Jianpu Technology Inc. [JT]
Q4 and Fiscal Year 2021 Earnings Conference Call
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Company Participants:
Colin Cheung, Head of Corporate Development and IR
David Ye, Co-Founder, Chairman and Chief Executive Officer
Oscar Chen, Chief Financial Officer

Analysts:
Brian Lee, Spica Capital
Alex Ye, UBS
Peter Lau, Bloomberg Intelligence

Presentation

Operator: Good day, and welcome to the Jianpu Technology, Inc. Second Six Month and Full Year 2021 Earnings Conference call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I'd now like to turn the conference over to Colin Cheung, Head of Corporate Development and IR. Please go ahead.

Colin Cheung: Thank you, Operator. Hello, everyone, and thank you for joining us today. Our Second Half and Fiscal Year 2021 earnings release were distributed earlier today, and is available on our IR website at ir.jianpu.ai, as well as on PRNewswire Services.

On the call today from Jianpu Technology, we have Mr. David Ye, Co-Founder, Chairman and Chief Executive Officer, and Mr. Oscar Chen, Chief Financial Officer. Mr. Ye will talk about our operations and company highlights, followed by Mr. Chen, who will discuss the financials and guidance. They will all 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 contains forward-looking statements as defined in Section 21E of the Securities Exchange Act of 1934 and the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on management's current expectations and current market and operating conditions, and relate to events that involve known or unknown risks, uncertainties and other factors, all of which are difficult to predict, and many of which are beyond the company's control. These risks may cause the company's actual results or performance to differ materially. Further information regarding these and other risks, uncertainties or factors is included in the company's filings with the U.S. SEC.

The company does not undertake any obligation to update any forward-looking statements as a result of new information, future events or otherwise, except as required under applicable law.

Finally, please note that unless otherwise stated, all figures mentioned during the conference call are in RMB.

It is now my pleasure to introduce our Co-Founder, Chairman and Chief Executive Officer, Mr. David Ye. David, please go ahead.

David Ye: Thank you, Colin. Hello, everyone, and thank you for joining us today. It has been a while since we have last spoken with some of you. And for those of you who are new to our story, I'd like to give a quick overview of our company. Jianpu Technology is a leading independent open platform for the discovery and recommendation of financial products in China. We connect consumers, SMEs, with the financial service providers in a convenient, efficient, and secure way, providing consumers, SMEs with customized search results and recommendations tailored to each user's particular financial needs and profile through our proprietary technology.

We also provide financial institutions with digital sales and marketing solutions to reach and serve their target customers more effectively and efficiently, and enhance their competitiveness by providing them with tailored data, risk management services and solutions. As an independent third-party platform, we differentiate ourselves as being an asset-light fintech company with a highly scalable business model that allows us to be nimble and low-risk fundamentals where we do not take on credit risk, liquidity or market risk. Our vision is to become everyone's financial partner.

I will now walk through some key business highlights and takeaways for 2021 before diving into further details on the business segments and the new strategic initiatives we have undertaken. I will then pass the call to Oscar to discuss our financials.

There are 4 key takeaways that we would like to highlight for 2021. First, and perhaps the most important, is that our business has resumed growth in 2021, with the revenue up 37.4% year-over-year. And we developed a more diversified and balanced business and revenue structure with non-recommendations revenue accounting for 28% of the mix.

Second, through leveraging our integrated marketing and enhancing operating and technical capabilities, we have improved our business efficiency. We also expanded our business into other non-financial categories.

Third, we continued to expand our efforts in empowering financial institutions' digital transformation. We now cooperate with 46, which accounted for 80% of online credit card-issuing banks in China, enabling issuing of over 23 million cards cumulatively. We also achieved significant wins in our Big Data and System-based Risk Management Services.

Finally, our cost optimization initiatives continue to provide effective driving margin improvement and better cost performance, leading to a narrowing of operating loss by 44%. These results were primarily driven by our experience navigating through turbulence, our readiness to make changes, and executed well in a dynamic environment, and the effective execution of our omni-channel strategies and solid technological capabilities.

