

Jianpu Technology Inc. [JT]
Q4 and Fiscal Year 22 Earnings Conference Call
March 21, 2023, 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. Fourth Quarter and Full Year 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, Head of Corporate Development and IR. Please go ahead.

Colin Cheung: Thank you, operator. Hello, everyone, and thank you for joining us today. Our fourth quarter and fiscal year 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 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. Looking back on the year 2022, despite the challenging economic environment, we weathered the storm and achieved sound business growth overall. The stringent pandemic control measures and the subsequent outbreak in Q4 were one of the toughest periods we dealt with in the last few years. Our growth was hindered in the fourth quarter, as revenue did not follow our historical seasonal trends. The total revenue of both our loan and credit card recommendation services recorded substantial quarterly declines of 23.4% and 16.3% in the fourth quarter. The progress of our new business initiatives also slowed. Despite these difficulties, we successfully maintained cost control measures and enhanced operating efficiency, resulting in a quarter-over-quarter net loss reduction of 20.0% in the fourth quarter, and a slight net loss margin improvement from 9.3% to 8.1%.

Against such a testing backdrop throughout the year, we took several preemptive measures to shore up our businesses, differentiated ourselves by leveraging our unique asset-light platform model in the marketplace and consequently, achieved both growth and efficiency gain on a full-year basis. Overall, we delivered a set of resilient results with steady recovery across multiple business lines during the year.

On a year-over-year basis, we recorded solid revenue growth of 22.9%, and achieved a significant margin improvement of net loss margin to 13.6% from 25.4% in 2021. These defiant results were primarily driven by our relentless efforts to enhance our market-leading position, maintain a balanced and diversified revenue structure, improve operating efficiency and execute disciplined cost optimization measures. We remain committed to our vision of becoming everyone's financial partner and empowering the digital transformation of financial industry, as well as other adjacent categories.

Let me now go through the key measures we took in 2022, which we will continue to deploy in 2023. First, we continued to empower the digital transformation of financial service providers through our enhanced technological and operating capabilities. In 2022, our recommendation business saw revenue growth of 27.2% year-over-year, reflecting our proven ability to support financial institutions in the areas of digital marketing, user acquisition, customer retention, and risk management.

Throughout 2022, we continued to expand our geographic coverage in less-affluent cities and less-developed regions, further growing our user base to encompass more diversified demographic spectrum. Moreover, for our credit card recommendation services, we cooperated with 56 banks compared to 51 last year, which accounted for more than 80% of online credit card issuing banks in China. Apart from large banks, we further expanded our network to regional banks, as well as provincial branches of national banks, further diversify our client base.

Together with our robust regulatory and compliance measures and unique omnichannel marketing capabilities, these initiatives increased the full-year revenue of our loan recommendation and credit card recommendation by 54.1% and 16.2% year-over-year, respectively.

With innovation as our driving force, the solutions we provide financial institutions are based on our deep technological capabilities in artificial intelligence and machine learning. In November 2022, we were honored with the Innovation and Entrepreneurship Practice Award by Harvard Business Review Ram Charan Management Practice Awards, in recognition of our renowned track record of empowering the digital transformation of financial institutions. Furthermore, we received the Data Security Compliance Best Practices Award by the China Academy of Information and Communications Technology under the Ministry of Industry and Information Technology, demonstrating our sophisticated and innovative capabilities in data security and compliance.

Second, we achieved promising breakthroughs in expansion to adjacent categories. Building on our leading position in serving financial service industries, our resources and expertise in social media and partner programs, we embarked on new strategic initiatives with non-financial sector partners throughout 2022. By establishing partnerships with sector leaders from telecommunication, e-commerce and lifestyle companies, we explored ways to enhance digital transformation, user acquisition and retention operation capabilities.

These new business efforts helped boost our full-year revenues from marketing and other services by 62.0% year-over-year, with the revenue contribution of such services increasing steadily from 12.3% in 2021 to 16.3% in 2022.

Third, our operating efficiency enhancement and cost optimization measures led to steady margin improvement. Despite the challenging environment, our overall ROI, which is revenue from recommendation services and marketing and other services, divided by the corresponding cost of acquisition and promotion, improved year-over-year by 14 percentage points in the fourth quarter and 9 percentage points in the full year of 2022. During the fourth quarter, we saw a year-over-year ROI improvement of 13 percentage points for recommendation services and 12 percentage points for marketing and other services.

Our total operating expenses, including sales and marketing, R&D, and G&A, decreased by 15% year-over-year in 2022. This was driven in part by ongoing fixed cost reductions, which particularly impacted rental, back-office and HR costs. As a result, we achieved further margin improvement and a decline in net loss during the year. Specifically, our operating loss and net loss reduced by 41% and 34% year-over-year in 2022, respectively. Our operating loss margin and net loss margin improved by 17 and 12 percentage points in 2022, respectively.

