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Q3 2023 Yiren Digital Ltd Earnings Call

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## CORPORATE PARTICIPANTS

**Lydia Yu** *Yiren Digital Ltd. - IR Officer*

**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 Third Quarter 2023 Earnings Conference Call. (Operator Instructions)

I would now like to hand the conference over to Ms. Lydia Yu, Investor Relations. Please go ahead.

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### **Lydia Yu** *Yiren Digital Ltd. - IR Officer*

Thank you, operator. Hello, everyone, and welcome to our Third 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. Our SVP, Ms. Mei Zhao will join the presenters in the Q&A session.

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 replacement for the financial information prepared and presented in accordance with U.S. GAAP. For information about all those 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.

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

Thank you, Lydia. Hi, everyone. Thank you all for joining our earnings conference call today. As China transitions into the post-COVID era, recent macroeconomic data shows economic recovery gaining traction, with China reaching 4.9% year-over-year GDP growth in the third quarter, beating market expectations, but still a decline on a year-over-year basis from the previous quarter.

In the face of overarching challenges on the macroeconomic front, we have consistently directed our investments towards research and development, aiming to elevate customer experience and optimize operational efficiency. As a result, over the past few quarters, we have enhanced the quality of our earnings, consistent improvements in our bottom line quarter-over-quarter. Our strategic approach positions us to capitalize on growth opportunities whilst the economy rebounds. In the quarter, we reviewed our new corporate positioning as an AI and technology-driven financial and lifestyle services platform that is anchored by 3 key pillars: financial services, insurance and consumption and lifestyle services.

This quarter, we have started utilizing AI-assisted marketing tools to increase our advertising targeting accuracy and achieve greater social media visibility. We are also in progress of upgrading our chatbots to assist in every stages of the loan collection process.

Let's get into this quarter's business update. First, on Financial Services, in the third quarter of 2023, total loan volume was RMB 9.8 billion, representing a 56% increase year-over-year. The total number of borrowers in the quarter increased 63% from prior year to 1.2 million. (inaudible) on our Yi Xiang Hua APP continued to increase for the sixth consecutive quarter by 23% from prior quarter to [2.9

million], and the number of average transactions per user maintained stable at 3x, indicating high user stickiness and activeness.

In terms of user distribution for Yi Xiang Hua, approximately 30% are first-time borrowers, while the remaining 70% are repeat borrowers. Borrower acquisitions continue to explore new acquisition channels as well as optimize our acquisition methods to attract high-quality new customers. During this quarter, we experimented with utilizing our WeChat (inaudible), seasonally, we initiated collaboration with selected media partners to fine-tune our acquisition model and enhance the accuracy of user targeting. Combined with utilizing AI-assisted marketing tools, these new initiatives resulted in loans facilitated to new borrowers increasing by 49% this quarter, from prior quarter.

Our international expansion efforts have experienced significant growth in the Philippines market. The third quarter results showing a remarkable increase of 172% compared to the previous quarter. We have also achieved the notable improvements in risk management as we continue to join and fine-tune our risk models tailored for the local market, and continue to pursue growth in international markets and are excited for this. Merging as a substantial driver for future growth. Funding front continue to diversify our funding sources. We noted approximately 5% decrease in institutional funding costs this quarter as compared to last quarter.

Asset quality which is remained stable with 15 to 89 days delinquency rate at 3%, and M1 collection rate improved by 0.5 percentage points this quarter. Consumption and lifestyle services continued rapid growth over the past few quarters, with total GMV generated this quarter, increasing 42% from prior quarter to RMB 563 million. The number of active users this quarter also increased 22% from prior quarter to 2.96 million. The growth in our consumption and lifestyle services segment has also created synergies with our financial services segment with active users further stimulating an increase in loan demand resulting in a mutually reinforced loop in our ecosystem.