As part of our vision to become everyone's financial partner, we are continuously innovating our technologies and exploring new growth drivers, as we push forth our mission to empowering users and enabling digital transformation of financial service providers to better serve them.

Now let me go through our operations in 2021 in greater detail. I will begin with our recommendation services built upon one of our core digital transformation capabilities, which is Digital Marketing. Throughout the years, we have successfully expanded our traffic acquisition channels to cover online, offline, and across mainstream media, social media and private traffic sources based on social demographic.

By leveraging our strong technical capability, we have equipped financial service providers on our platform with a suite of products and solutions, allowing them to digitally market their products through an omni-channel strategy. We have also been recognized by the media and other key traffic channel partners, bringing more opportunities for us to move forward.

As a result of our persistent efforts, our recommendation services business returned to growth with the revenue up 71.4% year-over-year and 25.7% sequentially versus the first half of 2021. Our credit card recommendation business retained its industry-leading position as we maintained strong relationships with 46 credit card issuers, representing over 80% of banks that issue credit cards online in China.

As part of our omni-channel strategy, our Social Media and Partner Program continued to deliver growth and improve efficiency, contributing 54.9% of recommendation service revenue. We have also successfully expanded the program into other product verticals, which we will talk about later.

I'll now move on to our Enterprise Products or To-B product and solutions, i.e. big data and system-based risk management services. Catering to financial institutions' increasing demand for digital transformation, we continued to invest in our enterprise business and developed more products and solutions to enhance the risk management capabilities of financial ecosystem participants, including financial service providers, regulators, and other ecosystem partners.

Our tech-driven solutions allow us to utilizing AI, big data, to optimize risk control models according to the changing market environment and consumer needs, which is one of the key driving forces of helping financial institutions and regulatory authorities to achieve their digital transformation initiatives.

Our products and solutions are highly recognized by financial institutions, regulators, and the industry. We received national certification in recognition of our work in data security. Our achievements in digital transformation in the financial sector landed us the Top 10 FinTech Innovation awarded by The Banker Magazine and Outstanding Partner by leading Chinese financial institutions, such as Ping An Bank, Credit Card Center and Everbright Bank.

We entered into strategic partnership agreements with a top government-backed credit bureau to cooperate on data, credit scoring and risk management initiatives. In addition, we supplied a new suite of financial regulatory technology software-as-a-service-based products to provincial governments and financial regulatory authorities, helping them to assess, monitor, and react to regulatory risks of financial institutions in their jurisdictions. We believe these products and services could potentially be a big area of growth for us in the future, especially as current regulatory policies are supportive of the digital transformation of financial institutions.

Now, I would like to discuss our new growth engines. To expand and diversify our revenue structure, the Company has applied its omni-channel digital marketing solutions, Social Media and Partnership Program in particular, and our recommendation capabilities towards adjacent categories and sectors with the large, data-rich user base and great financial needs. The result of such expansion seems to be very promising. Revenue from the new business segment has more than doubled compared to 2020, currently accounting for 12.3% of total revenue. We are now extending this customer acquisition model, together with our credit card business partners, to help financial institutions develop other financial products and services.

We are also adopting the Social Media and Partner program for the development into non-financial sectors. In 2021, the revenue contributed by the Social Media and Partner Program accounted for 46.6% of our total revenue, validating of our initial success of applying an omni-channel strategy across different financial and non-financial categories.

We have also seized development opportunities to apply our proven business models and knowledge to exciting overseas markets. We applied and successfully obtained financial marketplace, credit scoring and e-KYC licenses in Indonesia, the largest country in terms of population in Southeast Asia. Going forward, Jianpu will continue to drive inclusive finance services overseas to benefit more consumers and SMEs around the world.

Finally, we have further advanced our cost reduction and efficiency optimization initiatives, which include closely assessing existing business lines, consolidating and cutting overlapping resources. Our strategy has already seen some initial results from these initiatives, as the Non-GAAP net loss was further narrowed by 44% year-over-year.

