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Q2 2023 Yiren Digital Ltd Earnings Call

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Na Mei *Yiren Digital Ltd. - CFO*

Ning Tang *Yiren Digital Ltd. - Executive Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

Matthew Lewton Larson

PRESENTATION

Operator

Thank you for standing by, and welcome to the Yiren Digital Second Quarter 2023 Earnings Conference Call. (Operator Instructions) Today's conference call is being recorded. I would now like to turn the conference over to Lydia Yu, Investor Relations. Please go ahead, ma'am.

Lydia Yu *Yiren Digital Ltd. - IR Officer*

Thanks. Hello, everyone, and welcome to our Second Quarter 2023 Earnings Conference Call. Today's call features prepared remarks by the Founder, Chairman and CEO of CreditEase and our CEO, Mr. Ning Tang and our CFO, Ms. Na Mei.

Before beginning, we would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provision of U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements involve inherent risks and uncertainties. As such, the company's results may be materially different from the views expressed today. Further information regarding future risks, uncertainties or factors is included in our filings with the U.S. SEC. We do not undertake any obligation to update any forward-looking statements as required under the relevant laws.

During this call, we will be referring to certain non-GAAP financial measures and supplemental measures to review and assess our operating performance. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with the U.S. GAAP. For information about these non-GAAP measures and reconciliations to GAAP measures, please refer to our earnings press release.

I will now pass it on to Ning, our CEO, for opening remarks.

Ning Tang *Yiren Digital Ltd. - Executive Chairman & CEO*

Thank you all for joining our earnings conference call today. Before I jump into business updates for the quarter, I would like to first review our new corporate positioning and AI and technology-driven financial and lifestyle services platform. Our new positioning better aligns with our business model that is anchored by 3 key pillars: financial services, insurance and consumption and lifestyle services with underlying business strategies and operational flows driven by AI technologies.

The company's AI lab, which was officially established last quarter, will focus on utilizing large language models and generative AI technologies to build and develop new products and applications that will work across our business lines. A few examples of what we are working on include a customized virtual AI customer service agent that will be available to respond to customer inquiries 24/7 as well as AI-assisted marketing tools and AI productivity tools to enhance our productivity. I will continue to share more details and progress about AI during future earnings conference calls.

Next, an update first on our insurance brokerage business. Total gross premiums reached more than RMB 1.3 billion in the second quarter of 2023, up 67% year-over-year, of which life insurance policies increased 162% year-over-year. The spike in life insurance policy sales this quarter was mainly driven by the timing of the new regulation that requires life insurance companies to lower their pricing interest rate of newly developed products from 3.5% to 3% and to discontinue selling all products above 3% interest rate.

As we continue to invest in product innovation and customization and agent development and digitization, we noted 3 key successes this quarter: average first year premiums increased 15% quarter-over-quarter; the number of life insurance policy premiums exceeding RMB 3

million increased 206% quarter-over-quarter; and average productivity of our agents grew by 328%.

On property insurance, as mentioned on our last call, reinsurance for overseas construction policies is a new key market we are focusing on, and the total premium for this product segment continued to grow at a fast pace, increasing 77% quarter-over-quarter.

Next, on financial services. In the second quarter of 2023, total loan volume was RMB 8.2 billion, representing a 65% increase year-over-year. The total number of borrowers in the quarter increased 82% from prior year to 1.01 million. On Yi Xiang Hua, which continues to be our fastest-growing loan product, monthly active user number on our Yi Xiang Hua APP continued to increase 11% from prior quarter to RMB 2.4 million and the number of average transactions per user increased to 3.2x this quarter, up from 2.1x from the second quarter of 2022, indicating a significant increase in LTV over CAC ratio per borrower.

Last quarter, I mentioned that we have started expanding internationally in which we hope to leverage our expertise in the consumer finance sector to promote greater financial inclusion worldwide. We launched in the Philippines last quarter under the brand EasyPeso and have seen rapid growth since. As our team continued to enhance local operational flows and refine our risk models, we have seen a continued improvement in margins.

