Jianpu Technology Inc. [JT]
Q2 2022 Earnings Conference Call
August 23, 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:
Calvin Wong, Spica Capital

Presentation

Operator: Good day, and welcome to the Jianpu Technology Inc. Second Quarter 2022 earnings conference call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions). Please note this event is being recorded.

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

Colin Cheung: Thank you, operator. Hello, everyone, and thank you for joining us today. Our second quarter and first half year 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 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. During the second quarter, the rolling lockdowns across China caused by the resurgence of Covid-19 resulted in a more challenging macro environment. Nonetheless, we continued to deliver another quarter of strong results with total revenue up 34% and the bottom line improvement by 9 percentage points. The solid results primarily resulted from four areas; 1) diversification of our revenue base; 2) strong omnichannel marketing capabilities; 3) continued operating efficiency improvements; and 4) disciplined cost-cutting and optimization. The results also demonstrated our persistence in pushing forth on our vision of “Becoming everyone’s financial partner”.

Let me start today by going through the key highlights for the second quarter, then share some of our views on the current macro environment and the regulatory dynamics in China, and how they could potentially impact our businesses, before turning over to Oscar to go through the financial performance.

First, our diversification strategy has enhanced our business resilience and supports the strong revenue growth under the currently challenging macro environment. Nowadays, we generate our revenue via our platform by offering recommendation services of credit cards, loans and insurance products, as well as other products and services. We are cooperating with 1,500+ financial service providers and other customers.

Throughout the ecosystem of consumer and small business credit product offering, we provide our marketing and user acquisition capabilities, data analysis and risk management solutions and other technologies and services, enabling financial institutions’ digital transformation.

Geographic-wise, we serve our users across the country with very low concentration risk. In the second quarter of 2022, we further penetrated into the second and third-tier cities with around 65% of the loan recommendation revenue contribution from such markets versus 55% in the first quarter. As you may know, second and third-tier cities, the impact from Covid are actually less, as compared to Shanghai and other larger cities.

In the second quarter, the resurgence of Covid has prompted multiple lockdowns across China. As some of our business operations still rely on face-to-face communications and onsite implementation with customers, these quarantine measures have brought about certain challenges. However, thanks to our diversification strategy, our recommendation business continued to achieve significant growth, with revenues increasing 38% year-over-year and 42% quarter-over-quarter.

In particular, we kept our market-leading position in the credit card recommendation business, and the revenue from our credit card recommendation business maintained robust growth of 36% year-over-year. Our loan recommendation business also benefited from a more diversified customer base with the revenue growth at 42% year-over-year.

Second, we continue to enhance our omnichannel marketing capabilities to enable the digital transformation of the financial industry. This allowed us to capture the increasing demand from financial institutions for acquiring, identifying, and engaging new users from different geographics and younger demographics. Our big data solutions also improved the risk management capabilities and customer acquisition efficiencies of financial service providers.

In Q2, we made certain achievements to further diversify our user base and strengthen our omnichannel solutions. Our social media and partner program continued its leading position, delivering both growth and efficiency. Our share in mainstream media and acquisition channels with various consumption scenarios continued to grow, solidifying our widely-recognized position in the industry.

Another initiative worth mentioning is our efforts in promoting DCEP (Digital Currency Electronic Payment). In recent years, the Chinese authority focused on the qualitative development of the economy, primarily driven by the ongoing digital transformation, including the introduction and promotion of its digital currency, DCEP. Since 2019, the Central Banks have conducted pilot tests of the DCEP in different consumption scenarios in various cities. Leveraging our leading position in our recommendation business, our team had a significant win in partnering with a large bank to market the digital RMB wallet. We will ride on the government's commitment and investment in promoting the applications of DCEP to explore further business opportunities in this area.

Third, is the ongoing improvement in our operating efficiency. Against the backdrop of macroeconomic and regulatory uncertainties, we continue to strive to achieve a good balance between managing our continued growth and operating efficiency. Our overall ROI, revenue from Recommendation Services, Advertising and Marketing Services, divided by the corresponding cost of acquisition and promotion, continued to improve by 8 percentage points sequentially in the first half of 2022. Of which the ROI of our recommendation businesses improved by 7 percentage points versus the second half of 2021. We also continue to see an encouraging trend in our new initiatives, delivering an 11 percentage points ROI improvement versus the second half of 2021.

Finally, our disciplined cost-cutting and optimization measures helped to reduce losses significantly. As we continue to optimize our operating costs and expenses, while better utilizing the company's resources, we have enhanced our overall productivity leading to a margin improvement and a lower net loss in the second quarter. Our operating loss reduced significantly by 48% year-over-year while our adjusted net loss margin further improved by 8 percentage points compared with the second quarter of 2021. Over the coming quarters, we will maintain this approach of disciplined spending, striving to achieve further improvement in our productivity and margin.

