

Jianpu Technology Inc. [JT]
Q1 2022 Earnings Conference Call
Friday, June 17, 2022, 8:00 AM ET

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:

Kevin Lee, Spica Capital

Presentation

Operator: Good day, and welcome to the Jianpu Technology First Quarter 2022 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note today's event is being recorded.

I'd now like to turn the conference over to Colin Cheung. Please go ahead, sir.

Colin Cheung: Thank you, Operator. Hello, everyone, and thank you for joining us today. Our first quarter 2022 earnings release was distributed earlier today, and is available on our IR website at ir.jianpu.ai, as well as on PR Newswire 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 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 all for joining us today. During the first quarter, despite the challenging macro environment and the resurgence of Covid in some areas of China, we delivered another strong quarter of growth with total revenue up 43% year-over-year. The results were primarily driven by our persistence in pushing forth on our vision to become everyone's financial partner, and empowering users and enabling the digital transformation of financial service providers through technology and product innovation.

I will start by going through the key highlights for the first quarter, then share some observations around the current macro and Covid environment and the potential impact on our business, before turning it over to Oscar to go through the financial performance.

First, we ended the quarter with a more diversified and balanced revenue structure, thanks to the growing revenue contribution from our new initiatives. In the first quarter, our revenue continued its growth momentum with a more diversified structure. We have 22% revenue from our loan recommendation services, 47% revenue from credit card recommendation services, 10% from data-driven and system-based risk management services, and 21% from advertising, marketing services and other services, versus 19%, 54%, 18% and 9% in the corresponding quarter of 2021 and 21%, 51%, 16% and 12% in full-year 2021.

Among the revenue streams, our recommendation business continued to gain market share, with revenues increasing 36% year-over-year. During the first quarter, we sustained our industry-leading position in the credit card recommendations business. We maintained solid relationships with a majority of online credit card issuing banks in China. We continued to be the top online acquisition channel to many of these key banks.

As for our new businesses, we have accelerated the deployment of our omni-channel marketing solutions to adjacent categories with a large, data-rich user base and great financial needs, resulting in significant revenue growth. The revenue from advertising, marketing services was up 2.5x year-over-year. The growth momentum is further proof of our success by extending our social media and partner program into non-financial services categories.

Second, alongside the recovery of the business, economies of scale kicked in with a clear trend of improvement in efficiency. Anticipating the uncertainties and challenges arising from the macro environment and regulatory changes, we have strived to achieve a balance between growth and efficiency. Our social media and partner program has played an increasingly important role in delivering both growth and efficiency. The ROI (revenue divided by the corresponding cost of acquisition and promotion) of the recommendation business improved 2 percentage points year-over-year and 10 percentage points sequentially. We have also seen a promising trend of the new businesses, delivering over 10 percentage points ROI improvement quarter-over-quarter, while their scale continued to grow at 103% on the same basis.

Third, we have further enhanced our capabilities to enable the digital transformation of the financial industry and other industries. We have seen an increasing demand from financial institutions to acquire, identify and engage their users across different channels to provide better service and improve users' lifetime value. Our omni-channel marketing solution is well-positioned to capture this increasing demand.

As an independent third-party platform, we have already aggregated user acquisition sources from online and mobile media, as well as our proprietary social media and partner program. We recently started to explore different user acquisition channels through various consumption scenarios, such as travel, e-commerce, lifestyle, etc. We believe that such channel expansion and integration will allow us to diversify our user base and further strengthen our omni-channel solutions to enhance the acquisition capability of financial institutions.

In addition, the banks have also been increasingly focused on improving user retention and customer loyalty post the acquisition. This brings plenty of business opportunities for us as we explore ways to enhance their operations through our cutting-edge technologies and product operational experiences. We have deepened our collaborative relations with existing banks in our partnership network, launching initiatives such as digital promotion activities to improve customer engagement and cross-sell different financial products and services, using our suite of digital transformation solutions to help financial institutions improve efficiency and reduce costs.

A breakthrough that we had recently done was the establishment of a strategic cooperation with a large telecom to jointly develop a suite of tech solutions and services to target the digital transformation of financial institutions, local government authorities, and other enterprises. Phase I of the cooperation will provide supply chain management systems and related financial services to small and medium-sized enterprises. We have also been building our pipeline of such strategic cooperations, including with internet platforms and cloud service companies.

