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Q4 2022 Yiren Digital Ltd Earnings Call

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## CORPORATE PARTICIPANTS

### Keyao He

**Mei Zhao** *Yiren Digital Ltd. - CEO of Yiren Credit*

**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 Fourth Quarter and Fiscal Year 2022 Earnings Conference Call. (Operator Instructions)

At this time, I'd like to turn the conference call over to Keyao, Investor Relations Officer. Please go ahead.

### Keyao He

Thank you, operator. Good morning, and good evening, everyone. Today's call features the presentation by the Founder, Chairman and CEO of CreditEase, our CEO, Mr. Ning Tang; and our CFO, Ms. Na Mei, our SVP, Ms. Mei Zhao; meanwhile our SVP, Mr. Xiao Shang and Yiren Select COO, Mr. [Raymond Feng]; our Head of Consumer Finance business Edward Wang (inaudible) 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. Such statements are subject to risks, uncertainties and factors can cause actual results to differ materially from those contained in any such statements.

Further information regarding future risks, uncertainties or factors is included in our filings with the U.S. Securities and Exchange Commission. We do not undertake any obligation to update any forward-looking statements as required under the relevant laws.

During the 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 those non-GAAP measures and reconciliations to GAAP measures, please refer to our earnings press release.

I will now pass it to Ning for opening remarks.

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

Thank you all for joining our conference call today. We are pleased to deliver an impressive quarter with robust growth in both revenue and profitability, making the full success of our business restructuring and product optimization despite the volatility of external environment amid the COVID resurgence.

Now as the macro economy start to recover post the COVID and the industry is heading to a more positive direction, we are looking to an accelerated growth of our business. First, an update on our holistic wealth business. As we previously projected, our insurance brokerage business continued its strong momentum in the fourth quarter of 2022.

Total premium reached more than RMB 1.3 billion, representing 34% increase quarter-over-quarter and over 50% growth year-on-year. For the full year of 2022, our total premium increased by 61% to approximately RMB 4 billion, significantly outperforming the industry average of 4.6% annual growth rate.

What's behind this rapid growth is our strategies in product innovation and customization as well as operational upgrades. On product

innovation, Hexiang has been strengthening cooperation with corporate partners and insurers and making great efforts to better serve individual and institutional clients through a growing number of diversified products. For example, in order to meet our clients' needs for better financial protection as well as higher investment returns, we started to work with the only mutual life insurance company in China, and launched the 3 tailor made products for our high-net-worth clients months ago, which are rarely seen in the Chinese market with limited penetration. The products have been proven an immediate success right after our launch.

In the fourth quarter alone, those 3 products contributed more than RMB 200 million premium and the number is still growing. Also, as for our customized exclusive whole life insurance product, Yimai Xiangchuan that we mentioned last quarter, the premium saw a quarterly increase of 68% to close to RMB 100 million, reflecting its high popularity among our clients.

Another example from our property insurance products. As China's outbound investment and construction businesses expand at a fast pace, the demand for relevant insurance protection is on the rise, leveraging our advantages in product development and rich resources within our business ecosystem. Hexiang started to offer overseas construction insurance services in the third quarter last year, which had brought in approximately RMB 40 million premium with large ticket size policies as of the end of last year and is expected to pose continued solid growth in the year of 2023.

As of December 31, 2022, Hexiang insurance brokers had established approximately 40 off-line branches nationwide and offered over 840 insurance products from more than 100 insurers. Some of our well-known partners include Taikang Life Insurance, AIA, AVIVA-Cofco Life Insurance etc. just to name a few.

Moreover, on operational upgrades we have been improving our service quality and building up our elite agent team since last year. Currently, 10% of our agents in Hexiang are members of MDRT, an independent association of the world's leading life insurance and financial services professionals. And the proportion is much higher than the industry average of 0.2% in China.

In October and November last year, the financial regulators issued new rules on life insurance industry, including the regulated cap on commission fee rate and investment returns. The actual impact on our business is manageable, and we have already optimized our product offerings and selections in response to the regulatory directions to ensure 100% compliance. So due to the product mix adjustment, our revenue generated from insurance business in the fourth quarter showed a slower growth compared to the quick ramp-up of our premiums.

