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Q1 2023 Yiren Digital Ltd Earnings Call

EVENT DATE/TIME: JUNE 09, 2023 / 12:00PM GMT

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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 First Quarter 2023 Earnings Conference Call. (Operator Instructions) I would now like to hand the conference over to Lydia Yu. Please go ahead.

Lydia Yu *Yiren Digital Ltd. - IR Officer*

Thank you, operator. Hello, everyone, and welcome to our first 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. Mr. [Raymond Fang], Head of our Consumer Finance, will join the presenters in the Q&A questions.

Before beginning, we would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provision of the 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 than 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 estimation prepared and presented in accordance with U.S. GAAP. For information about these non-GAAP measures and reconciliation to GAAP measures, please refer to earnings press release.

I will now pass the line to Ning, our CEO, for opening remarks.

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

Thanks you all for joining our earnings conference call today. First, an update on our insurance brokerage business. Total gross premiums reached more than RMB 323 -- RMB 923 million, up 15% year-over-year, of which life and property insurance policies contributed 57% and 43%, respectively. The increase was mainly driven by life insurance policies, which increased 28% year-over-year, significantly outpacing China's life insurance industry premium growth of 8.9%.

Our strategy to drive rapid business growth continues to be product innovation, customization, agent development and digitization. We're invested in our agents and have established programs to help them improve professional skills to enable them to broaden their service scope to cross-sell and upsell products and services, matching customers' evolving needs throughout their entire life cycle. We noted initial success this quarter with a significant uptick in first year life insurance premiums from existing property insurance policyholders.

On property insurance, as mentioned on our last call, as part of China's Belt and Road Initiative, a global infrastructure development strategy, China's outbound investment and construction projects are expanding at a fast pace, bringing new scenarios for insurance protection and coverage. Yi Xiang Hua, leveraging its advantages in product development, professional risk management expertise, reinsurance qualifications as well as partner -- is now providing reinsurance for overseas construction insurance policy. We estimate the potential market size for this insurance segment to be at least RMB 10 billion.

In the first quarter, total premiums for this product segment grew close to 30% quarter-over-quarter. And we expect to see a continued increase over the rest of the year.

Next, on the credit side. In the first quarter of 2023, total loan volume was RMB 6.4 billion, representing a 39% increase year-over-year. Total number of borrowers in the quarter increased 71% from prior year to 872,000. The increase was primarily driven by our revolving loan product, Yi Xiang Hua, which actually saw volume increase, 88% from prior year due to increasing demand.

MAU on our Yi Xiang Hua Platform is reaching close to 2.2 million users as of quarter end, increasing 8% from prior quarter. As our active user base on the platform continues to expand, we have also seen an uptick in our revenue from electronic commerce services which we consider as risk-free revenue and includes services like recharging online video and streaming accounts and topping up phone credits. These e-commerce services also present an opportunity to establish our own membership ecosystem, enhancing customer loyalty and engagement.

On the funding front, as the number of our funding partners continue to grow and we continue to diversify our funding sources, we noted a 16% decrease in institutional funding costs this quarter from prior year.

On asset quality, we maintained a conservative risk management policy this quarter amid a slower-than-expected macro recovery, and we noted an improvement in delinquencies with FPP 30-plus delinquency rate improving to a historic low of 0.6% compared to 0.7% last quarter.

This quarter, we started to execute on our international expansion strategy in which we hope to leverage our extensive expertise in the consumer finance sector to promote greater financial inclusion. I'm very excited to report that we have completed establishing a wholly owned subsidiary in the Philippines, which owns an online lending license and financing license from the nation's Securities and Exchange Commission. We recently beta launched under the brand EasyPeso and have experienced a substantial surge demand -- in demand since then, already accumulating over 190,000 registered users on our app.

As of today, we have completed the facilitation of the first loan on the platform and is conservatively controlling our scale while focusing first on refining and enhancing our risk models. We see enormous demand for financial services in this underserved emerging markets, and we expect international markets to become a new growth driver for our business.

Going forward, we plan to accelerate our pace of penetration in the Philippines, while investing in operational flows to increase automation and enhance cost efficiency. At the same time, we will also start evaluating potential opportunities in other regions around the world.

Recently, we've been witnessing the rise of ChatGPT and generative AI technology. And we believe that the application of generative AI can disrupt and bring sweeping changes to the financial industry. This quarter, we established an AI lab that will be focusing on utilizing ChatGPT, large language models and generative AI technologies to develop applications in each of our business sectors. For example, using personalized chat box to provide 24/7 customer service for our borrowers or utilizing technology to help our agents increase cross-selling and upselling. With the launch of our AI lab, we aim to improve the efficiency and effectiveness of our operations, enhance user experience and drive business growth.