With initial success achieved in the Philippines, we have also started evaluating other regions and expect to expand to one to two new countries in the near future. On the funding cost front, as we continued to diversify our funding sources, we noted a 7% decrease in institutional funding costs in June as compared to beginning of the year. On asset quality, delinquencies remained stable with 15 to 89 days delinquency rate at 2.9% compared to 3.0% last quarter.

On consumption and lifestyle services, total GMV generated this quarter increased 28% from prior quarter to RMB 396 million. The total number of paying members this quarter increased 57% from prior quarter to 2.44 million.

To conclude, I want to say that I'm really proud of our team for everything we've accomplished. So far, it's been a challenging few years, but I'm quite optimistic about the road ahead and grateful to you all for being on this journey with us.

With that, I'll now pass it to Na, who will go through the financials for this quarter.

Na Mei Yiren Digital Ltd. - CFO

Thanks, Ning, and hello, everyone. On this call, I will only focus on our key financial highlights. Please refer to our earnings release and IR deck for further details. In the second quarter of this year, total revenue reached RMB 1.3 billion, representing 55% increase year-over-year and a 34% increase from prior quarter, showing strong financial performance despite strict and more challenged macroeconomics this quarter.

On financial services, we continued to see strong demand for our quality products where the total loan facility this quarter reached RMB 8.2 billion, representing 27% growth over prior quarter as compared to analysis projection of industrial average of single-digit growth. Our insurance gross written premiums reached RMB 1.3 billion, representing a 57% increase year-over-year and a 54% increase from prior quarter, probably driven by strong life insurance policy sales.

Revenue from insurance brokerage services reached RMB 404.7 million for the quarter, increased 115% year-over-year and representing 31% of total net revenue. On consumption and lifestyle service, total GMV for this quarter reached RMB 396 million, increased 28% from prior quarter. On the expense side, sales and marketing expense increased 40% to RMB 149 million from last quarter, mainly due to our startup investment in brand and marketing this quarter to drive our further growth.

Origination and service costs increased 73% from prior quarter to RMB 346 million, mainly drive by increased origination and service costs relating to our insurance brokerage sector. Quarter-over-quarter, origination and service expense as a percentage of revenue for the insurance sector has remained relatively stable at around 72%. G&A increased by minus 5% quarter-over-quarter to RMB 97 million. Allowance for contract assets and receivables was RMB 51 million for this quarter, remaining stable and the profit grew 27% on our total loan facility.

And for our bottom line. We continue to deliver a strong profit of RMB 427 million this quarter, increased 24% quarter-over-quarter. We generated approximately RMB 718 million net cash from operating this quarter, an increase of 84% from prior quarter. Total cash and cash equivalent was RMB 5.8 billion at the end of this quarter.

Early in June, we announced the acquisition of licensed financial guarantee company in China, which will enable us to provide financial guarantee service and continue to enhance our credit business segment as well as other business models. Going forward, we will continue to seek out opportunities and new initiatives and strategic investment to foster business growth.

Generally, we remain confident in our company's business fundamentals and growth opportunity. Therefore, we continue to execute on our share repurchase program. This quarter, we have deployed close to USD 1 million to pay back our shares in the public market. As of June 30, 2023, the company has accumulated returned around close to USD 3.5 million for our payback shelf. Based on company's preliminary assessment of business and the market conditions, the company projects a total revenue in the third quarter of this year to be between RMB 0.9 billion to RMB 1.1 billion with net profit margin continuing to remain stable.

With that, we conclude our closing remarks. Operator, we'll now open up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from [Andrew Lian,] a private investor.

Unidentified Participant

My question is the CEO is 50% owner of the company. I guess you wanted the stock price to increase and currently, the volume is -- I just calculated it and it's very low. Buybacks, they are very hard to do with this volume. Would you consider a dividend as (inaudible) did a dividend? Also, it will legitimize the company that it is official.

Another question, the second question would be about your auditing. If you could go ahead and talk about the legitimacy of your numbers and the fact that it took 3 auditors and more than 1 year to get the latest financial statement audited. The company looks amazing on paper. It has like \$800 million in cash, and \$200 million in market cap currently. So I'm very curious about the legitimacy of the numbers and why that happens.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Yes. Na will comment on the auditing question. And I will answer the first question. We have no intention to delist the company because being a global leading fintech company is our strategic objective. We believe Yiren Digital is our flagship for that strategic initiative. And current geopolitical challenges as well as what you may well know about the past few years, yes, not so stable market conditions regarding fintech collectively have cost trouble in terms of valuation, not only for us, but also for other players in the sector.