Let me also give a bit of background of China's macroeconomic environment and the latest regulatory dynamic. The business environment we operate in, we saw a raft of policy changes, with the Chinese government implementing new rules and measures affecting the consumer finance industry, such as requesting all internet platforms to ensure data security and data protection for their users, new restrictions on direct transfer of borrower information to financial institutions by internet platforms, and the window guidelines issued to financial institutions for the lowering of interest rates on consumer finance products, the latter of which has prompted some financial institutions to adjusting their product portfolio and credit policy, which has moderated the growth in consumer finance products provided by the financial institutions.

In addition to rules affecting the consumer finance industry, the Chinese Government has also rolled out other broader-based policies, tightening rules and regulations across multiple sectors and industries, in particular, affecting internet companies. The tightening regulatory environment, in conjunction with the stricter Covid control measures and overall macro weaknesses, has dampened the general business sentiment.

To summarize, 2021 was a year where we made continuous progress. We are a firm believer in when there is a challenge, there are always opportunities. Despite the ongoing regulatory and economic headwinds, we have worked extremely hard throughout the year to navigate through these dynamics. Despite the ongoing pandemic and volatile macroeconomic environment, our businesses returned to growth, became more diversified and more efficient. And we have set a strong foundation for further growth in 2022.

As for the long term, we remain positive about the economic outlook in China. And the recent rhetoric from Vice-Premier Liu He contained strong messages supporting the development of China's economy, especially relating to us, Premier Liu mentioned that concrete actions must be taken to bolster the economy in the first quarter, including administering appropriate monetary policy and promoting new loans for consumers, and especially SMEs, to facilitate economic growth. Furthermore, authorities will promote the steady and healthy development of the platform economy and improve its international competitiveness.

Premier Liu also stressed the importance of introducing market-friendly policies, and any policy that has a significant impact on the capital market should be coordinated with the financial regulatory authorities to smoothen the market expectations. In addition, the Government has more recently issued guidelines supporting consumers and SME credit loans, Covid-related loans and promoting innovative financial services products.

We believe that the overarching theme of these policies is to provide a more sustainable economic growth and healthier development of financial and capital markets. We are beginning to see a more supportive environment for the development of consumer finance, where additional measures shall be introduced to drive private consumption through the potential loosening of the monetary policy and strong loan growth, giving a positive tailwind for the industry in 2022. There should also be a tremendous opportunity for financial institutions and tech companies like us to work together and accelerate the financial sector's digital transformation.

Naturally in the short-term, the resurgence of the Omicron variant in China recently has posed some challenges to our businesses due to the large-scale lockdown in cities where we operate in. We have seen partial and full lockdowns in cities such as Shenzhen, Changchun, and of course, more recently, in Shanghai where the lockdown is still ongoing. We expect a challenging first half in 2022, but this will not stop us from pressing forward.

We will actively explore new products innovation, applications and services. We will embrace regulation, continue to deepen our cooperation with licensed financial institutions, support the digital transformation of the financial services industry, and further enhance operating efficiency. We remain hopeful that once the latest wave of the pandemic subsides, our business will resume a moderate growth trend once more.

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

Oscar Chen: Thank you, David, and hello, everyone. Our performance in the second half and full year 2021 reflects our continuous efforts in business development and optimization, as we continue to capitalize on the ongoing digitization of the financial industry.

Despite the tightening macro environment and ongoing pandemic, our business made a turnaround with second half total revenue up 62.7% year-on-year to RMB461.5 million and fiscal year 2021 revenue up 37.4% to RMB805 million.

More importantly, along with the resumption of growth, we are pleased to see a more diversified and balanced revenue structure, 51% contribution from our credit card recommendation service, 21% from loan recommendation, 16% from big data and system-based risk management services, and 12% from our new business initiatives, which proves the scalability and the resilience of our business model, as well as our team's capability to navigate through and adapt to the dynamic environment.