Finally, we remained disciplined in executing our cost optimization measures and initiatives, resulting in further optimization of our cost structure and the productivity optimization of our businesses. Our operating losses decreased by 19% year-over-year, and the non-GAAP adjusted net loss margin further improved by 10 percentage points compared with the same period in 2021. Over the coming quarters, we will maintain this disciplined approach to continuously optimize and will be more nimble and agile in our operations.

I will now take a few minutes to talk about the latest Covid situation in China and the latest macro environment and regulatory dynamics, as these issues appear to be at the top of many investors' minds. With regards to the Covid situation, the resurgence of Covid, which resulted in the multi-city lockdowns that started in March, has impacted consumer confidence and led to a slowdown in the economy.

I think there are several moving pieces. On one hand, under the current Covid-zero policy, it is expected there will be a continuation of rolling lockdown across the country. Furthermore, despite the subsequent easing of lockdowns in places such as Shanghai and Beijing, our previous experience would tell us that this usually takes some time before business ramps up to its prior levels.

But on the other hand, as many financial institutions have already begun the move towards digital transformation and using digital operations in the face of Covid, the absolute impact might be smaller, given some financial institutions can continue their customer acquisition operations through online channels. Hence, I think the overall effect of Covid is relatively short-term and manageable.

In terms of our own business, given the face-to-face nature of some of our businesses, we have also sustained some impact due to Covid. Nevertheless, we continue to maintain relationships with our financial institution partners and regulatory authorities. Given the ongoing trend for digital transformation, we believe once the lockdown eases, we can continue to cultivate our pipeline for further projects and initiatives.

On the macro environment and regulatory front, we continue to be encouraged by recent public comments from regulators and remain optimistic about the future development of the digital economy and the opportunities it brings to us. As many of you know, since the beginning of the year, the Chinese government has issued statements and policy guidance in support of the digital economy and platform economy from the very top level.

We have also seen policy guidance coming from the China Banking and Insurance Regulatory Commission to support the digital transformation of the banking and insurance industry, with its latest notice focusing on the importance of tech empowerment for banks to carry out process innovation and business improvement in terms of the capability to respond to customers' needs, especially during times where many businesses are affected by the pandemic.

In addition, there is a rising focus on supporting 300-plus million potential new urban residents. These new residents typically have a higher need, an urgent need, for financial products and services, but they don't have the prerequisite documents and credentials to obtain and apply for financial products, or with services from financial institutions. This creates an additional driver for digital transformation, as financial institutions seek customized and model digital solutions and new risk-profiling capability and tools to help these new urban residents to meet their massive financial needs.

And lastly, we are beginning to see signs of liquidity being injected into the financial system, with banks receiving guidance from the government to increase their loan balance and portfolio. We believe the government's measures and initiatives will support economy growth, and will bring an increasing digital transformation trend for financial service providers. We will continue our efforts to empower financial institutions' digital transformation and support the development of China's digital economy.

Despite the ongoing uncertainties around the ongoing Covid-related lockdowns, we remain very confident in the long-term prospect of the sector and overall industry. We believe the groundwork we have laid, and our investments in digital transformation solutions and tools will ultimately deliver greater value to the company and our shareholders, and other stakeholders.

Lastly, I'd like to take this opportunity to announce a change to our leadership team. Mr. Jiayan Lu will no longer take his current role as Chief Operating Officer of the company from July 1, 2022. He will continue to serve as director, and we will also retain Jiayan as an advisor until

early next year. On behalf of the Board and the management team, I'd like to express our gratitude to Jiayan for his dedication and contribution to the company in the past decade. We believe that we will continue to benefit from Jiayan's expertise and experience as a director and advisor of the company.

I will 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. As David mentioned earlier, we delivered a strong financial result with a more balanced revenue structure and margin improvement in the first quarter of 2022. Our first-quarter results reflect our persistent efforts in business development and disciplined cost control.

Our total revenues for the first quarter of 2022 increased by 42.6% to RMB207.6 million from RMB145.6 million in the same period of 2021.

Our recommendation business continued to grow and sustained our market position, with total recommendation service revenues increasing by 35.6% to RMB144.1 million from RMB106.3 million in the same period of 2021, on the back of the 24.8% and 65.8% year-over-year increase in credit card and loan recommendation service revenues respectively.

The average fee per credit card has a slight increase to RMB110 in the first quarter of 2022. The average fee per domestic loan application increased by around 4% to RMB11.6 in the first quarter of 2022. The increase in revenue is primarily due to the increase in the number of loan applications and credit card volume driven by our continued success of omni-channel marketing strategy that attracted a more diversified user base to our platform.