Finally, I will now take a few minutes to share our observations of the macro and regulatory environment that would potentially impact our businesses. Regarding the macro environment, the government began easing Covid-19 control measures in early December. As a result, an unprecedented wave of infections spread through the country rapidly, which has stabilized since January of this year. We believe the relaxation of Covid-19-related policies could help remove constraints on consumption and restore consumer confidence, but likely at a moderate pace.

Besides, we expect the government and regulators to maintain a steadfast fiscal and monetary policy, aimed at stimulating the economy in 2023. More recently, the Government Work Report from the 13th National People's Congress set a real GDP growth target of around 5% for 2023, and gave priority to the goal of reviving and expanding private consumption.

Meanwhile, the National People's Congress in March approved the establishment of a national financial regulatory administration to replace the China Bank and Insurance Regulatory Commission, and shoulder supervisory responsibilities across the financial industry, except the securities sector. We believe the new administration will further streamline the regulatory framework of the financial industry and prevent the emergence of systemic risk.

Overall, significant uncertainties remain at early stage of the country's reopening. We anticipate a more stable recovery in the economy and our businesses in the second half of the year. We believe the government will emphasize the quality growth of the economy in the near future, which strengthens our confidence in the medium to long-term outlook for the economy and the development prospects of private enterprises.

Besides, as artificial intelligence continues to reshape the digital economy, we are committed to strengthening our technology and innovation capabilities. We will play a leading role in applying cutting-edge technology across the Fintech industry and adjacent sectors, improving the efficiency and accuracy of our services while reducing costs. These competencies will enable us to optimize the user experience and explore new value-creation opportunities in areas including product development, marketing, operation, and risk management.

Leveraging our successful asset-light business model, diversified business structure, expanded adjacent business categories, continued efficiency gains, and disciplined cost control measures, we are more optimistic about our performance in the longer term. The improving economic conditions, alongside disruptive trends in artificial intelligence such as ChatGPT, should open up new opportunities to facilitate the digital transformation of the economy and benefit inclusive finance for small and micro enterprises.

We will keep exploring and capturing new opportunities to expand our businesses. We believe our industry-leading position, advanced technology, and sound execution should generate sustainable value creation for our shareholders.

I now hand it over to our CFO Oscar Chen to run through our financials. Thank you.

Oscar Chen: Thank you, David, and hello, everyone. As David mentioned earlier, the pandemic hindered our business growth in the fourth quarter of 2022. Our total revenues for the quarter decreased by 0.2% to RMB248.3 million. But thanks to our efforts to maintain a balanced and diversified revenue structure, our total revenues for the full year increased by 22.9% to RMB989.7 million, from RMB805 million in the prior year.

We enhanced our market-leading position in the recommendation business, with total revenues from recommendation services increasing by 8.5% to RMB171.3 million in the fourth quarter, from RMB157.9 million in the same period of 2021. This improvement came on the back of a 37.9% year-over-year increase in loan recommendation service revenues. Revenues from credit card recommendation services, meanwhile, decreased by 3.5% year-over-year in the fourth

quarter. For the full year 2022, total revenues from recommendation services increased by 27.2% to RMB731.7 million, with revenues from credit card and loan recommendation services increasing by 16.2% and 54.1% year-over-year, respectively. The average fee per credit card and per domestic loan application increased by 3.4% and 27.8% to RMB113.6 and RMB14.6, respectively.

Revenues from big data and system-based risk management services decreased by 20.8% to RMB28.9 million in the fourth quarter from RMB36.5 million in the same period of 2021, as Covid continued to impact our cooperation with customers and we adjusted our product line-up. On a full-year basis, revenues from big data and system-based risk management services decreased by 25.7% year-over-year to RMB96.9 million in 2022. Nonetheless, we maintained our close relationships with financial institutions, state-backed credit bureaus, and other ecosystem partners and are working on several new long-term partnerships.

Revenues from marketing and other services decreased by 11.9% to RMB48 million in the fourth quarter of 2022 from RMB54.5 million in the same period of 2021, primarily because certain new business initiatives were negatively impacted during the Covid outbreak. For the full year, however, revenues from marketing and other services increased by 62% year-over-year to RMB161 million, due to growth in our insurance brokerage services and other new business initiatives.

Moving on to cost and expenses, cost of promotion and acquisition decreased by 8.2% to RMB171.8 million in the fourth quarter of 2022 from RMB187.2 million in the same period of 2021. On a full-year basis, cost of promotion and acquisition increased by 23.3% year-over-year to RMB693.3 million. This increase was in line with the revenue growth from recommendation services and marketing and other services.