Total recommendation service revenues increased by 71.4% year-on-year to RMB 320.3 million in the second half and 42.2% to RMB575.2 million for the full year 2021, on the back of the 38.4% and 52.6%, annual increase in credit card and the loan recommendation service revenues respectively, as we continued to refine our business model and strengthen our digital marketing efforts to acquire new customers.

Revenue from big data and system-based risk management services decreased by 10.4% to RMB67.3 million in the second half and 9.6% to RMB130.4 million for the full year 2021. Despite the unfavorable pressure from the ongoing pandemic and credit tightening in the past year, our continuous efforts in technology development, product innovation and data compliance have won certain industry-wide awards, and we believe such efforts will benefit us in the long run.

Revenue from advertising and marketing services and other services increased by 240.6% to RMB73.9 million in the second half and 167.2% to RMB99.4 million for the full year 2021, primarily due to the growth of insurance brokerage services and successful category expansion of the Social Media and Partner programs into non-financial service areas, as David outlined.

In light of business development, we newly added a line item, namely, cost of promotion and acquisition, which mainly consists of the expenditures relating to our marketing efforts and activities. Cost of promotion and acquisition increased by 72.5% year-on-year to RMB334.9 million in the second half, and 48.2% increase to RMB562.1 million for the full year 2021, which was in line with the growth of our revenues from recommendation services, advertising and marketing services, and other services.

Due to our continued cost optimization measures, the cost of operations decreased by 11.4 % year-on-year to RMB45.1 million in the second half of 2021 and 4.2% to RMB88 million for the full year 2021. Also, the cost optimization efforts led to a reduction of sales and marketing, R&D and G&A expenses measured as the percentage of total revenue to 45% in the second half of 2021 compared with 76% in the prior period, and a decrease reduces of 20 percentage points for the full year 2021.

In 2021, we divested the investment in a decentralized applications blockchain solutions provider and realized an investment gain of RMB51.2 million. As a result, our non-GAAP adjusted net loss continued to narrow sequentially, decreasing by 55% to RMB96.7 million from RMB215.1 million in the second half of 2020, and decreasing by 44% to RMB186.7 million for the full year 2021.

As of December 31, 2021, we maintained a strong balance sheet with cash, cash equivalents and short-term liquidity of RMB762.8 million.

With that, I will conclude our prepared remarks. We will now open the call to questions. Operator, please go ahead.

Questions and Answers

Operator: Thank you. We will now begin the question-and-answer session. (Operator Instructions). Brian Lee from Spica Capital.

Brian Lee: Congrats on all the progress made. First of all, you guys mentioned quite a bit on your digital marketing capabilities and how it seems to be a key competitive advantage. So I wanted to first of all, get some more color on what exactly are these competitive advantages in terms of your digital marketing capabilities? And how are you using these to drive value to the financial institution customers? And then related to these capabilities, you mentioned that you were leveraging these capabilities to expand into other categories or growth engines. So how exactly are you guys doing that, and what are your future strategies and kind of outlook on that segment?

And then secondly, my question is related to the cost optimization program. And so do you guys have any specific targets that you're trying to achieve, or how should we be looking at your cost base down the road? And then for these initiatives, how do you guys perceive the cost and resources being allocated between the existing businesses and the new growth engines initiatives? Thank you.

David Ye: Thank you, Brian. I will go ahead and answer the first question. So Oscar can answer the second question related to the cost optimization, okay?

Brian Lee: Yes.

David Ye: Your first question is about the digital marketing capability, the value provided to financial institutions and also expansion to other sectors. So two of your questions are connected. Let me start with what we have done in the last two years. I will start with the recommendation services. Basically, at Jianpu, we are well positioned as the leader in the area of financial institutions' digital marketing transformation. The recommendation services continue to be our most important revenue line, with their contribution of around 70% in 2021. And in terms of the digital marketing services, for our credit cards businesses, which has contributed for around 51% of our revenues.

We combined omni-channel digital marketing capabilities with our big data and system-based risk management solutions. In the past two years, we have made some efforts and initiatives in our recommendation engine in our products and our technical knowledge. And we have also strengthened our compliance. For example, in terms of the data security and user privacy, we have developed a strategic partnership with one of the leading government-backed credit bureaus. And we have also received industry-wide awards and recognitions.