Lastly, on our insurance brokerage business, gross premiums reached RMB 1.4 billion in third quarter of 2023, up 43% year-over-year and 7% quarter-over-quarter, which is significantly ahead of industry average. Second quarter was the peak for first year premiums due to the timing of the new pricing regulation capping future profit returns at 3%. Breaking down this quarter, 62% of total premiums were attributed to life insurance premiums, while property insurance premiums accounted for the remaining 38%. Highlighted on prior costs, our strategic emphasis on driving growth centers around 3 key areas: product innovation, agent development and digitization, a very important KPI for us, is agent quality and productivity. I'm happy to note that with the establishment of our elite agent team, we have seen a notable 39% quarter-over-quarter increase in life insurance policy premiums surpassing RMB 3 million per policy as well as a 62% quarter-over-quarter increase in high-margin property insurance policies. On property insurance, we continue to see continued growth in overseas construction policies with total premiums for this product segment increasing 19% quarter-over-quarter. On product innovation, I'm very excited to announce that we have a lineup of novel and tailored life insurance policies scheduled for release in the fourth quarter, including a product significantly designed for inheritance. I'll share more details and initial results during our next quarter's call. I will now pass it to Na, who will go through the financials for this quarter.

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#### **Na Mei Yiren Digital Ltd. - CFO**

Okay. Thank you, Ying, and hello, everyone. On this call, I will only focus on our key financial highlights. Please refer to our earnings release and IR desk for further details. In the third quarter of 2023, our total revenue reached RMB 1.3 billion, representing 56% increase year-over-year. On financial service, we saw our health growth with total loan facilities quarter reached RMB 9.8 billion, representing 56% growth over prior year. On insurance, our gross written premiums reached RMB 1.4 billion, representing 43% increase year-over-year and a 7% increase from prior year quarter. Revenue from our insurance brokerage segment service reached RMB 265 million for this quarter increased 40% year-over-year, but decreased to 30% from prior year quarter. The quarter over quarter (inaudible) was mainly due to the renewal premiums, which contributed 36% of total premiums in the third quarter compared to just 17% in the second quarter. Renewal premiums overall have a low commission rate as compared to the first year premium and the shift was mainly a result of price change which ensures product returns being now kept to 3%. So we can sell a (inaudible) policy for life reported as in the second quarter, especially in June. On Consumption and the lifestyle story, the total GMV for the quarter reached RMB 563 million increased 42% from prior year quarter. On the expense side, sales and marketing spend increased to 43% year-over-year to RMB 196 million, mainly due to our increased marketing efforts as business volume expands.

Research and developed expense increased 17% year-over-year to RMB 39 million, as we start [high-widening] AI and tech innovation

across our company. Origination and the service cost increased 10% year-over-year to RMB 245 million, mainly driven by increased origination and service costs relating to our insurance brokerage segment. G&A decreased to 30% year-over-year to RMB 54 million as we continue to live operating efficiency. Allowance for contract assets and the receivable was RMB 84 million for this quarter remaining stable at about 0.9% of loan facility.

On to our bottom line, we continue to deliver a strong profit of RMB 554 million this quarter, increased 105% from prior year. We generate about RMB 645 million net cash from operation in this quarter, an increase of 88% from prior year.

On the balance sheet side, our balance sheet remains strong with total cash and cash equivalents of RMB 5.4 billion by the end of this quarter. This quarter, we deployed USD 2 million to payback our shares in the public market. As of the third quarter-end, the company has accumulated deployed USD 5.5 million for our share repurchase program. We maintain confidence in the fundamental path of our company's business and the growth as first path. Based on our assessment of current business and marketing conditions, we spent our 2023 full year revenue to stand between RMB 4.3 billion to RMB 4.9 billion with net profit margin is trying to remain stable. This reflect our current and the preliminary review, which is subject to changes and uncertainties.

With that, we come through our close remarks. Operator, now we can open for questions. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question comes from the line of Matthew Larson with Fincadia.

