, back to your question regarding the contribution of the various business line, I think we are seeing challenging, uncertain external environments. So in that sense, we are more willing to provide relatively conservative guidance in this regard. For credit card business, we would estimate a volume on par compared to the second quarter this year. Probably, you may ask why is that? Because entering into the second quarter, we observed a so-called summer slowdown in the credit card business.

In terms of the delinquency rate of the credit card, I think from the public views, or the public report published by the central bank, it's not worse. The delinquency rate also becomes healthier, at least in the first quarter of this year, but different bank has different strategies. Among the 28 credit card issuing banks we are working with, we are seeing most of them are still growing their credit card business.

But we also see a number of the credit card issuers, they have more conservative strategy, and entering into the second half, they may pull back the scale of their credit card user acquisition. So this is why we would estimate the credit card volume would be on par sequentially compared to the second quarter.

For the big data and the risk management services, I think we will see continued growth, although it's still a small part of our business. But we would like to see a sequential growth enter into the third quarter.

The most uncertain part is the loan recommendation business. We just want to put a very conservative number here. We see the uncertainties, we need to deal with the uncertainties. So from a guidance perspective, we want to be as conservative as we can. That's pretty much the breakdown we estimated for the third quarter guidance.

David Ye: Hi, Wendy, this is David. So, as in my closing remarks, our team, we definitely will be maintaining a positive view towards the end of the year and in the medium to long run. We started the business almost seven and a half years ago. If we are using one or two words to characterize the growth of the industry or the Company, we as a platform, in some thing, we represent the growth of the whole, either we call fintech sector, or we call digital retail financial sector in China. One or two words I would want to characterize are spiral rise, spiral growth.

And we actually in the last 2 quarters, last couple of years, we have seen we are actually in intersection of two spiral rise or declines. Of course, one of the spiral are from the consumer-driven, right, the digitalization, and also the big secular trend of leveraging data and AI, digital transformation by more and more financial institutions to better serve the customer and manage digital marketing, risk management better. That's the positive words, I call it, like a spiral.

Of course, on the flip side of the coin are the downward spiral. We have seen the macro-economy with uncertain side will be, maybe uncertain for the next quarter; hopefully, not longer. And we have seen tightening regulation. In my overview, we have talked about some negative regulation side, right? Of course, there's some positive side. So to be honest, it's hard for us to give a very accurate projection, given the spiral rise or spiral declines, or sometimes both are there, but we are around the side of the spiral; we can't see it.

Oscar, myself and the team, we always give a very conservative guidance. We have maintained our policy and we maintained our appetite, so that's our appetite. We wanted to provide conservative guidance.

And if you look at our data in the last 5 or 6 years, which have meaningful quarterly seasonality data, I can share with you in 2017 and 2018, even 2015 or 2016, in some good years, in Q4, we can do around 35%, 38%. In one year, we did about 39% of the businesses. That's the seasonality. We are not saying this seasonality will show up, will appear, again this year. We hope so, but we'd rather provide conservative guidance.

And as you may know, the national holiday is coming in about 5 or 6 weeks, and we would definitely hope things will be better in Q4. But of course, we haven't factored in those potential upside trends yet, so that's tough. This is a very tough quarter to give any guidance, frankly speaking, we have been building this business in the last 7, 8 years, and I was in the business world for close to 2 decades. I have seen 2 economic crises in U.S., the internet bubble and the financial crisis in New York City. And this time, it's different, but Oscar and I and our team would rather be conservative.

Oscar Chen: Yes, I think, Wendy, regarding the seasonality, I would also provide a couple of data. Definitely, this third quarter, we provided lower guidance, but looking to the historical data, normally because of the seasonality, from third quarter to fourth quarter, there will be a sequential growth naturally into our business because of the more borrowers' activities and the financial providers' KPI-driven initiatives entering into the fourth quarter.

So in coming years, we can grow the business sequentially by around 30%. For the highest year, we also grow the business by 50%, 60% quarter-over-quarter. So I think we hope for the best, but so far, because of the uncertainties and challenges we are observing, we may not be able to give a very clear timeline in terms of so-called full recovery.

Wendy Chen: Thanks very much.

Oscar Chen: Thank you, Wendy.

David Ye: Thank you.