So, all those initiatives, we are helping our financial service providers, including 46 of the largest online credit card issuers, other licensed financial institutions such as banks, non-bank finance companies, consumer finance companies and the fintech companies. So, they are better able to acquire customers in this turbulent market, and they are also able to manage their credit and manage their risk better in this challenging economic environment.

So as a result, we have seen our overall unit economics or efficiencies improving year-over-year. And also, for the omni-channel strategy, the Social Media and Partner Program we have developed, we have seen the growth. We have expanded that to other sectors, such as e-commerce.

So basically, we've extended our Social Media and Partner Program into new sectors, including other financial and non-financial categories. For this new sector, the growth in 4Q 2021 was 160% quarter-over-quarter; and we also see our total revenue driven by our Social Media and Partner Program now accounts for about 47% of our total revenue. So in the end, we believe the digital transformation of the financial institution is a big trend in the financial sector and other non-financial sectors.

So our investment in the past two years, we have seen a payoff which will put us in a much better competitive position, enabling our financial service providers and e-commerce and other providers, to better serve their customers in this challenging environment.

So did that answer your question, Brian, the first one? If yes, I will turn it over to Oscar.

Brian Lee: Yes.

David Ye: Okay. So Oscar, for the second part of the question.

Oscar Chen: Yes, sure, David. Brian, thank you for the questions. And for the second question about the cost optimization, firstly, I want to emphasize that the growing scale and efficiency gain played a more important role than cost optimization to our business. Leveraging our digital marketing capability, we definitely see an efficiency improvement of our recommendation service, advertising and marketing service and other services. The improvement is 4 percentage points for the full year and 11 percentage points in the second half.

At the same time, considering the uncertainties and the challenges around the ongoing pandemic and the regulatory change, we have continued to execute cost optimization initiatives in the past two years. That means we are closely monitoring and evaluating the resources allocated among the existing business lines and the new business initiatives, and consolidating overlapping resources to enhance operating efficiency and optimize the cost structure. That resulted in a reduction of operating expenses.

So the total operating expenses as a percentage of revenue in 2021 decreased by 20 percentage points compared with the same percentage of 2020. That includes our efforts in fixed cost reduction and headcount optimization and the resources allocation, a balance between the existing business lines and the new initiatives.

But I want to emphasize at the same time, we continue to explore and invest in new business to find new growth engine. A significant part of our loss is attributable to the upfront investment in the new business. So down the road, we will continue to closely monitor and evaluate our cost structure and resources allocation. Along with the growth recovery, we expect our operating efficiency will further improve. The cost optimization measure adopted in the past two years, and we expect that will continuously benefit our operations in 2022. Hopefully, that answers your question, Brian.

Brian Lee: Yes, thanks, David. Thanks, Oscar.

Operator: Alex Ye from UBS.

Alex Ye: I guess I have two questions here. Number one is on your credit card and loan recommendation business. So I guess the lockdown will surely cause some headwinds to your growth in the first half, but I'm wondering if you could share with us some more general trends that you have seen on customer demand over the past year. So that's before the lockdown. Because we have seen different moving factors on one hand, the macro data on consumption has remained quite weak. And on the other hand, there has been multiple rounds of industry tightening, so many small players may have affected the market; and then some bigger players, they may face some constraint on growth.

So have you also seen the softened demand from the loan products and credit cards? Or is it the other way around that you are seeing stronger demand from customers as people just find it hard to borrow elsewhere? So yes, that's the first one.

And secondly, on the regulation front, so given the ongoing regulation on the credit bureau, fintech platforms are not allowed to directly transfer the customer data to the bank. So I'm wondering how has that affected your business model? And what kind of changes do you need to make in order to stay compliant?