Revenues from big data and system-based risk management services decreased by 24.9% to RMB20.2 million in the first quarter of 2022 from RMB26.9 million in the same period of 2021. Despite the impact of Covid, we have established and maintained a solid relationship with financial institutions, state-backed credit bureaus and other ecosystem partners, and are working on several long-term partnerships with telecom operators, internet platforms and other enterprises.

Revenues from advertising and marketing services and other services increased by 248.4% to RMB43.2 million in the first quarter of 2022 from RMB12.4 million in the same period of 2021, primarily due to the significant growth of insurance brokerage services and initiatives of other new businesses. As David outlined previously, the growth momentum illustrates our success in extending our social media and partner program into non-financial services categories.

Let me now move on to the cost and expenses. Cost of promotion and acquisition mainly consists of the expenditure relating to our marketing efforts and activities, which increased by 63.2% to RMB149.5 million in the first quarter of 2022 from RMB91.6 million in the same period of 2021. The increase was in line with our revenue growth from recommendation services, advertising and marketing services and other services.

In the first quarter of 2022, we have seen continuous trend of efficiency improvement. ROI of recommendation services, advertising and marketing services and other services, have shown

encouraging improvements, with an increase of 7 percentage points, compared with the second half of 2021, reflecting our efforts in improving operational efficiency.

At the same time, the ROI improvement also benefited from our growing scale. On a year-over-year basis, the ROI was 5 percentage points lower, which was mainly attributable to the change in revenue mix. The fast-growing new businesses took a larger pie in our revenue structure, while its ROI was relatively low given the early stage. In the future, we will continue to strive for a balance between growth and efficiency.

Cost of operation slightly increased by 8.8% to RMB18.5 million in the first quarter of 2022 from RMB17 million in the same period of 2021. We continued executing our cost optimization initiatives, which led to a reduction in sales and marketing and R&D expenses. In dollar amount, these expenses decreased by 8.6% and 19.2% respectively in the first quarter of 2022 compared with the same period of 2021.

Our general and administrative expenses increased slightly in the first quarter of 2022. Measured as the percentage of total revenue, sales and marketing, R&D and G&A expenses in total were 45.4% in the first quarter of 2022, compared with 71.5% in the same period of 2021, a decrease of 26 percentage points.

With our continued efforts in optimizing our cost structure and improving the productivity of our businesses, loss from operations was RMB54.6 million in the first quarter of 2022, compared with RMB67.1 million in the same period of 2021. Operating loss margin was 26.3% in the first quarter of 2022, compared with 46.1% in the same period of 2021.

Our net loss and non-GAAP adjusted net loss were respectively RMB 53 million and RMB 50.7 million in the first quarter of 2022, compared with RMB 51.3 million and RMB 49.4 million in the same period of 2021. The slight increase of net loss versus improvement in operating loss was mainly attributable to a realized investment gain in the first quarter of 2021, which was a one-off item. Given the growing scale and improving efficiency, our net loss margin and non-GAAP adjusted net loss margin improved by 9.7 and 9.5 percentage points respectively compared with the same period of 2021.

As of March 31, 2022, we maintained a balance sheet with cash, cash equivalents and short-term liquidity of RMB 685.8 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. (Operator Instructions). Today's first question comes from Kevin Lee at Spica Capital.

Kevin Lee: Congrats on the great results. Two questions, if I may. First question, the revenue from advertising and marketing service grew strongly this quarter. I'm guessing most of this is coming from the new business initiatives. Is it possible to give a more detailed breakdown of where the growth is coming from, and share with us some more color regarding those new business initiatives and your business strategy for these over the coming years? I'm sort of just trying to get a sense of how big this market is and how it's going to grow going forward.

And then on the second question, as regarding cost, you previously mentioned that you're doing some upfront investment relating to these new businesses. Are these investments still being made? And when do you expect to start to see a more meaningful contribution to the bottom line from these businesses?

And in addition, can you give me a bit more color in terms of your cost optimization program? What are the targets you're trying to achieve and what will you be focusing on for the cost optimization?

David Ye: Thank you. This is Kevin, right?

Kevin Lee: Yes.

David Ye: This is David. I will answer the first part of your question about the new initiatives. And in terms of the second part related to cost, I will see if Oscar will answer that.