Lastly, I would like to say a few words about the management transition we have announced. George is stepping down as CRO. On behalf of the Board, I would like to express my sincere thanks to George for his outstanding contributions to the company throughout these years. Concurrently, the Board has selected Ms. Yang Bin to serve as the company's Chief Human Resources Officer. Together, we're excited to propel the company to new levels of success.

With that, I will 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 the key financial highlights. Please refer to our earnings release and IR deck for further details.

In the first quarter of 2023, our total revenue reached RMB 986.3 million, representing a 40% increase year-over-year and a slight decrease of 9% from prior quarter. The quarter-over-quarter decrease was mainly driven by change in our loan volume. Our total facility this quarter was RMB 6.4 billion, representing a 39% year-over-year growth and a 5% decline by prior quarter. The quarter-over-quarter change can be due to adjustments in product mix. Basically, we actually make adjustment to our small business loans, while we plan on growing growth in our small revolving loan sector.

Insurance has become our key revenue driver from the building close to 20% our net revenue this quarter. And therefore, starting from this quarter onwards, we'll be disclosing assets, total gross premiums and revenue from our insurance brokerage business.

In the first quarter this year, gross written premium reached RMB 923.4 million, representing a 15% increase year-over-year and a 31% decline from prior quarter. The quarter-over-quarter decline was mainly attributable to a decline in policy renewal, which impacted by timing of the first year assignments. Revenue from insurance brokerage business reached RMB 196.4 million for this quarter, representing an increase of 27% year-over-year and remained stable from prior quarter.

As a portion of our first year premium under life insurance policy were both higher this quarter, thereby overall a revenue take rate of broker business increased accordingly.

On the expense side, sales and the marketing expense decreased to 40% to RMB 106 million from the same period last year due to the optimization of our cost structure for our offline business and increase in portion of our revolving loan to existing customers. On the other hand, origination and the service cost increased to 31% year-over-year to RMB 200 million, mainly drive the increase of organization and the service costs related to our insurance brokerage business.

Quarter-over-quarter, our general and service expense as a percentage of revenue for the insurance sector has remained stable at 58%. G&A decreased by 21% year-over-year to RMB 93 million. Allowance for contract assets and the receivable was RMB 45 million for this quarter, remaining stable, and the profit grew 27% on loan facility.

And for our bottom line, we continue to deliver a strong profit of RMB 425 million this quarter, increased 131% year-over-year and represent a net income margin of 53% (sic) [43.3%], with annual profitability RMB 390 million cash from operating in fourth quarter, an increase of 40% from prior quarter.

Our total cash and cash equivalents were RMB 5.1 billion at the end of the quarter compared to RMB 4.3 billion as of the year-end of last year.

With the gradual recovery of our macroeconomic, we'll proactively seek our opportunity to allocate resources to new initiatives and the strategic investment, proper technology innovation and foster business growth.

In the first quarter of 2023, we declared around USD 2.5 million to pay back our shares in the public market. As of March 31, 2023, the company has accumulated around close to USD 3 million for our share repurchase program.

Preliminary assessment of business and the marketing conditions, our total revenue in the second quarter of this year is to be RMB 0.9 billion to RMB 1 billion despite profit margin continue to remain stable. Of course, this reflects our current and the preliminary review, which is subject to change and uncertainty.

With that, we conclude our prepared remarks. Operator, we're now open for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Your first question comes from [Bruce Aurin] from New Haven Fund.

Unidentified Analyst

First, I'd like to congratulate you on another outstanding quarter. I have 2 quick questions. Can you provide insight into whether the PRC Government regards financial institutions like Yiren Digital favorably or unfavorably in the current political and economic climate?

And my second question is, are you considering offering a dividend to shareholders?

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Thank you for your questions. Hello? Yes, Na, please go ahead.

Na Mei Yiren Digital Ltd. - CFO

Okay. Tang. I think I can answer the second question. So the first question...

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Go ahead. Go ahead, please.

Na Mei Yiren Digital Ltd. - CFO

Okay. Okay. I will. Okay, thank you. I will answer the second question about our dividend anytime. Yes, you can see, we have purchased our share repurchase supply from the last December of last year. And by now, we have accumulated about USD 3 million to perform our share purchase. And by now, for our management -- well, for our cash deposits, we're mostly focused on more opportunities to use our cash deposits to serve our own business and hope our business to have a stable and growth -- and has growth and also want to increase our fund return ratio for now. So by now, I can say the company has no dividend plan currently. And for this question, can't tell me if I'm -- any abandoned to the question.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Okay. Let me cover the first question. Thank you for your compliment, and we'll continue to try our back, first of all. And regarding macro conditions, it's like you must know that the past several years, things have been quite a dynamic for this sector, a lot of changes. And -- but now things have become much more stabilized. And the economy is recovering from the pandemic and daily consumption is encouraged. Small business is encouraged. And so after the past few years of the dynamic period, we feel that recent macro environment is rather conducive to what we're doing. Yes.

