Jianpu Technology Inc. [JT]
Q3 2022 Earnings Conference Call
December 2, 2022, 7:00 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. Third 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 Colin Cheung, Head of Corporate Development and Investor Relations. Please go ahead.

Colin Cheung: Thank you, operator. Hello, everyone, and thank you for joining us today. Our third quarter and first 9 months 2022 earnings release were 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 third quarter, we reported another set of resilient results against the backdrop of a challenging macro environment.

Our revenue growth remained solid at 26% year-over-year. Our adjusted net loss reduced by 82% year-over-year to RMB 9.4 million,and our adjusted net loss margin improved significantly to 3.5% from 24% a year earlier and 12% in the previous quarter. These results were primarily driven by our balanced and diversified revenue structure, continued operational efficiency improvements, and disciplined cost optimization measures.

The results further demonstrate the resilience and nimbleness of our asset-light platform model, our team's capability to navigate through the challenges and uncertainties, as well as our commitment to progressing on our vision of “Becoming everyone's financial partner” by empowering the digital transformation through our technology and product innovations.

Let me now go through the key operational highlights for the third quarter.

First, we have further strengthened our competitive positions as an independent open platform and continued to gain market share with a balanced and diversified revenue structure. In the third quarter, we continued to empower the financial industry with solutions based on our technical capabilities in digital marketing and acquisition, data analytics, operational and risk management. Leveraging our market-leading position with further geographical and demographical expansion, our recommendation business sustained a robust revenue growth of 30% year-over-year in the third quarter.

In terms of our credit card recommendation services, we have leveraged our strong partnership with banks and unique omnichannel capabilities to further expand into more products and services. For instance, we worked with several digital-savvy banks to promote rural revitalization credit cards to less affluent geographic areas, helping some banks acquire, and engage with new users in the “new urban residents” category. In addition, we customized our digital solutions by building ecosystems for banks to improve their cardholder retention and engagement, and their operational efficiency. We also continued to cooperate with leading banks to expand and explore the Digital Currency Electronic Payment (DCEP) initiatives.

Financial institutions have been encouraged to extend more lending to support the real economy, in particular, the small-and-medium-sized businesses sector. We have taken advantage of such policy shift, and adjusted our product coverage of our loan recommendation services to target more SMEs and the increasing new urban citizens, and continued to expand our geographic coverage to service users with financial needs in less-affluent cities and less-developed areas. In the third quarter, revenues from our loan recommendation services grew by 76% year-over-year in the third quarter. Over 60% of our loan recommendation revenue was contributed from second, third-tier and less affluent areas in the first 9 months of 2022.

Overall, we continued to achieve a solid total revenue growth of 26% year-over-year in the third quarter. At the same time, our business mix has become more diversified.

Moving on to my next point, we have seen continuous gain in operational efficiency. Anticipating the challenges and uncertainties of the macro economy and the regulatory environment, we further prioritized efficiency over growth. With our platform business model, technological and product innovation capabilities, we have seen tremendous efficiency gain.

Our overall ROI (revenue from Recommendation Services, Advertising and Marketing Services, divided by the corresponding cost of acquisition and promotion), improved by 12 percentage points year-over-year in the third quarter and 6 percentage points year-over-year in the first 9 months of 2022. We have also seen sequential improvements. The ROI in the first quarter, second quarter and third quarter of 2022 were 125%, 126% and 135% respectively.

Third, our ongoing cost optimization measures led to significant margin improvement.

Our total operating expenses, including sales and marketing, R&D and G&A, decreased by 19% year-over-year in the third quarter of 2022. As a result, we recorded further margin improvement and a sharp fall of net loss in the third quarter. Specifically, our operating loss and Non-GAAP adjusted net loss narrowed significantly by 47% year-over-year and 82% year-over-year in the third quarter. Our Non-GAAP adjusted net loss margin improved significantly from 24% a year earlier and 12% in the previous quarter, to 3.5% this quarter.

We maintained the strategy of optimizing company resources and streamlining operations, which yielded further results through a reduction in the fixed-cost base, including office rentals and other back-office costs and resources. Going forward, we will maintain disciplined cost control, and strive to improve our productivity and margin further.

Finally, I will now take a few minutes to discuss the outlook for the macro environment and our businesses. With regards to the macro environment, China's real GDP growth remained moderate at 3.9% year-over-year in the third quarter, as the ongoing pandemic prevention and control measures continued. Specifically, growth in retail sales weakened to 2.5% in September. Meanwhile, the residential mortgages and household consumption loans recorded a moderate growth rate of 4.1% and 5.4% year-over-year respectively at the end of September 2022.