We believe that the new regulation benefits us in the market competition, given Hexiang's rich and diversified product lines that cover both life and property insurance and both 2B and 2C businesses.

Now moving onto our Super App wealth platform, Yiren Select. In order to better serve our mass affluent clients in a comprehensive manner, Yiren Select has put more effort to provide customized products and services in the areas of healthcare and beauty, education and study, lifestyle and luxury, which enhanced our client engagement and helped drive up our new client acquisition efficiencies. In the year 2022, the number of our clients who made a transaction on Yiren Select or through our institutional partners saw an increase of 88% year-on-year.

Looking into our holistic wealth business, total client assets reached more than RMB 23 billion as of December 31, 2022, representing an increase of 21% compared to the end of 2021.

Going forward, we expect to continue our high-quality growth with competitive profitability as we continue to optimize our products and operations, focusing more efforts on our core business with higher values and seizing new market opportunities. Meanwhile, as the synergies within Yiren Digital's different business lines keep growing, operational efficiencies are expected to further improve. With the macro economy recovering and the domestic consumption rebounding, we expect a healthier business expansion in the year 2023.

Now I will pass it to Mei, who will go through the highlights of our credit-tech business for the fourth quarter.

**Mei Zhao Yiren Digital Ltd. - CEO of Yiren Credit**

Thanks, Ning, and hello, everyone. Now I will give you an update on our Credit-Tech business. In the fourth quarter of 2022, our total loan volume reached to RMB 6.8 billion, representing an 8% increase quarter-over-quarter despite the COVID resurgence and the inflection peak post after reopening in November and December.

The momentum is mainly driven by our consumer loan business, i.e., our small revolving loan product Yi Xiang Hua. In this quarter, our small revolving loan took close to 80% of our total loan volume compared to 65% in the same period of 2021, reflecting a vivid transition of our product mix upon the completion of the business restructure.

Loan facilitation of our small revolving loan products reached RMB 5.3 billion this quarter, showing a 15% quarterly increase and 32% annual growth. As our domestic consumption starts to recover, we expect the momentum to continue in the coming quarters.

One highlight I would like to mention regarding this rapid growth in our strategy to optimize customer acquisition and traffic operations. Instead of relying on our traffic platform partners, we have been expanding our own traffic channels and constantly accumulate our traffic pools.

In our fourth quarter of 2022, nearly 90% of the new customer traffic came from our own channels, either via our social media platforms, application markets or our online campaigns. Meanwhile, we have also set up a membership system with exclusive and diversified benefits to increase our customer stickiness and engagement.

Through our continued efforts, the number of our borrowers served in the fourth quarter enjoy an increase of 39% year-on-year, and MAU reached 2 million on our Yi Xiang Hua platform. Consequently, our acquisition cost per user see a visible declining trend, translating into a healthier UE.

As for our SME loan business, we are tightening our risk control policies and proactively constrain in the growth of the maintain the overall product mix and asset quality with a proper level under current macro situation. Meanwhile, we also note that a sizable proportion of our existing clients on Yi Xiang Hua platform are small or mini business owners with high-quality credit records. Therefore, we started to offer those customers with a fast track online loan facilitation services to Yi Xiang Hua since December last year, which further help to cut down our acquisition cost. We will adjust our product mix dynamically in accordance to the recovery pace of the business activities.

On the funding front, as a number of our funding partners continue to grow and liquidity in the market improves, we expected a further decline in our funding cost in the year of 2023.

Last, but not least on the asset quality due to the COVID situation, our delinquency rates showed slight volatility in the fourth quarter with FPD 30-plus delinquency rate reaching 0.67% before recovered to a historical low level in February 2023.

Early indicators have shown our asset quality continued to improve as our collection ratio increases and the borrowers' capacity of repayments recovers.

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

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

Thanks, Mei, and hello everyone. For the fourth quarter of 2022, we're able to deliver a strong quarter with both top and the bottom lines, realizing a two digital growth, ending the year strong. Now I will focus on key financial highlights, and please refer to our earnings release and IR deck for details further.