Operator

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

Matthew Lewton Larson

And again, a terrific quarter. If I could give some advice to all to bring greater recognition of your company. You're trading at essentially 1x earnings. If you make \$0.70 a quarter, we can do the arithmetic, that's \$2.80 a year, and that's less -- that's greater than what the stock is trading at, plus you have cash. I see your balance grew north of over \$700 million. And that's several times what your market cap is.

So I've got a couple of questions. I mean, first of all, the news release should have said earnings up 100% versus just reporting the earnings. I mean, that catches people's eyes. And then you mentioned in your report an artificial intelligence initiative. If you would just say something like we've initiated an AI initiative and we expected to expand our business significantly. I mean that alone would come up on people's screens for U.S. investors as a rationale to invest in your company. And if they did, they computed the numbers and saw how undervalue you are versus your balance -- versus your book value and your cash balance, I think that could get it higher.

I assume you want your stock to go higher. I mean, frankly, I worked at Morgan Stanley when you guys went public back in December

2015, when you were a peer-to-peer lender and you exited that area because the government did not -- the PRC Government frowned upon that, and you've done a great job doing so and you're making plenty of money. So I think you got to get the word out there and being more detailed and frankly, a little more hyperbolic, a little more animated in your news releases, I think, would gain attention.

Let me ask this, though, after that in detail because I've been an investor for a long time, and I'm frustrated. This stock should be \$6 or \$7, minimum, if not a lot higher. But on June 30, the PRC is going to be looking at companies that are capital light and are doing lending as you do and maybe make some changes and what have you. Since you have so much capital and you have a small loan book, do you keep your loans on your balance sheet?

Na Mei Yiren Digital Ltd. - CFO

Yes, I'll answer your question. Yes, actually, for our lending business, we have 2 modes. One model is used our guaranteed income, it means like the heavy model. So this heavy model, the loan volume is in our balance sheet, as you know.

Yes, the second model is not heavy, it's a light model that we decide and adjust to the performance, promotion, reference and asset sales channel to our funding partner. And we just worked out our consulting revenue funding partner and we don't have any guarantee responsibility. And for this model, the loan volume is now in our balance sheet. And now we have both 2 of these models. And so for the first model, if we take the guarantee responsibility, the loan volume is in our balance sheet. Yes.

Matthew Lewton Larson

All right. But I think that's really the issue that to get a -- to be licensed to make loans, one has to take some of the risks. And I'm seeing some of your former competitors or maybe competitors, whether it's XYF, QFIN, FINV, in particular, is keeping more of the loans on the balance sheet besides just being capital-light.

Now as far as having all that huge cash balance you have, I see that you had a lot of income -- investment income. Was that just interest on your cash balance, which you should be getting these interest rates have risen, and that should be a large part of some of your income. Hello?

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Na, are you taking this question?

Matthew Lewton Larson

Yes. I mean you have a lot of cash, \$700 million. What sort of interest are you earning on that?

Na Mei Yiren Digital Ltd. - CFO

Okay. Yes, you can see we have about RMB 5.9 billion attached deposits in our balance sheet. For our balance sheet -- for our cash receivables, we have -- actually, we have one, the profit is -- we have deposits and corrective with our funding partner to make some -- our financial products on the financial income, the first income.

The second is actually we add -- from this year, we also -- for our cash usage, for example, we have corporate wealth trust companies to set up traffic flight for our own product Yi Xiang Hua. There are some figures for you for reference in the first quarter.

Our own money set up the track loan, has already about RMB 300 million for our loan volume. And the transaction amount expected to about RMB 600 million by the end of the second quarter. So we can use our own money to service our own product and earn profits from our own profile at Yi Xiang Hua.

Of course, we're still planning other new initiatives such as Tang mentioned in our script. We have overseas strategy. We'll also use our own money to expand overseas opportunities. And there is some pre-expenditure on our overseas provides that there is business strategy. And also, we'll use our cash to -- cash on proper technology innovations, as Tang mentioned that we will set our AI lab, and I hope there will be more expenditure in the future as technical. And also, generally, we have -- as a management, we have tried our best to seek more opportunity to increase our fund return ratio and keep our stable profit.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Let me add to that. It's really great to meet an old friend. And the past few years has been not easy for us and all the stakeholders around, but I feel bad about -- I have not been able to produce great returns for some of the people who have trusted us. So we'll continue to double our efforts to do a good job.