What we've been doing is to work very hard on business fundamentals and also to do a better job communicating with the market regarding our strategy and operations. And you may remember that a few years back, we were a clear leader in the market. And we are hoping and we are also confident with hard and smart work, we will regain our market leadership position. And also, we have a relatively large price position that can help us invest into the future, including things like AI and global expansion.

As I mentioned, we are expanding to other markets which is a very promising direction in my view. AI will be very significant in my view. And my hope is that in 3 years' time, the company will be transformed into a new global fintech leader. Yes, thank you.

Unidentified Participant

But again, could you comment on the dividend policy? Like if you could do a dividend policy, (inaudible), it grew recently in stock price and in volumes. They're also owned by the CEO 50%. I would like Mr. Ning Tang, if you could comment on the possible dividend.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Yes. Yes, I've been speaking, yes. And this is Ning and we have currently no such dividend policy. Yes, we keep evaluating different possibilities, different strategies. But currently, our view is that, yes, this strong cash position can help us, yes, stand off any potential uncertain challenges and also investing for the future.

Unidentified Participant

Okay. But if you want your stock price to increase, couldn't you consider like the discount to value is very high. Buybacks are out of question. Also another idea would be X Financial, XYF ticker symbol, they bought back shares, they repurchase shares directly from employees that have stock. Maybe you could consider that in increasing the daily trading volume in order to move the needle of the stock price and also the volume. So buying from employees, could you consider that?

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

To be honest, we are also disappointed that we haven't been able to really deliver value regarding share price. That's why I just said that we will try and do a much better job communicating with the market, yes -- stakeholders, yes. But regarding employee shares, I believe our team members love to enjoy upside with the company, and they also deserve it. So I very much want them to, yes, enjoy the upside as opposed to buying shares from them after this low valuation.

Unidentified Participant

Okay. Consider again, the dividend policy introduction, maybe for next quarters. And consider (inaudible), which did this dividend policy and had 3x, 4x stock price increase and volume entered the company. It's much more healthy right now because they made a big dividend, a 30% dividend yield in 6 months. So they're paying like 6% now and 6% later in 6 months -- or they paid 6% already. (inaudible) is similar to YRD in my opinion.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Thank you for your suggestion. And Na, can you please answer the second question?

Lydia Yu Yiren Digital Ltd. - IR Officer

Andrew, this is Lydia, Investor Relations. On your second question, can I quickly clarify with you first. Your question is on auditing. Because I know that we released our annual report this year in April, which is actually on par with industry average. So I just wanted to clarify on what you're asking on our auditing.

Unidentified Participant

Okay. Then that matter was resolved. It was just the change from KPMG. Yes, okay.

Lydia Yu Yiren Digital Ltd. - IR Officer

Yes, (inaudible) annual report later just because there was a change of auditor. So it took some time for the new auditors to get out of side with -- on our numbers. But for our 2022 annual report, it was released on April 28 this year.

Unidentified Participant

Okay. Consider the dividend.

Lydia Yu Yiren Digital Ltd. - IR Officer

Okay. Thank you.

Operator

(Operator Instructions) The next question comes from Matthew Larson with Fincadia.

Matthew Lewton Larson

A couple of things. On the subject of the buybacks, I got cut off and had to call back. So maybe you mentioned it. You are scheduled to buy back \$20 million worth of stock this year. You are volume constrained to a certain degree. But the volume over the last 2 months has

averaged considerably higher than the first 6 months this year. What are the restrictions as far as you have when it comes to the amount of shares you can buy back on a daily or weekly basis with percentage?

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Can Na please answer that question regarding buybacks?

Na Mei Yiren Digital Ltd. - CFO

Yes, I will answer this question. As you mentioned, when we put forward our payback, we have to follow up the restriction on our shares provided amount. Basically, the limited restriction that the payback amount the company is trying to (inaudible) normal than the 15% of the average (inaudible) liquidity amount. So we have much -- you comply with the rule about the at least 15% to 20% of the total marketing value.