The trend of efficiency improvements continued in the fourth quarter of 2022. The ROI of recommendation services and of marketing and other services have both demonstrated encouraging progress, recording year-over-year increases of 13 percentage points and 12 percentage points, respectively, reflecting our continued effort to balance growth and efficiency.

The overall ROI in the fourth quarter improved by 14 percentage points year-over-year. On a full-year basis, the overall ROI in 2022 improved by 9 percentage points compared with 2021.

Cost of operation decreased by 4.0% to RMB24.1 million in the fourth quarter of 2022 from RMB25.1 million in the same period of 2021. Cost of operation also decreased by 4.5% year-over-year to RMB84.0 million for the full year.

As we continued to execute our cost optimization initiatives, our sales and marketing, R&D, and G&A expenses decreased by 6.0%, 12.9%, and 29.9% year-over-year in the fourth quarter, respectively. For the full year, our sales and marketing, R&D, and G&A expenses decreased by 6.4%, 13.9%, and 25.2% year-over-year, respectively. Measured as a percentage of total revenue, our total sales and marketing, and R&D and G&A expenses stood at 33.0% in the fourth quarter and 35.5% for the full year of 2022, compared with 39.3% and 51.4% in the same period of 2021, which represents a decrease of about 6 and 16 percentage points, respectively.

As a result of our continued efforts to optimize our cost structure and improve our productivity, loss from operations was RMB29.6 million and RMB152 million in the fourth quarter and the full year of 2022, compared with RMB61.2 million and RMB258.5 million in the same period of 2021, respectively.

Operating loss margin was 11.9% and 15.4% in the fourth quarter and full year of 2022, compared with 24.6% and 32.1% in the same period of 2021.

Our net loss and non-GAAP adjusted net loss were respectively RMB20.2 million and RMB 27.9 million in the fourth quarter of 2022, compared with RMB48.3 million and RMB45.9 million in the same period of 2021. On a full-year basis, our net loss and non-GAAP adjusted net loss also decreased to RMB134.3 million and RMB120.2 million in 2022, compared with RMB204.1 million and RMB186.7 million in the prior year, respectively. Given our growing scale and improving efficiency, our net loss margin and non-GAAP adjusted net loss margin improved by 11 and 7 percentage points in the fourth quarter of 2022 respectively, compared with the same period of 2021. Our net loss margin and non-GAAP adjusted net loss margin also improved by 12 and 11 percentage points in the full year 2022, respectively.

As of December 31, 2022, we maintained a strong balance sheet with cash and cash equivalents, and restricted cash and time deposits of RMB684.2 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: We will now begin the question-and-answer session. (Operator Instructions). The first question is from Calvin Wong of Spika Capital. Please go ahead.

Calvin Wong: Thank you for taking my question. I have a question about the business strategy. You mentioned that your diversification strategy has helped to sustain your revenue growth in 2022. And also, the company's initial success in terms of category expansion really impressed me. So could you give us more color about this diversification and category expansion strategies? And also, how would such strategies contribute to the company's growth down the road? Thanks.

David Ye: Thank you, Calvin, this is David. Thank you for your question. I will answer that. It's a very good question. From the mind of the management team, how to build on our leading position serving financial servicing industries, leveraging our strong technological product and recommendation capabilities, where is the growth for digital transformation, how to improve our overall operating efficiency, as well as how to reduce the overall risk of our businesses in this ever-changing environment, I guess that's the top thing in our mind, during last year and going forward.

So what we did in 2021, we embarked our new initiative. We started testing with no financial sectors through our partnership program. We established strategic partnership with sector leaders

from telecommunication, e-commerce and lifestyle industries. We helped those industry leaders transform their businesses digitally. So that's what we did.

But of course, we started small. It's test and learn and grow. We believe the last whole year, overall, was truly a breakthrough. We leveraged our technical product and also recommendation capabilities. That's our core product strategies. That's, firstly, the category expansion.

The second part of expansion, we also expanded the product side within the financial sectors. Basically, we worked with a number of financial institutions to promote financial products, such as credit card and the SME consumer loans related to rural revitalization. We are targeting new segments of product and user, from rural to new urban resident, to help those regional banks and the banks to acquire, identify and engage with a different segment of user base. This product expansion is also related to our geographic and demographic population.

By expanding to adjacent categories, expanding products, and geographical expansion, it's helped us enhance our overall business efficiency, improved our return on investment, and enhanced our business resilience. And of course, we believe that definitely helped us to reduce the overall risk of our overall businesses. We definitely see potential new growth, expanded growth, for this new adjacent category, product, geographic and demographic. Thank you

Calvin Wang: Thank you.

Operator: (Operator Instructions). There are no other questions. This concludes our question-and-answer session. I would like to turn the conference back over to Colin Cheung for closing remarks.

Colin Cheung: Thank you, and thank you once again for joining us today. 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. Thank you for attending today's presentation. You may now disconnect.