I will now take a few minutes to discuss the latest macro environment, regulatory dynamics and our business outlook. With regards to the macro and regulatory environment, the rolling lockdown across China has prompted a moderation of real GDP growth to 0.4% year-over-year in the second quarter. Nevertheless, the State Council Executive meeting held in late July stated that China's economy should grow within a reasonable range this year, with particular emphasis on the stability of employment and inflation. This should be achieved by the expansion of effective investment and the continued promotion of private consumption. Meanwhile, the meeting also called for the active and consistent development of digital consumption.

We believe the government will maintain a more relaxed fiscal policy and monetary policy to revive the economy in the near term. And we have seen signs of liquidity injection into the financial system with banks accelerating their loan growth recently. The government also calls for continued promotion of private consumption, particularly for developing digital consumption. These should be positive catalysts to facilitate further expansion of our loan and credit card recommendation businesses, given our leading position in the market.

The government issued new regulations and policies in terms of internet lending and credit card business, advocating banks to engage in digital transformation, product innovation, and the development of online credit card businesses. We believe this should benefit market leaders like us.

Lastly, the Covid control measures still leave some uncertainties that may continue to have impacts on certain segments of our operations for the next few quarters. However, our robust and resilient results for the second quarter highlight the strong benefits of our diversification strategy. Thus, we are cautiously optimistic about our business performance for the second half of this year.

In summary, we believe our strong business model, investments in our omnichannel marketing capabilities, leadership position in digital transformation solutions, and disciplined cost control measures will ultimately deliver better business results for the next quarter.

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 solid financial result with resilient revenue growth and healthy margin improvement in the second quarter of 2022. Our second quarter results reflect our persistent efforts in diversifying revenue streams and optimizing cost structure.

Our total revenues for the second quarter of 2022 increased by 33.9% to RMB265.1 million from RMB198 million in the same period of 2021.

Our market-leading position in the recommendation business sustained, with total recommendation service revenues increasing by 37.8% to RMB204.7 million from RMB148.6 million in the same period of 2021, on the back of the 36% and 41.5% year-over-year increase in credit card and loan recommendation service revenues respectively. The increase in revenue was mainly driven by the increase in the number of loan applications, 43.3% and credit card volume, 33.3% on the back of our geographical diversification strategy and omnichannel marketing strategy; while the average fee per credit card also slightly increased to RMB113.4 and the average fee per loan application increased by around 9.2% to RMB15.4 in the second quarter of 2022.

Revenues from big data and system-based risk management services decreased by 37% to RMB22.8 million in the second quarter of 2022 from RMB36.2 million in the same period of

2021. The decrease is mainly due to the Covid-19 impact on our cooperation with customers, as well as the product adjustment.

Revenues from advertising and marketing services and other services increased by 187% to RMB37.6 million in the second quarter of 2022 from RMB13.1 million in the same period of 2021, primarily due to the significant growth of insurance brokerage services and initiatives of other new businesses.

Let me now move on to cost and expenses. Cost of promotion and acquisition mainly consists of the expenditure relating to our marketing efforts and activities, which increased by 41.4% to RMB191.8 million in the second quarter of 2022 from RMB135.6 million in the same period of 2021. The increase was in line with the growth of our revenue from recommendation services, insurance brokerage services and initiatives of other new businesses.

In the second quarter of 2022, we have seen a continuous trend of efficiency improvement. ROI of recommendation services, advertising and marketing services, and other services have shown encouraging improvements, with a sequential increase of 8 percentage points in the first half of 2022, reflecting our continued efforts to achieve a good balance between growth and efficiency.

We continued executing our cost optimization measures. As such, cost of operation decreased by 21.5% to RMB20.4 million in the second quarter of 2022 from RMB26 million in the same period of 2021. And our sales and marketing expenses, R&D expenses, and general and administrative expenses decreased by 11.7%, 11.5% and 25.3% respectively in the second quarter of 2022 compared with the same period of 2021. Measured as the percentage of total revenue, sales and marketing, R&D and G&A expenses in total were 33.5% in the second quarter of 2022, reflecting a decrease of 20 percentage points from the same period of 2021.

With our continued efforts in optimizing our cost structure and improving the productivity of our businesses, loss from operations was RMB35.9 million in the second quarter of 2022, compared with RMB69.5 million in the same period of 2021. Operating loss margin was 13.5% in the second quarter of 2022, compared with 35.1% in the same period of 2021.

Our net loss and non-GAAP adjusted net loss were respectively RMB 35.9 million and RMB 32.2 million in the second quarter of 2022, compared with RMB 44.5 million and RMB 40.6 million in the same period of 2021. Given the growing scale and improving efficiency, our net loss margin and non-GAAP adjusted net loss margin improved by 8.9 and 8.4 percentage points respectively, compared with the same period of 2021.