Yes, I think it's a good question. We do see substantial growth in the first quarter and some of the growth is from our new initiatives. As we know, in the past decade, especially in the last few years, we have invested strategically. We invested heavily in research and development, technology, and product development. In early years, we were focusing on building our capabilities including digital marketing, data and AI-driven credit and risk management solutions, and other tech solutions for credit card companies, banks, insurance companies, and other fintech-related companies. So we have achieved growth year-over-year.

About 2 years ago, we started implementing similar digital and technical capabilities into other adjacent sectors and categories. So you can see growth from, for example, e-commerce sector. As we know, e-commerce in China has accomplished huge growth in the last almost 2 decades. And I have a few key numbers I can share with our investors. So e-commerce sales in China reached around RMB13.8 trillion in 2021 and will grow to around RMB21 trillion by 2025.

And there's something in common between e-commerce and financial services. Of course, it's the large user needs, right? Almost everyone wants to buy stuff and spend money. And it's also analytical and data-driven. We definitely see the common needs in terms of user acquisition, user retention, engagement, and risk management. And we have seen some innovations related to purchasing and payments, as well as credit. So that's why, around 2 years ago, we launched our social media and partnership program in the e-commerce sector. And this brings us diversified revenue streams on top of credit card recommendations, loan recommendations, insurance-related recommendations, big data and and system-based risk management services, as well as advertising and marketing and digital-related revenues from e-commerce. So that's the growth we have seen in the last few quarters, especially for the first quarter of 2022.

We believe the digital transformation trends for the financial service sector, as well as other sectors and industries, will continue in the coming years. We believe our investment in the last few quarters will put us in a much better position in terms of the growth of revenue stream, more diversified revenue structure, more efficiency, and improved unit economics, and also help us achieve better economic scale going forward. Thank you.

Kevin Lee: Thanks. That's very comprehensive.

Oscar Chen: Hi, Kevin, this is Oscar.

David Ye: Oscar, do you want to go ahead with the other part on the initiative?

Oscar Chen: Okay. Yes, thank you, David, and thanks, Kevin, for your question. This is Oscar. I think your second question relates to costs initiatives and management. I think the first one is about some cost measures, about our new business. I think in the current market environment, our strategy to manage our business is to balance between growth and efficiency. For the more mature business, such as recommendation services and the big data and system-based risk management services, we prioritize efficiency over growth.

For the new businesses, as you ask, we may consider sacrificing the profitability to a certain extent to achieve high growth. As such, we closely monitor the growth rate and the unit economics or contribution margin for our new businesses. In the first quarter, we were pleased to see the ROI of our new business keeps increasing, and the unit economics turned positive.

At the same time, the fixed costs, mainly the R&D spending of new businesses, both in dollar amounts and as a proportion of total R&D spending, have decreased significantly. This is a result of previous upfront investments beginning to bear fruit as the new business develops.

Anticipating the uncertainties and the challenges in the near term, I think we will focus more on the profitability, and be more disciplined on cost control in the next few quarters, and stay nimble and adaptive based on our close monitoring of the business developments.

So I think for the cost optimization measures we have taken, we have taken our cost optimization initiatives almost in the last two years, mainly considering uncertainties and challenges around the ongoing pandemic and the regulatory change. So we're also closely monitoring and evaluating the resources allocated among existing business and new initiatives, and consolidating overlapping resources to enhance operating efficiency and optimize our cost structure, which led to the reduction in operating expenses.

Just to give you a few numbers, the total operating expenses, as percentage of revenue in the first quarter, decreased by 26 percentage points compared with the prior periods in 2021. Also, we have a fixed cost reduction that put down server and bandwidth costs with an average decrease of 27% year-over-year. For rental costs, we stayed around 80% decrease year-over-year. We also implemented optimization and resource relocation to new businesses, and the overall business experienced around 11% cost savings.

I think anticipating the challenges and uncertainties, we will further execute our cost control and optimization measures in the coming quarters. We expect such measures will bring us efficiency improvement and further reduction of fixed costs. I hope this answers your question, Kevin.

Kevin Lee: Yes, thank you.

Operator: (Operator Instructions). Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to the management team for any final remarks.

Colin Cheung: Thank you, operator, and thank you all for participating in today's call. If there are no further questions, then thank you for your support. We appreciate your interest and look forward to speaking with you again in the near future. Have a good rest of the day. Thank you very much.

Operator: Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.