The Chinese government and regulators have recently unveiled various measures to stimulate the real estate industry and eased certain pandemic control policies. However, the recent resurgence of the pandemic indicates a more complicated macro-outlook, with uncertainties likely to persist in the fourth quarter of this year. In the longer run, we believe the government will maintain a more relaxed fiscal and monetary policy to revive the economy. Besides, with the government's emphasis on the quality development of the economy, we believe China should be able to regain the growth momentum in the coming years.

While the Covid control measures may continue to impact some of our operations in the next few quarters, the potential slow recovery in consumer sentiment may also constrain the growth of our business. Normally, the fourth quarter would be our strongest quarter of the year, given our historical seasonality pattern, but we would take a cautious view that the upcoming fourth quarter may not follow the historical pattern and expect our growth rate would be dampened in the near term.

At the same time, we believe our industry-leading position, technological capabilities, and strong execution will enable us to successfully navigate through these challenges. While our diversified revenue structure, optimized operational efficiency and disciplined cost control measures will help us continue enhancing our overall productivity, efficiency and supporting our growth in the future.

I will now hand over to our CFO, Oscar Chen, to go through our financials.

Oscar Chen: Thank you, David, and hello, everyone. As David mentioned earlier, we delivered another solid quarter with strong revenue growth, margin improvement and narrowing losses in the third quarter of 2022.

Our third-quarter results reflected our persistent efforts in business and geographic diversification, digital transformation capabilities, as well as our disciplined cost control. Our total revenues for the third quarter of 2022 increased by 26.4% to RMB268.8 million from RMB212.6 million in the same period of 2021.

Our market-leading position in the recommendation business sustained, with total recommendation services revenues increasing by 30.3% to RMB211.6 million from RMB162.4 million in the same period of 2021, on the back of the 11.9% and 75.8% year-over-year increase in credit card and loan recommendation services revenues respectively. The increase in revenue is primarily driven by the increase in the number of loan applications and credit card volume, given our geographical diversification and omnichannel marketing strategy.

The average fee per credit card has a slight sequential and year-over-year increase to RMB116.4 in the third quarter of 2022. The average fee per domestic loan application increased by around 48% year-over-year to RMB16.5 in the third quarter of 2022, resulted from a more optimized product mix.

Revenues from our big data and system-based risk management services decreased by 18.8% to RMB25 million in the third quarter of 2022 from RMB30.8 million in the same period of 2021. The decrease is mainly due to the impact of Covid-19 on our cooperation with customers, as well as product adjustments.

Revenues from advertising and marketing services and other services increased by 66% to RMB32.2 million in the third quarter of 2022 from RMB19.4 million in the same period of 2021, primarily due to the growth of insurance brokerage services and other new business initiatives.

Let me now move on to the cost and expenses. Cost of promotion and acquisition increased by 22.1% to RMB180.2 million in the third quarter of 2022 from RMB147.6 million in the same period of 2021.

In the third quarter of 2022, we have seen the continuous trend of efficiency improvement. ROI of recommendation services, advertising and marketing services, and other services, have shown encouraging improvements, with an increase of 9 percentage points, compared with the second quarter of 2022, reflecting our continued efforts to achieve a good balance between growth and efficiency. At the same time, the ROI improvement also benefited from our growing scale. The ROI of our new business initiatives improved by 23 percentage points year-over-year and 7 percentage points sequentially in the third quarter, reflecting the economies of scale of our platform business model.

Cost of operation increased by 5% to RMB21 million in the third quarter of 2022 from RMB20 million in the same period of 2021. The increase was primarily attributable to an increase in software development and maintenance costs related to big data and system-based risk management services.

As we continued executing our cost optimization initiatives, our R&D expenses and G&A expenses decreased by 11.2% and 41.6%, respectively, in the third quarter of 2022 compared with the same period of 2021.

Our sales and marketing expenses had a slight increase of 1.2% year-over-year in the third quarter of 2022. Measured as the percentage of total revenue, sales and marketing, R&D and G&A expenses in total were 32% in the third quarter of 2022, compared with 49.7% in the same period of 2021, a decrease of about 18 percentage points.

In the third quarter, we also recorded an impairment loss of RMB13.3 million, which was the impairment of the goodwill and intangible assets of an acquired subsidiary.