Matthew Lewton Larson

Okay. And if you could tell me how much have you bought back year-to-date of the \$20 million that was announced before the year started.

Na Mei Yiren Digital Ltd. - CFO

Yes. As mentioned, we announced that the new share purchase payback program last year and as mentioned in my script, by -- as of June 30 this year, the accumulated amount is USD 3.1 million and the latest amount by today is about USD 5 million for your reference. Yes.

Matthew Lewton Larson

Okay. So I mean you've been a pretty significant buyer. I mean, it's going to be tough to get your \$20 million in there unless you get the volume up. Here's -- I've been a long-term investor off and on with your company. I've been on the conference call before a few times. I frankly participated in your IPO when I was at Morgan Stanley in December of 2015, when you were a peer-to-peer lender and your stock had ultimately gone to \$50 when that business was not as highly regulated by the governmental agencies in the PRC, but you've reinvented yourselves. I mean, you're still a lender -- I guess, a capital-light lender but yes, your real growth seems to be from insurance and financial services and what have you.

You still have a loan book of about \$1 billion. Do you keep any of those loans on your books since you've got \$800 million in cash, the regulatory authorities prefer that because that's what the banks have to do and the capital-light strategy is great as far as a risk point of view to you all. But the more loans you keep on the books, I think, would appease regulators. Could you answer that for me, please?

Na Mei Yiren Digital Ltd. - CFO

Yes. I would answer your question. As you mentioned we have big cash balance in our finance statement. So actually, we have also used our own funding to service our own client. We have cooperated with a trust company in this year. And by now, they have RMB 600 million. We have cooperated with the trust to service our quality Yi Xiang Hua and we also have our own financial license company and service, and we can also use this financial licenses to service the Yi Xiang Hua. As I mentioned in script, in July -- in June, we also acquired a financial guarantee company. And this financial guarantee company can also service our quality business and also have to cooperate with our other funding partners. In the cooperation with funding partners, our company can always direct guarantees to our customers, which will also be a way to cost our cash balance. Yes, of course, we will still keep on cooperating with other financial companies to use our cash balance to service our business development. Thank you.

Matthew Lewton Larson

Okay. A couple of more questions. The previous caller commented on the stock price, which I always have. I mean you trade for less than 1x forward earnings. You trade at about 1/4 of your cash balance. I mean, these sorts of valuations would not exist anywhere on any exchange outside of the Chinese PRC stock. There are other companies that trade well below cash because there is a disillusionment in investing in the PRC right now. That can change I believe in mean reversion, but people are distrustful rightly so of these sorts of valuations. The previous caller was asking about your auditors, but you're not alone. There's other companies that trade below it, but you are in particular, plus you're growing your earnings dramatically and your user base and what have you.

In your news release, you mentioned AI 3, 4, 5x. In my judgment, you -- your company and other fintech companies have used AI or some aspect of AI for years. That's how you make your loan decisions from customers who use your service. You do a quick algorithmic review of their creditworthiness and then you approve it or don't approve it. And I think you need to highlight that. You put out very few news releases. The only ones that I've seen since the last earnings call was the announcement that you bought the Chongqing Jintong Guarantee Finance, which you just talked about. But you didn't mention whether it be accretive or really what it was going to do other than like draw on conclusions. But why don't you put out more PR, more and more news releases highlighting AI, that you're an AI company, you always have been and you should be valued like companies that are employing AI for their productivity growth.

That's one of the problems nobody even knows about your company. When I'm on these conference calls, often I'm the only person or maybe one other person, you don't have any research coverage even though you used to be followed by Credit Suisse and Morgan Stanley and companies like that, but they dropped covering you when your stock price got too low. And also the previous caller mentioned another company XYF, which is a higher-priced stock slightly. That was underwritten by Morgan Stanley as well. They don't follow that anymore, but it does trade at a higher multiple and then the market leader in the consumer finance area, fintech, which is QFIN, is about 5x earnings, and it trades like 2x, 3x its book.

So I expect and really demand that if you're interested in a higher stock price, which I assume you are, I mean, who wouldn't be. Particularly when your stock used to be 20x where it is, I mean, you must look back on those days I just wish because the personal wealth for your employees and yourself would be dramatically improved.