Yes. I take your advice on making things more eye-catching, so on and we didn't so highlight the AI initiative because we've seen many people just use it as like a marketing slogan, but we hope to really utilize it in our daily work and achieve good better numbers first. But yes, the point is well taken. We'll be more proactive in terms of communicating.

But let me say a few words, I mean, about, our strategy and how to -- in the coming years since you mentioned like the stock price and so on. I mean the domestic lending business is a high growth and profit generating, although it's not top, top scale, yes, but we're catching up. I believe in a few years' time, we'll be able to largely catch up. But at the same time, we've been trying to do a very good job in insurance, yes, which we like. And yes, we've built a very good foundation for insurance. I think that will be a key differentiator.

Another key growth driver strategy for us is some folks have done some work outside of China with some progress. But we believe after the pandemic, the field is good for us to get in to do a good job outside of Mainland China. And we've got started in the Philippines, but more to come. And so these are the building blocks but we'll try and do more, although we have no clear ideas other than utilizing AI as a tool to do the above things better. But we should have more ideas about how to really build the business.

Matthew Lewton Larson

Okay. And thanks for that oversight. I mean, literally, your stock should be a lot higher. I just think like a lot of companies from the PRC, they fall below the radar because people in the U.S. become disenchanted with a lot of companies. But yours, it just trades well below your liquid assets.

Now you would, in the past, mentioned a share buyback, which would be very accretive and it certainly would be helpful. I noticed that none shares, it looked like, were purchased in the first quarter. You obviously have the money to do so. I mean you could easily buy back \$10 million, \$20 million or \$30 million worth of stock. It would reduce your float, but what do you have to lose because the stock is trapped in the \$2 range. So do you expect to buy back any shares if you're not going to do a dividend this quarter?

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Na, you will take this question? I believe we keep doing share buyback.

Na Mei Yiren Digital Ltd. - CFO

Yes. As I mentioned before, we performed our shares buy pack from the December last year after the Board approved. And by now, we have used about USD 3 million to perform share repurchase. And for the...

Matthew Lewton Larson

Is that \$3 million -- sorry, Na, did you say \$3 million?

Na Mei Yiren Digital Ltd. - CFO

By this -- by today, we have used about USD 3 million to perform this, yes. And we'll keep on our share payback program, yes, because we have approved \$20 million amount from our Board approved. So we can use this approved amount step by step, yes. And generally, we'll keep on our share payback until we use the rest amount, yes. I think we'll keep on doing this frankly for the rest of this year.

Matthew Lewton Larson

Okay. Because the stock price is so low, you don't even have to be that sensitive to stock price. I mean, you could pay up to \$3 or \$4 a share. If you just put a bid in the market for 5 million shares, it would not only alert the investment community that there's a serious buyer, but it would be very accretive to you since your book value is many times where it's trading at. So it's a plus-plus. I mean, with all the money you have, I can't imagine there's too many better investments than your own stock.

Na Mei Yiren Digital Ltd. - CFO

Yes. I know you're concern and thank you for your comments. And I'll ask Mei Zhao -- some more final information to -- about why -- how we perform our share type offers because every day the company can't perform like this, shares amount is based on the U.S. regulator. So as we operate with our broker -- actually, we have now, as you mentioned previously payback, we have arithmetic about our share purchase.

So as a communication with our broker, of course our performance shall payback based on the regular top, top. Yes, we have paid -- we have purchased the largest amount according to the -- this year. So we're now going to seriously to pay back debts because we must comply the rule basic. We have limited amount every day we can purchase from the, market, yes.

Matthew Lewton Larson

Okay. Yes, I know you're constricted by volume. But all right, listen, keep up the good work. I think you just got to get the message out to more investors because, again, AI is a marketing tool by many companies, but you guys have been using some form of AI for years. That's how you make your credit decisions by using algorithms and things like that.

So I think you should promote it because it's valid and make it very clear that you've doubled your earnings year-over-year and that you have complete upside. And I think that a news release such as that would generate some interest here. So thank you for your time and keep up the good work.

Na Mei Yiren Digital Ltd. - CFO

Thank you.

Ning Tang Yiren Digital Ltd. - Executive Chairman & CEO

Thank you for the advice.

Operator

Thank you. There are no further questions at this time. That does conclude our conference for today. Thank you for participating. You may now disconnect.

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