In the fourth quarter of 2022, total revenue reached RMB 1.1 billion, representing a 29% increase quarter-over-quarter and 7% year-over-year due to our rapid growth in scale.

Revenue from holistic wealth management increased by 9% quarterly to RMB 320 million, accounting for about 29% of our total revenue, presenting a balanced and stable revenue structure. On the credit side, total loan facilities this quarter was RMB 6.8 billion, showing a 10% annual growth, driven by offering borrower base and the strong demand of our smaller revolving loan product as Mei just touched on.

Revenue from credit-tech stores stood at RMB 339 million this quarter, increased by about 30% quarter-over-quarter and 4% year-over-year. To realize our mission of financial exclusion and in line with regulatory directive. Partly, our average borrowings capped around 24%. It is the current momentum of our Credit-Tech business to protect a further 2 digital growth in loan facilitation in the year of 2023.

On the expense side, we are pleased to see a concrete decline trend quarter-by-quarter as we finish business transition and continue to outline our cost structure. Our total operating cash was RMB 456 million this quarter, decreased by 34% compared with the fourth quarter last year.

Sales and marketing expense decreased by 56% to RMB 103 million from the same period last year. Due to our optimization of our off-line business and the improvement of our acquisition efficiency. Origination and service and other operating costs decreased by 2% year-over-year to RMB 212 million, which largely remained stable.

G&A has decreased by 29% year-over-year to RMB 85 million. As we continue in our Yiren digital operation, which led to the cost savings from our subordinate departments, despite the write-up long volume allows for our contract assets receivable and others slightly increased by only 7% year-over-year to RMB 59 million due to the organization of our product mix.

Go on to our bottom line, we delivered a strong profit of RMB 485 million this quarter, increased by a significant 47% year-over-year and 18% quarter-over-quarter. The full year 2022, total net profit reached RMB 1.2 billion, making an increase of 16% compared to the prior year despite the impact from the closure of off-line business line that leads to the dip in full year revenue.

Net profit margin climbed to 35% in 2022 from 23% in 2021, a vivid reflection of our full efforts to optimize our unit income via business transitions and control costs.

Turning to our balance sheet. We maintain a substantial balance sheet with the RMB 6 billion in total shareholders as of December 31, 2022, increased by 25% compared to as of December 31, 2021. Meanwhile, our capitalization grew stronger with use for cash is RMB 5.2 billion, an 11% increase compared to the end of last quarter, paving a solid foundation for us to expand our business and seize any new opportunity in our future.

Looking forward, based on our assessment of our business and market conditions, our 2023 full year revenue to stand between RMB 3.6 billion to RMB 4 billion, with net profit margin expected to remain stable. This is the company's current and preliminary view, which is subject to change and uncertainty.

With that, we conclude our closing remarks. Operator, we are now open for questions. Thank you.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question today comes from Matthew Larson from [Vancadia].

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### Matthew Lewton Larson

Okay. Good quarter, as you've been doing very well over the last 2 years. Got a couple of questions. You've reiterated in previous conference calls, the intention to buyback up to \$20 million worth of stock, but I don't see a reduction in the outstanding share count. Have you bought back any stock yet based on your goal to do so?

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

Yes. Okay. I will answer your question about our share purchase back, yes, as we mentioned, in our last preliminary year calling will perform our shares buyback. And after the conference, will perform or apply. And until now, we have used about USD more than \$2.5 (corrected by company after the call) million to perform our share purchase back, and we'll still continue to do in this opening window. Hope my answer can answer your questions.

**Matthew Lewton Larson**

Yes, I'm missing coming here. So you did buyback shares since last quarter?

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

Yes.

**Matthew Lewton Larson**

You did. All right. And you said RMB 400 million or -- that would be about \$5 million or \$6 million. I'm sorry. Now I'm sorry, can you just -- how many shares did you buyback, I guess, is a better question?

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

Okay. Totally, we already spent over \$2.5 (corrected by company after the call) million to do our share purchase back. And for the detailed number of the shares, we purchased more than 1.1 million ADS so far.