So please get a company to be in charge of public relations and tell the story out there to investors. Many small price stocks, even many from the PRC double or triple it a day on almost no news. Here, you report a blowout quarter and you've got growth across almost all your business lines and I don't think anybody even noticed it. But for shareholders who have been patient, we would mind a little upward trajectory in the stock. So that would be a strong recommendation on my part.

And let's see what else I have. I think that's it. So you got to get the word out there. You have to keep using AI because what you're doing now, talking about AI, talking about your valuation, have you ever thought of doing a roadshow? I mean if you had a \$1 gain in your stock price, I mean, that would be a tremendous percentage gain. It would also make investors like myself significantly add to our positions, all right? I've had large positions in it. I do relatively so. But I'm reluctant to put more money in the money -- I'm a financial adviser because there's only so many \$2 stocks that you could have in a client account as a percentage. Otherwise, you bump up against compliance issues.

So the best way to get your stock up there is to get the word out, all right, talk about your AI initiatives. And as far as making share buybacks, if you're restricted by the volume by your broker and by the SEC rules, what about some insiders? I mean all these employees who don't want to sell you their stock because they like -- they want to grow with it, it'd be nice if you had some that could buy 10,000 shares or 50,000 or something. That makes news.

So you need somebody new in the PR area. My 18-year-old son who's on Instagram and other social media, TikTok, he could take this story and triple your stock, I bet, just by getting it out or getting one or two influencers to pick up the story, whether it's Reddit or WallStreetBets. I mean, does that make sense to you? I mean, your company is worth at least 4 or 5x where it is now, and that would still be undervalued, okay? That would be 4x earnings. How about 10x earnings, all right? With all the cash you have 10x, would your employees and would you all like to see your stock up tenfold? So that would be my suggestion. I think it's common sense, frankly.

So I hope you take some of my suggestions and that of some of the other callers and also just looking at your stock price, do you want to be -- do you want to be a wolf or a mouse, I mean, to be honest with you. So I appreciate your tremendous performance. Thank you very much, and that's all I have to say, but I hope to see some of these reforms.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Got it. You'll see more and more. I -- last time I heard you loud and clear. And now we have this AI, yes, more and more. And yes, so I appreciate that we'll double, triple our marketing communications effort, yes, probably consider hiring your son or -- yes marketing...

Matthew Lewton Larson

Well, I'm not suggesting he's -- I'll make it clear. He's not doing this. I'm saying that a young person's skill set in going on Twitter, Instagram, TikTok, you name it. Just think of 1,000 people knew about your stock and they all bought \$8,000 worth of stock. That's an \$8 million concentrated interest in it. And that's how you get stocks to lift is getting more than just one or two people knowing about it. So anyway, he's not doing it, I want to make that clear.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Absolutely. Absolutely. Yes, yes, yes.

Matthew Lewton Larson

So thank you very much. Have a great quarter. I'll continue to be an investor. But if the stock starts to lift, I buy on strength, okay, and in size, and I'm just one guy. So please consider some of my suggestions because I've been on the buy side for 40 years and what do you got to lose, all right?

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Yes, we will. Absolutely.

Operator

We have a follow-up question from [Andrew Lian], a private investor.

Unidentified Participant

So following what the other shareholders stated, I would like to add the dividend again and may be doing just a 0.1 dividend is enough to catch some of the investors like a 5% dividend. Again, I want to -- I don't know if you, Mr. Ning Tang, the CEO knows (inaudible), the CEO of (inaudible) Fintech, but they did the dividend, and it caught eyes. And it did bring investors and volume towards their company. Of course, everything what the previous caller stated is valid and I would also agree. But again, consider the dividend because if you do a dividend, I think it pops investors can see which are searching for dividend place. They might find your company in standalone insanely deep under value play. That's it. And sorry to repeat myself, but the previous caller did not state the dividend.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Got it. We heard you. We will, yes, work on evaluating, yes, these and other possibilities.

Unidentified Participant

And roadshows will help also.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Okay.

Operator

This concludes the question-and-answer session as well as the call. Thank you for attending today's presentation. You may now disconnect your lines.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Thank you all very much for these constructive, yes, remarks and, yes, comments, suggestions. We will work along these lines. Yes. Thank you.

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