David Ye: Okay. Thank you, Alex. I understand you have two parts of question. I'm going to take a stab. And then I think Oscar then can follow up.The first question it's about the overall loan market, the impacts about the Covid situation and the lockdowns, right? Last year, we turned around and managed growth. I think it's a dynamic market with a strong demand. Consumers need money, so they are going to borrow. The SMEs need liquidity, so they are also going to borrow. So there is a strong demand with no question about it, right?

On the other hand, we have found that when look at the retail side of the banking business, the consumer finance companies, credit card issuers, and some of the fintech companies, there's actually sufficient liquidity or credit available for those financial institutions. But we do see some shifts because of the lockdown and the Covid. Financial institutions are shifting their available credit from the offline branch and other traditional direct sale channels towards online.

That's why I would say the supply of loans and credit cards offered through the internet or mobile platforms, eg. WeChat and mini programs, are plenty. So that's getting interesting. The demand is strong, while the supply of online financial services is not weak, right? Then what's the problem?

But we do see there's a information asymmetry or inefficiency between the demand side and the supply side. As we know, the financial institutions are adjusting and tightening their credit policies. They have more stringent fraud detection or risk management criteria. They are also shifting their marketing channel. So that's why our omni-channel strategy combined with our strong recommendation capabilities and our experience and expertise, cultivating risk management and also even like Regtech and also collection technology, our whole suites of solutions enable the financial institutions to accomplish growth, increase marketing efficiency and also enhance risk management capability.

I just want to give you one example. Our largest customer in the credit card digital marketing and also recommendation business we had; we saw exponential growth of the revenue from these credit card bank. They've increased from below top 5 to top 1 in just 12 months. And for the qualified recommendation or the new cards issued by this credit card bank, we are the largest online recommendation service provider for this company. So that's the reality.

This quarter, we definitely will see more impact of lockdowns, especially full lockdown like Shanghai. And so the management has been very cautious in terms of our growth strategy. We are optimizing our marketing spend. We're also closely monitoring our costs in all aspects. And we are also working even closer with financial institutions in terms of their dynamic changed acquisition and marketing policies, their credit risk management policies and strategies to further optimize our omni-channel digital marketing capabilities with our recommendation capabilities. So that's the first part of the question.

Let me go ahead to answer the second part. The second part you asked is regulation and also specifically, you mentioned about whether the direct transfer of data or the credit bureau would have impact to the industry or to us in general.

Last year, we entered a strategic partnership with a leading credit bureau which is a government-backed credit bureau in China, in terms of risk management and data initiatives. So basically, this credit bureau would work directly with financial institutions in terms of credit scoring, data and other initiatives. And we are a strategic partner providing risk, analytical and digital marketing services with the government-backed credit bureau. We are also working with other bureaus together.

I think for this type of strategic partnership, our goals or our vision are the same, to become financial institution’s partner. So that's why our vision and mission are truly aligned. We definitely have seen that this part of the business has been stable. And we also love the fully transparent or clearer regulatory environment or guidance that make financial institutions, partners like us, the government-backed credit bureau to grow the business forward. So that's my two cents for you, Alex.

Oscar, do you have anything to add in terms of regulation or in terms of the Covid impact?

Oscar Chen: I think that you’ve well covered. Yes, I don't have any further comments.

David Ye: Okay. Okay. Alex, turn over to you.

Alex Ye: Okay. Thanks very much for the color. Thanks.

Operator: (Operator Instructions). Peter Lau from Bloomberg Intelligence.

Peter Lau: Congrats, team, for your stellar results. Just a quick question on the gross margins. Very glad to see there's a slight improvement in the gross margins of different business lines. Do you mind sharing what's the big driver behind the margin improvement? For example, is it coming from loans or credit card recommendation? I’d love to hear more on that front.

And second question is obviously, we have the [Foreign language] regulatory curb (transfer of personal data needs to go through credit bureaus) coming in obviously. I think Jianpu has done pretty well encountering this regulatory headwind. Just wanted to know if there is any impact on the fee rates front? For example, would this regulation change be pricing dynamics? And would that pose any benefits or headwind to Jianpu's fee rates, say, the loans commissions? I want to hear more on that. Yes, that's two questions. Thank you.