**Matthew Lewton Larson**

Okay. I guess I'm misunderstanding you because, again, I'm looking at the share count -- shares outstanding.

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

I'm sorry, I'll correct my number, our spending on share repurchase is U.S. dollar \$2.5 million. Yes.

**Matthew Lewton Larson**

\$4 million. Okay. So you bought back about 1.1 million shares or so you bought back [\$2.5 million] out of the 20 million that you planned to. Okay. So -- all right. So you did buyback a few -- okay, because your book value must be -- book value has got to be above \$9 now and you have a lot of cash. What sort of interest have you been earning on the cash? I haven't really looked over the quarter -- I just look at the news release. With interest rates higher, most places around the world, that could be a very good source of income. What sort of return are you getting on that cash?

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

Yes, (inaudible) has a strong cash deposits and accept that we use our cash to perform our share buyback line. And now of the basis consider the risk and the liquidity purpose where the bank deposits and our interest is about 3% to 4% annualized. Of course, as you mentioned, we have a strong cash position, and we also want to use our cash efficiently to set other any opportunity to [employ] the new business opportunity and to hope to get the higher cash deposits, the revenue rate income.

**Matthew Lewton Larson**

Okay. So you're getting 3% to 4%, which is very good on the amount that you have [RMB 600 million] plus. It was a very good quarter. So congratulations. Your stock there remains extremely undervalued by any measure slightly -- it's 1x cash flow from what I can see and a little over 1x earnings. What plans do you have to, I guess, get a greater recognition by more people about your company so that you could generate greater investor interest in it. Have you thought about getting some research coverage or some public relations people who can put the word out about how well you're doing. So if you could address that, I appreciate it.

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

Yes. Thank you for your projection. And yes, we will try to attract more investors to recognize our contribution to our company and to recognize our market value. Thank you.

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

We'll talk more...

**Matthew Lewton Larson**

Okay.

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

With the analysts, with the investor community.

**Matthew Lewton Larson**

You are talking more with the investor community?

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

We'll try to do better, obviously...

**Matthew Lewton Larson**

Yes. Okay. I mean I do remember, frankly, I remember when you went public through Morgan Stanley back in December of 2015 and I bought on the IPO. And of course, your stock was quite a bit higher over the years before some of the regulatory changes made peer-to-peer lending business that was not recognized and you've been able to pivot quite well so that your business is a lot more diversified, not just loans but of course, the insurance and things like that, the wealth management.

And so you're doing a very good job. It would be nice to see the stock reflect that. I think it should be worth several times where it is. And so it would be worth your while to try and get some research coverage or go to some conferences or what have you to get greater awareness of it.

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

Thank you again, for your trust many years ago and today. And as the COVID is over, we would do more travel, yes indeed.

**Operator**

(Operator Instructions) And we do have an additional question. This comes from Ethan Yu from First Trust China.

**Unidentified Analyst**

Congratulations on your outstanding quarterly performance, especially with your strong margins. Thanks for the previous investor -- the answer 1 of my question is about repurchase program. And I have another kind of question that I'm interested in knowing, how you overseas business development is progressing?

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

Is about our overseas business development, right?

**Unidentified Analyst**

Yes, your overseas business development.

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

Yes. And -- Yes. And last quarter, we started to do business in Southeast Asia to be specific in the Philippines. It's in early stage of business operations. But we do see it become a bigger and bigger portion of our Credit-Tech business revenue. Yes. And we will go from the Philippines to other countries, other markets in Southeast Asia and potentially other parts of the world, leveraging our fintech capabilities established in home market.

Yes. It's still in early days, but we are very hopeful that, yes, it will become a key part of our business and is very strategic for us to do this, yes, capability expansion, right. We're now in the Philippines. And we did our first [launch] yes, last quarter in the Philippines.

**Operator**

And ladies and gentlemen, in showing no additional questions, we'll conclude today's question-and-answer session as well as today's conference call. We thank you for attending today's presentation. You may now disconnect your lines.

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

Thank you.

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

Thank you.

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