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### Matthew Lewton Larson

Okay. I missed most of the conference call, but I read the report. Another great quarter. I mean it's really unprecedented, the sort of financial returns you show on a quarterly basis. Your stock has gone up pretty sharply in the last 2 days in advance of this call. But what are your plans to try and get a higher level of stock price? Because based on your run rate, you're trading at less than 1x earnings, which is in my 41-year career, pretty much unprecedented. In addition, you have probably at least 3x the cash on the balance sheet that the value of your company is. And that's also unprecedented. Your company also used to be worth \$50 a share like a few years ago. So down at the \$2 or \$3 range is unusual, but you're a Chinese stock from the PRC and people are distrustful. So with that being said, what plans do you have to broaden out investor awareness of your company because this stock should be \$10 minimum, not \$2. And can you help me with that?

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

I'll provide -- on my perspective and then Na and other colleagues can, do more. And so first of all, thank you for your kind remarks recognition. And I think one is that, as Na mentioned, we keep buying back our shares. And now we see the volume has gone up, and that enables us to buy more shares. So we will continue to do that as much as we can. And so that's one. I hope there is a reinforcing positive loop, our stock price goes up, more room for buyback, price going up further, more room for buyback and so on. So this is one.

Secondly, quite interestingly, we have had some interactions with investors and other interested parties on the same issue. And so there are some interesting suggestions, which I found to be quite intriguing and probably they make good sense, okay, a lot to get your thoughts as well, which is, like when our market cap was big, much bigger. We attracted lots of institutional interest. But now, today, the interest is more at the retail level. So if we keep doing the institutional communication mainly or solely, that is not good enough. We missed a big chunk of our investor interest. So we are thinking quite proactively to do more like retail side communications.

And there's good work to be done on that front, while continuing to do a good -- better I'd say, communication with institutional investors and other interested parties with more visibility like we have, we are enjoying like business is getting better and better consistency is very clear and prospects are great. So there will be more and more institutional coming back. While the retail side is something we will spend a lot of time on. So that's another point I'd like to make. And fundamentally, we will continue to do great business. My firm belief is that if we continue to deliver things will really get back to us.

**Matthew Lewton Larson**

All right. That all sounds good. I know your share buyback is restricted by the volume. How many shares have you bought back this year? You were going to buy \$20 million worth, but that's pretty tough to do with the volume you're showing. Can you tell me how much you bought back so far?

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

Na mentioned this number, so please Na, go through more details.

**Na Mei Yiren Digital Ltd. - CFO**

Yes, as I mentioned in my script, by the third quarter, at the end, we have accumulated occurred to USD 5.5 million to perform payback. Actually, by the end of this month, the latest amount, is amounting USD 7 million to perform our payback and we'll continue to perform share back with the, (inaudible) limitation at \$20 million.

**Matthew Lewton Larson**

Got you. I'm sorry, I said I missed the first portion of the conference call. It took me a while to get on. But all right, \$7 million, which is fine. Have you thought about just tendering like at \$4 for like 25% of the shares? I mean -- and this is part of a second question. Why don't you just take it private, okay? You have the money on the balance sheet you make more money than the whole market capitalization of the company. I mean, you're trading at less than 1x earnings, which is really -- it's very unusual. Why do you want to be a public company? Just take it private and pay a premium to people, \$5, okay? And people will be happy to get out. And you could spend less than the cash on your balance sheet. So has that -- or have you ever been approached by a third party who would like to participate in a buyout?

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

Yes, we certainly see the math. But as I explained in previous call, so it's very clear that our strategy to go global to become a global fintech leader. And so maintaining this listed company position gives us a lot of upside to do like going global. So -- and also, we believe the market will recognize good performance, consistent good performance.

**Matthew Lewton Larson**

So are you saying that having a U.S. listed stock has certain prestige attached to it? So you would rather be a publicly traded company because you think in the long run, it will benefit you?

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

Yes. For example, like we can do like acquisitions globally. We can reward our employees and partners globally with the stock and so on. So it's very strategic. We have this vehicle, this platform.

**Matthew Lewton Larson**

All right. But I -- it wouldn't make sense to pay people in stock when your stock is still undervalued. You might -- could pay cash because you have plenty of cash. So if you're going to reward people through the cash...

