

**X Financial (XYF)**  
**Q1 2021 Earnings Conference Call**  
**June 16, 2021, 07:00 AM ET**

Executives:

Tanya Wen, Investor Relations  
Kent Li, President  
Frank Fuya Zheng, Chief Financial Officer

**Presentation**

Operator: Good day, and welcome to the X Financial First Quarter 2021 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 would now like to turn the conference over to Tanya Wen. Please go ahead.

Tanya Wen: Thank you, operator. Hello, everyone, and thank you for joining us today. The Company's results were released earlier today, and are available on the Company's IR website at [ir.xiaoyinggroup.com](http://ir.xiaoyinggroup.com).

On the call today from X Financial are Mr. Kent Li, President, and Mr. Frank Zheng, Chief Financial Officer. Mr. Li will give a brief overview of the Company's business operations and highlights, followed by Mr. Zheng, who will go through the financials. They are all available to answer your questions during the Q&A session.

I remind you that this call may contain forward-looking statements under the Safe Harbor Provisions of the Private Securities Litigation Reform Act of 1995. Such 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, which may cause the Company's actual results, performance or achievements to differ materially from those in the forward-looking statements.

Further information regarding these and other risks, uncertainties and factors is included in the Company's filings with the U.S. Securities and Exchange Commission. The Company does not undertake any obligation to update any forward-looking statement as a result of new information, future events, or otherwise, except as required under law.

It is now my pleasure to introduce Mr. Kent Li. Mr. Li, please go ahead.

Kent Li: Hello, everyone. We are very pleased to report a strong start of the year, as our business is fully back on its growth trajectory amid the subsiding COVID-19 pandemic in China.

In the first quarter of 2021, both our operational and financial results continued to show progress against our strategic objectives. Our top line significantly improved on both a yearly and

quarterly basis in line with the substantial increase in our loan facilitation amount. We also managed to turn profitable with net income exceeding our guidance and outperforming compared with the fourth quarter of 2019, just before the COVID-19 pandemic.

During the first quarter, our total loan facilitation amount reached RMB10.9 billion, an increase of 59.1% year-over-year and 25.2% quarter-over-quarter, representing a record high in the last two years. This was mainly driven by the strong growth of loan facilitation amount of Xiaoying Card Loan, which increased 145.4% year-over-year and 35.7% quarter-over-quarter. Since last year, we have shifted our product focus to Xiaoying Card Loan, which accounted for 100% of total loan facilitation amount for the first quarter of 2021, compared with 92.2% in the previous quarter.

Our focused product strategy has proven to be effective in gaining traction among borrowers and deliver profitable growth. As of the end of March 2021, total outstanding loan balance of Xiaoying Card Loan reached RMB16.3 billion, an increase of 29.4% compared with the prior quarter. We will continue to enhance and focus on Xiaoying Card Loan products to address consumers' growing financing needs going forward.

In the meantime, we have been working to expand our service coverage by exploring more opportunities to cooperate with more regional financial institutions. A diversified geographic reach will further enhance our business flexibility and help us navigate uncertainties in the macro environment and expand our funding sources. This is one of our key business development strategies in 2021 and beyond. In addition, we will further strengthen risk management by introducing more advanced and effective data analytics, and further improve asset quality.

In May 2021, we received the approval from the Local Financial Regulatory Bureau of Shenzhen Municipality to set up Shenzhen Xiaoying Microcredit Co., Ltd. (Xiaoying Microcredit), which is a newly-established entity as one of our VIEs for the purpose of operating a microcredit business. Xiaoying Microcredit is the first company of its kind to successfully transform from a P2P business to an online microcredit business. Such an approval is a major milestone towards our full regulatory compliance. It will also expand our services beyond consumer financing, and provide more comprehensive financial services to the large pool of micro and small businesses and self-employed individuals in China, which are key drivers and contributors of China's economic growth.

The government is taking a series of active measures to promote the development of micro and small businesses and self-employed individuals. We will cooperate with other licensed financial institutions to meet their financing needs. This license will enhance our credibility and give us the advantage when we cooperate with other financial institutions, including the benefit of cutting intermediate costs. We are expecting to commence operation in the third quarter of 2021.