David Ye: Okay. Thank you, Peter. So Oscar, go ahead, with the margin and some financials, and I will add if needed.

Oscar Chen: Okay, yes. I'll take the first part to discuss about the margins. The second part, I think it's still about the regulatory. So I will answer the first part. Yes, so thank you, Peter for your questions.

I think the overall the margin improvement, as I said, also in the last questions, is a growing scale. You can see our top line have close to 40% year-over-year growth for the full year and stronger growth for the second half of 2021. So if your business have larger scale, you still can have better bargaining power to discuss the price, to negotiate the price and the terms with the financial institutions. So we are seeing the price increasing trend for our credit card business.

But for the loan recommendation business, we are seeing a declining pricing trend. And that's mainly because the credit tightening limited the loan products available on our platform. And at the same time, when the scale grows, we achieve the efficiency gain from our core marketing capabilities, mainly from the omni-channel marketing strategy, the Social Media and Partner program. That part accounts for almost more than 50% of our traffic source for the recommendation services. And also leveraging that, we enter into the new business, that's the advertising and the marketing services and other services. So with that, we are seeing an improvement.

If you divide the revenue by the cost of promotion and acquisition, we can see a higher margin -- or we can see an efficiency gain. That is 4 percentage points increase for the full year and 11 percentage points in the second half. So I hope that answers your questions about margin improvement.

Peter Lau: Yes, it does. Thanks a lot.

David Ye: Okay. Yes, Peter, I am going to answer about your second part on the regulation about the fee rates. If you see the regulatory dynamics overall, we had some headwinds. We also had strong tailwinds. And I mentioned earlier that there are restrictions in terms of direct transfer of borrower data and also, we have Covid-related lockdown, right?

About the tailwinds I mentioned earlier, the digital transformation of the overall financial sectors, financial institutions actually are shifting more of their acquisition on marketing or risk management capability for online channel. And also, we have seen banks, large and even medium-sized, like shareholder-owned banks, or even some of the regional banks, the rural commercial banks, they have been truly beefing up their online decision capabilities.

The way we price our product is based on quality in terms of marketing quality and risk quality. So technically, we price our loan recommendation or even credit card approvals based on a strong proxy, strongly correlated with approval rate and charge-off rate or the risk rate. So the banks are willing to pay more if they see a higher approval rate from us, a lower application fraud rate and the lower delinquency rates.

That's how we, as an AI-driven, data-driven, analytical-driven recommendation platform, optimize the omni-channel acquisition stage, digital marketing capability with the recommendation engine, which we optimize both approval rates with risk management rate.

And of course, regional lockdowns caused trouble for some national bank. They may have to temporary suspend some of the user application in Shanghai area, for example, right? And we were truly able to dynamically adjust our national-based recommendation into a regional-based optimization engine to shift our volumes based on different region or different banks' product, and also the dynamic credit policy and the marketing policy under their budget. That's how we are able to actually achieve the better prices.

We have seen in better pricing, I just use credit card recommendation fee as an example. If you look quarter-over-quarter, or in some cases, if you look at specific credit card issuer quarter-over-quarter, we were able to see our recommendation, like credit card recommendation fee per approval, in a medium to long-term increased trend. To summarize, the regulatory dynamic really has less or little impact in terms of our pricing or our fee as unit economics. It's more driven by our capability, our dynamic insight adopting the market change, and also our strong partnership with financial institutions and our customer insights for our consumers and SME customers.

Peter Lau: That's very comprehensive. Thanks, management.

Operator: There are no more questions in the queue. This concludes our question-and-answer session. I'd like to turn the conference back over to Colin Cheung for any closing remarks.

Colin Cheung: That's right. Thank you, everyone, for joining the call today. Thank you, David, Oscar, for presenting our remarks. So there are no further questions. With that, I will conclude the call. Thank you for your support. We appreciate your interest, and look forward to speaking to you again in the near future. Thank you and good night.

Oscar Chen: Thank you, everyone.

David Ye: Thank you, everyone. Bye-bye.

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