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

I am talking about the future.

**Matthew Lewton Larson**

Okay. Okay. Very well. All right. Listen, you're not the only firm that's -- the only company that's in your space. I like your company because you've broadened out your business model that will include insurance and things like that. But other companies that are strictly lending platforms like QFIN or FINV, FinVolution, which reported last night, another company reports tomorrow, which is X Financial. I'm familiar with all these companies because I worked at Morgan Stanley, and we underwrote you guys. We were part of the initial public offering back in 2016 and 2015.

So I'm very familiar with your companies. And I've just been frustrated that I haven't gotten -- I haven't made as much money as I'd like to because I've had to be patient. But I'll just leave it there. I mean, there's nothing else to say. Your stock should be worth a lot more. As

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you're buying as many shares as the volume will allow that's all I can ask. When is the window open for you to buy more shares? I mean the volumes spiked the last couple of days, when could you buy more shares after this earnings call?

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

Yes. Once the window opens up, we will resume the...

**Matthew Lewton Larson**

You'll go all in. When is that window open up, sir?

**Na Mei Yiren Digital Ltd. - CFO**

Okay. I'll answer your question. After the...

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

The exact date...

**Na Mei Yiren Digital Ltd. - CFO**

Yes. Yes. By today, after we complete the conference call and the release of earnings, as the third quarter financial statement release, the window is open.

**Matthew Lewton Larson**

Okay. Last question. Some of your competitors do pay a dividend. Qihu (sic) [Qifu], which is, QFIN is the symbol, XYF and FINV paid dividends, which not only returned to some of your huge cash position to reach to shareholders. But it makes shareholders more comfortable dealing with a company from a CRC that pays dividends because if you pay dividends, then the money you have is actually there. So have you considered that?

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

We have thought about that. As a matter of fact, we did it like a while ago for a while. And so there are different schools of thoughts. And so people say that what you just said is one school and some people say that which I tend to agree more is that once you pay dividends, you become a category of dividend paying companies as opposed to a high-growth companies. And if you are a high-growth company, which we are, so we have like a high growth -- high-quality growth opportunities for our cash. And so we should belong to that category. And so I firmly believe we are, as we show the high-growth rate, high-quality growth, AI-driven growth. So yes, so I understand the dividend helps in terms of returning money to investors. So we do buy back aggressively. And that's another way of returning, alternative way of returning -- generating value for investors, while sticking to being a high-growth company putting cash in better use. That's our current thinking.

**Matthew Lewton Larson**

All right, I mean the buybacks are good, except for the stock price really hasn't moved. Let me just give you some advice. The 4 or 5 companies that came public 5 or 6 years ago that were peer-to-peer lenders like you used to be, but are in the same business space really that you all are -- that pay dividends, okay? One is FinVolution. I'm sure you're familiar with them. They traded 4.5x earnings, and they pay a dividend, all right, of 4%. And then if you look at QFIN, which is Qihu, -- Qifu, I'm sorry. Morgan Stanley follows them from a research point of view, and it's got a \$3 billion market cap, but they pay a dividend also. And that trades at 5x earnings.

So just paying a dividend could increase your stock market price to earnings multiple 3 or 4 or 5x. So your stock could go up literally 4 or 5x if you just pay a small dividend. So you might want to think about that because if you pay a dividend, certain investors will invest because they like the dividend. But it also gives them comfort that all this cash that you have on your balance sheet is actually there because you can't pay dividends unless you have money, all right? So you pay it, it kind of proves to them that you're very, very, very good financial position from a balance sheet point of view is valid. So your stock could go up 2 or 3x just by paying a dividend. So that's my advice.

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

Thank you. Noted. We will start it further.

**Operator**

(Operator Instructions) This concludes our conference for today. Thank you for your participation. You may now disconnect.

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

Thank you, all.

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**Na Mei Yiren Digital Ltd. - CFO**

Thank you.

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