Moving forward, market demand for our products and services continues to grow and we expect to maintain our current growth momentum throughout the year. China's consumer financing and micro and small businesses financing markets have great potential. We believe we are well positioned to capture opportunities ahead with our trusted brand, full regulatory compliance, and our deepening cooperation with financial institutions.

Now I will turn the call to Frank, who will go through our financials.

Frank Fuya Zheng: Thank you, Kent, and hello, everyone. We are pleased to have delivered a strong financial performance during the first quarter. Total net revenue increased 71.3% year-over-year and 26.5% quarter-over-quarter to RMB906.3 million. Our net income for the quarter was RMB192.8 million, compared with a net loss of RMB196.3 million in the same period of last year and a net loss of RMB655.5 million in the previous quarter. This significant improvement in our top line and bottom line resulted mainly from the strong growth in our loan facilitation amount, enhanced operational efficiency and extensive premium borrower base.

During the first quarter, the proportion of the loan amount we facilitated covered by third-party financial guarantee companies increased to 48.1% from 38.8% in the previous quarter. Our efforts to expand partnerships with third-party financial guarantee companies to further optimize financing costs for borrowers will remain on our agenda throughout the year.

In conclusion, the progress we have made this quarter has strengthened our position and reputation in the markets and improved our ability to expand and deepen cooperation with financial institutions. We are entering a new chapter of our journey as our core consumer financing business gets back on track, and we are ready to explore additional opportunities in the microcredit sector as well. We remain confident of the enormous potential of the industry and our capabilities to deliver long-term growth and return to our shareholders.

Now I'd like to brief some financial performance: Total net revenue in the first quarter of 2021 increased by 71.3% to RMB906.3 million (US\$138.3 million) from RMB529.0 million in the same period of 2020, primarily due to a change in the product mix with the increase in total loan facilitation amount of the Xiaoying Card Loan in this quarter when compared with that in the same period of 2020.

Origination and servicing expenses in the first quarter of 2021 increased by 28.0% to RMB572.5 million (US\$87.4 million) from RMB447.2 million in the same period of 2020, primarily due to the increase in commission fee and insurance cost resulting from the increased total loan facilitation amount in this quarter when compared with the same period of 2020.

Provision for accounts receivable and contract assets in the first quarter was RMB17.3 million (US\$2.6 million), compared with RMB82.1 million in the same period of 2020, primarily due to a decrease of the average estimated default rate compared with that in the same period of 2020, and partially offset by an increase in accounts receivable from facilitation services as a result of the increase in total loan facilitation amount in the first quarter of 2021.

Provision for loans receivable in the first quarter of 2021 was RMB26.6 million (US\$4.1 million), compared with RMB42.8 million in the same period of 2020, primarily due to a decrease of the average estimated default rate compared with that in the same period of 2020.

Income from operations in the first quarter of 2021 was RMB251.2 million (US\$38.3 million), compared with loss from operation of RMB130.0 million in the same period of 2020.

Net income attributable to X Financial shareholders in the first quarter of 2021 was RMB192.8 million (US\$29.4 million), compared with net loss attributable to X Financial shareholders of RMB196.3 million in the same period of 2020.

Non-GAAP adjusted net income attributable to X Financial shareholders in the first quarter of 2021 was RMB212.0 million (US\$32.4 million), compared with the Non-GAAP adjusted net loss attributable to X Financial shareholders of RMB159.9 million in the same period of 2020.

Cash and cash equivalents was RMB799.8 million (US\$122.1 million), as of March 31, 2021, compared with RMB746.4 million as of December 31, 2020.

Now for our business outlook. For the second quarter of 2021, we raise the guidance for total loan facilitations to be in the range of RMB12.4 billion to RMB13.0 billion, and the net income attributable to X Financial's shareholders to be no less than RMB220 million.

This forecast reflects our current and preliminary views, which are subject to changes.

Now, this concludes our prepared remarks, and we'd like to open the call to questions. Operator, please.

## **Questions and Answers**

Operator: We will now begin the question-and-answer session. (Operator Instructions).

As there are no questions, this concludes our question-and-answer session. I'd like to turn the conference back over to Tanya Wen for any closing remarks.

Tanya Wen: Thank you, everyone, for joining us on the call today. If you haven't got a chance to raise your questions, we will be pleased to answer them through follow-up contacts. We look forward to speaking with you again in the near future. Thank you.

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