Operator: (Operator Instructions). Our next question today comes from George Cai with JPMorgan. Please go ahead.

George Yei: Hi Management. Thank you for taking my questions. I'm George from JPMorgan. I have two questions. My first one is on a split of our institutions. Could you share with us the loan application volume in terms of the financial institutions, namely banks, consumer finance companies or some of the P2Ps? And how does the trend compare to the last quarter?

And my second question will be on our profitability. I think the last 2 quarters, we do register some of the profits, but in this quarter, we turn into loss again. So how do we think about our profitabilities or earnings in the second half and in 2020? Thank you.

Oscar Chen: Okay. Thank you, George. So a quick answer to your question regarding the breakdown of the loan application volume, I think during the second quarter, because of the volume decreased a lot year-over-year and of course, quarter-over-quarter, I don't think this may be meaningful, or have a lot of implication to predict the future.

But anyway, the rough breakdown is that the loan recommendation revenue only accounts for less than 1/3, I think 30% of my total revenue. So among that, I think the majority, around 50% to 60% contributed by the licensed players. That's the banks and the consumer finance companies. And the remaining 40% contributed by the P2P and the loan assistance model (Speaking Foreign Language). But if you look through the loan assistance model, the funding behind that is also the licensed institutional funding. But again, I think it's just the number for the past 2 quarters.

And your second question is about the profitability. Okay, yes, thank you. We always keep the efficiency and the profitability in our mind. I think particularly under the current market environment; I think efficiency matters more to us. This is why we conducted some, to quote David's comment, that's smart growth or smart scale entering into the second half of this year. So this means we prioritize efficiency and profitability over the scale, considering the uncertainties and the challenges we are facing in the current market environment.

But if you look into our business model, particularly the profitable quarter in the fourth quarter last year and the first quarter this year, you may notice that, if we want to achieve profitability, both scale and efficiency matter. So Given the, I hope you can understand what I'm saying here. So now, we will focus on efficiency over the scale, but to achieve the full profitability, we also need the scale, so yes.

David Ye: Yes. Profitability is not a goal, it's a natural result. As we scale our platform, as we maintain the operating efficiency, profitability will come as a natural result. So that's simple; we maintain a high margin rate, right? Fixed costs are here. You have seen the profitability before and we can easily achieve that once we scale and grow again, and smart, of course.

George Yei: Okay, thank you.

Operator: The next question comes from Julie Hou with UBS. Please go ahead.

Julie Hou: Good morning, David and Oscar. Thank you for taking my question. I have one question. You mentioned you took some initiative in last quarter, such as organization change and quite a lot efficiency department. Could you elaborate more on this?

Oscar Chen: Yes, sure. The organizational change here means firstly, we formally deployed the deal structure into our business, which will, we can have a more clear goal for the team to achieve for different business lines, because behind the different business lines, the logic, the mindset, the skill set are quite different. I think the deal structure maybe will support our business down the road for the next 3 to 5 years.

And also, because of the new initiatives in terms of category expansion we discussed in earlier this year, we shuffled our internal resources a bit. For example, loan recommendation, given that the scale is not there, so we may have redundancy in terms of the manpower. But R&D guys are very valuable in this market. So given we also have some new projects, new initiatives, we re-allocated the R&D resources among the various business lines.

I think although we will keep the efficiency as much as we can, but we don't want to lose the future opportunities. We also want to invest in people and technology, but now, the better way is to organize and then re-shuffle internally to get more resources to the future growth. So this is how we mentioned the, why we call it organizational change.

And also, about the cutting off the low efficiency business, as you may notice that although our sales and advertising, marketing and other services, this revenue line grow a bit, but the major contribution was from the big data and the risk management service. And our advertising, pure advertising, business was slowed down year-over-year and quarter-over-quarter.

I think, as analysts, you also observed the overall online advertising, the weak sentiment of the online advertising market. So in that sense, we also controlled our pace into this business particularly in this market environment, the ROI is not that good. So we slowed down the pace and cut off the size of this business a bit. So I hope this answers your questions.

Julie Hou: Yes, thank you.

David Ye: Thank yo, Julie.

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

Liting Lu: Thank you once again for joining us today. If you have any further questions, please contact us at ir@rong360.com 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 is now concluded. Thank you for attending today's presentation. You may now disconnect.