As of June 30, 2022, we maintained a balance sheet with cash, cash equivalents and restricted cash and time deposits of RMB673.2 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). Calvin Wong with Spica Capital.

Calvin Wong: I have two questions, one related to strategy and Covid, and another one related to your financials. The first question, the management mentioned that the strong results in the second quarter benefited from your diversification strategy. So could you give us more color about this strategy? And how does it work during the period of multiple lockdowns across China? Also, how do you expect the Covid situation, if it continues, would impact your business trend in the second half of this year?

The second question, we noticed significant margin improvement in the second quarter. Could you please elaborate the main drivers behind? Also, regarding the cost optimization measures you mentioned, how should we expect the impact of such measures in the second half of this year, and the cost base going forward?

David Ye: Thank you, Calvin, this is David. I'll try to answer the first question, and I believe Oscar will answer the second question. Your first question regarding diversification strategy. So definitely, from a strategy standpoint, we believe diversification has helped us defend the headwinds from Covid lockdown and other challenges. I would answer your question on diversification strategy from four fronts. The first part is that we diversify our product segments, for our recommendation services. Secondly, we actually diversified geographically across China. And the third point, we also have diversified in terms of marketing and traffic acquisition sources. And the last piece, demographically we have seen our user base having a more diversified geographic and demographic coverage. I will now start with the first one.

As our revenues are from multiple product segments, such as loan recommendation, credit card recommendation, insurance brokerage business, as well as other adjacent categories. We did see our recommendation business record growth, revenue growth of around 38% year-over-year. And we have also seen the adjacent business with revenue growth over 100%, of course, with a small base. This diversified revenue by multiple product segments enabled us to grow more strongly and also robustly in the second quarter.

The second piece, in terms of geographical diversification, we don't see any concentrations in terms of our user base across China's provinces or cities. In the second quarter, we see a much higher growth in the second-tier and third-tier cities. As you may know, second and third-tier, even fourth-tier cities, those regions actually have less impacts from Covid compared to the large cities like Shanghai. So that definitely, we see stronger growth in like lower-tier cities, even in some of the rural areas. We have some strong number growth in terms of the lower-tier cities.

The third piece, in terms of our marketing and traffic acquisition source, our social media and partnership program, as well as our omnichannel marketing tools, actually we're able to track people from different consumption scenarios, such as shared economy, lifestyle and also digital-savvy channels and the partners. So that definitely helped us to weather the storms or the lockdowns.

So lastly, in terms of our user acquisition, we have analyzed our demographic distribution. In the last three quarters, especially the last quarter, we have seen a rising focus in terms of China's nearly 300 million new urban residents. Those are the migrants from the countryside to the city, from the rural area to second and third-tier cities. This creates additional growth drivers in terms of young and new urban residents, and they are looking for enhanced financial products and services. Now, we're able to track those younger generations and demographic residents and recommend them to our network of more diversified financial institutions. I will stop here for our diversification strategy.

But you also asked about the expectation from the Covid situation. As I mentioned, the Covid situation is likely to continue for the next quarter. We then hope the situation will be improving for the foreseeable future.

Okay. I'll turn it over to Oscar for the second part of your question.

Oscar Chen: Thank you, Calvin, for your second question regarding the drivers behind the margin improvements. Yes, I will try to answer your question. As we emphasize and continuously deliver in the past several quarters, our strategy to manage the business is to balance between growth and efficiency. So in the current market sentiment, we are allocating our internal resources based on the contribution margin, i.e., the profitability and secondly, the growth potential. So, this is why we can achieve better efficiency in recent quarters.

In addition to the efficiency, I think another driver is our disciplined cost control, particularly in the current macro environment with quite some uncertainties. Cost control is quite important in managing our business. In the first half, we focused on consolidating overlapping resources among our various business lines to enhance our productivity and also, reducing the fixed costs. We have seen clear results.

The Sales and marketing, G&A, and R&D expenses in total as percentage of revenue, were 20 percentage points lower than the same period of 2021, down to 33.5% of revenue. And that led to our operating loss margin improved to 13.5%. And I want to mention that some cost optimization measures may have some lagging effect, which will further benefit us in the second half of this year.

Looking to the second half of this year, anticipating the challenges and uncertainties, we will further cut down the resources allocated to the business with lower efficiency. We will think about these allocations between the different business lines, allocating more to our business lines with high profitability and cutting down the resources for business lines with lower efficiency. So that's our strategy.

At the same time, we will further optimize some contract base fixed cost when the contracts are made due. Along with the growth of our business, and our further optimization on cost size, we are expecting a better margin profile down the road.

I'm not sure whether this answers your questions, Calvin.

Calvin Wong: Very clear, thanks.

Operator: This concludes our question-and-answer session, as well as our conference call for today. Thank you for attending today's presentation. You may now disconnect.