With our continued efforts in optimizing our cost structure and improving the productivity of our businesses, loss from operations was RMB31.9 million in the third quarter of 2022, compared with RMB60.6 million in the same period of 2021. Operating loss margin was 11.9% in the third quarter of 2022, compared with 28.5% in the same period of 2021.

Our net loss and Non-GAAP adjusted net loss were respectively RMB25.1 million and RMB9.4 million in the third quarter of 2022, compared with RMB60 million and RMB50.8 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 significantly by 19 and 20 percentage points respectively compared with the same period of 2021.

As of September 30, 2022, we maintained a balance sheet with cash, cash equivalents and short-term liquidity of RMB700.5 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). Calvin Wong of Spica Capital.

Calvin Wong: I would like to have two questions, if I may. The first one is about the impressive sequential improving trend of your ROI. So could you please elaborate more about the underlying drivers of such good improvement, and how the trend will look like into next year? That's my first question.

And the second question is related to the outlook guidance because you mentioned that the fourth quarter may not follow the historical seasonality pattern. Why is that? And could you please provide more color of the outlook towards next quarter and probably first half of next year?

So again, the first one is more related to the ROI, and the second one is about the outlook guidance.

Oscar Chen: Hi, Calvin, this is Oscar. Thank you for your questions. I will take your first question regarding the ROI, and also the sequential trend of the efficiency gain of our business. I think there are a couple of reasons behind the improvement. Firstly, I think the improvement of operating efficiency is a natural outcome of our platform business model. As the scale grows, the economies of scale would kick in. During the last three quarters, our revenue grew at 33% year-over-year. The growth of our business helped us get more bargaining power, and we managed to get better economics in terms of average fee per loan application and credit card volume, as we just discussed.

And I think the second reason is that our diversification and omnichannel strategy also helps the efficiency gains, particularly in our loan recommendation business. As we expanded our footprints into more cities and areas, and cover more users from different demographics, our technology further enhanced the efficiency of our acquisition, recommendation and the distribution capabilities.

And thirdly, I think the most important reason is our strategy for this year to manage our growth, which is to balance between the growth and efficiency. We closely monitor the growth rate and the unit economics or contribution margin for each business segment. For more mature business, we prioritize efficiency over growth. For some new business, we may consider to sacrifice profitability to a certain extent to achieve high growth.

So in the third quarter of 2022, our recommendation business grew at 30%, with 10 percentage point improvement of efficiency, and our new business initiatives grew at 66%, with over 20 percentage points of efficiency gain, compared with the same period of 2021. So I think these are the major reasons for our improvement of ROI and the daily efficiency from operations.

Going forward, considering the challenges and uncertainties, I think we will stick to our existing strategy to manage our business further. That means we still want to achieve the balance between the growth and efficiency, and we may consider uncertainties when we prioritize efficiency further.

Hope that answers your question, Calvin.

Calvin Wong: Very clear, thanks.

David Ye: Hi, Calvin, I'll try to answer the second question, why the fourth quarter may not follow the historical peak high season this year. We have about 10 years of full-year operational history. In the past 10 full years, we definitely have seen the fourth quarter normally accounting for over 30% of our annual businesses for many reasons as a platform. We're connecting our users, our consumers, with financial institutions. So typically, in the fourth quarter or before the Chinese New Year, our users are looking for more loans, credit cards, and more financial products and services. Also, financial institutions typically extend more credit or loans, or other financial products to users. So that's why we have seen the pre-Chinese New Year or end-of-year holiday effect almost every year.This year, of course, is different. As we all know, the Covid-19 prevention and control measures still are impacting most of the regions, and also a lot of the business activities across sectors, industries and regions. So that's why we would definitely have a very cautious view for the fourth quarter.

Given the Covid prevention, the control measures and other uncertainties and challenges, we definitely will not see a fourth quarter peak this year. We'll definitely see the growth to be dampened in the next quarter or two. But we are confident that we should be able to maintain our growth, and also further improve our efficiency and productivity in a couple of months. Thank you.

Calvin Wong: Thank you, very clear.

Operator: (Operator Instructions).

Colin Cheung: Okay. I guess there are no further questions. Then I'll like to thank you, everyone, once again for joining us today. Of course, if you have any further questions, please contact us at ir@rong360.com. Thank you for your attention and we hope you have a wonderful day. Goodbye.

Operator: The conference has now concluded. We do thank you for attending today's presentation, and you may now disconnect.