

EVENT TRANSCRIPT

Q4 2023 Yiren Digital Ltd Earnings Call

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Marco Zhang

Matthew Larson

Peter Ruh

PRESENTATION

Operator

Thank you for standing by, and welcome to the Yiren Digital fourth quarter and fiscal year 2023 earnings conference call. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to Ms. Keyao He, IR Officer. Please go ahead.

Keyao He *Yiren Digital Ltd. - IR Officer*

Thank you Operator. Good morning and good evening everyone. Today's call features a presentation by the Founder, Chairman and CEO of CreditEase, our CEO, Mr. Ning Tang. Our SVP, Ms. Mei Zhao will join us in the Q&A session after the prepared remarks.

Before beginning, we would like to remind you the 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. Such statements address risks, uncertainties and factors that 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 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 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 on to Ning for opening remarks.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Thank you all for joining our earnings conference call today. In a year of global economic uncertainties, we wrapped up 2023 stronger than ever, showcasing the strength and the resilience of our business. The year also marked a pivotal moment for us as we firmly established ourselves as a pioneering, AI-driven financial and lifestyle services platform.

Through the strategic re-categorization of our business lines, we streamlined our operations, focusing on the most significant growth drivers. Our proactive integration of AI into our daily operations catalyzed a significant shift, propelling our business forward amid a dynamic economic landscape. This strategic embrace of technology not only optimized our efficiency, minimized labor costs and enhanced our customer service, but also underscored our dedication to innovation and strategic advancement.

Our achievements in developing and deploying AI highlight our ability to adapt and excel, setting new benchmarks for operational excellence and resilience. First, our financial services business segment, the fourth quarter witnessed continued robust growth with total loan volume reaching RMB 11.6 billion, a 72% increase year-over-year, marking the fourth consecutive quarter of double-digit growth.

The number of borrowers served rose to 1.4 million, a 59% increase year-over-year, highlighting our eight consecutive quarter of growth. The MAU of our Yixianghua ATP increased from 2.9 million last quarter to more than 3.5 million this quarter, presenting an impressive annual growth rate of 77%, demonstrating the app's growing popularity and user engagement. This growth is underpinned by our advanced and continuously evolving AI system.

For instance, in the fourth quarter, our AI telemarketing robot assisted over 10 million borrowers, facilitating more than RMB 1 billion in loans. Regarding our international financial services business, we achieved a 49% increase in loan volume facilitated in

the Philippines in the fourth quarter compared to the third quarter of 2023. With the automation of information review processes driven by our AI LLM, we expect accelerated growth and expansion into additional overseas markets in 2024.

Another operational highlight that I would like to address is our strategic shift to the RTA, or real time analysis customer acquisition model. This approach integrates risk screening at the customer acquisition stage, attracting higher quality customers and improving our customer mix. As a result, the proportion of new high quality borrowers served this quarter increased by four percentage points compared to the previous quarter.

Turning to asset quality, the fourth quarter saw a slight increase in 15 to 89 days delinquency rates to 3.5% due to industry-wide credit quality fluctuations. However, with the ongoing optimization to our customer mix and the fine tuned risk control standards empowered by AI analysis, we've observed a 15 basis point decline in our RPD 30-plus delinquency rate in the fourth quarter from prior quarter, along with a further downward trend going into the first quarter 2024.

On the funding front, we are glad to see a continued decline in our funding costs by another 20 basis points compared to the prior quarter. As our institutional funding partnerships continue to expand nationwide, we expect a further 60 basis point decrease in the funding cost in 2024 compared to 2023.

Now shifting to our insurance brokerage business, the year of 2023 saw continued strong growth in our business volume with total premiums reaching nearly RMB 4.9 billion, representing a 24% annual increase, significantly outperforming the industry average of 9.1%.

The full year insurance commission revenue reached nearly RMB 1 billion, a 32% year-over-year increase; however, in the fourth quarter alone, due to new pricing regulations capping product returns at 3%, life insurance premiums saw a 24% decline year-over-year, nearing the broader industry trend. This was partially offset by a 26% annual growth in our property insurance premiums for the fourth quarter of 2023.

As we've previously discussed, our strategic focus remains on agent development, product innovation and digitization. For life insurance products, we will continue to enhance our capabilities in serving high net worth groups via our growing leads team. In 2023, there was a notable 45% rise in the number of large ticket life insurance policies with premiums of RMB 3 million per policy, as well as a 70% increase in policies exceeding RMB 10 million.

Currently, we are expanding our elite agent team and getting ourselves fully prepared for the rebound in the life insurance market, which is expected to occur in the second or third quarter of this year as the industry fully adjusts to the new regulations and product changes.

On property insurance, we will continue to focus on higher margin business through product innovation and channel partnerships in health and medical care, engineering and construction, and travel and transportation. For example, the 2023 full year premiums of our overseas construction insurance product increased by 13% year-over-year.

Moreover, we have also strengthened our cooperation with high quality social platforms such as Little Red Book. Since the start of the fourth quarter of 2023, we've closed nearly 100 high end medical insurance policies on that platform, marking an efficient new acquisition approach.

On consumption and lifestyle services, the growth momentum continued as the fourth quarter saw another 23% quarterly increase in our total GMV to RMB 693 million. The number of transactions reached 3.4 million, up 13% from the previous quarter. The robust growth reflects our continued effort to address our customers' non-financial needs and our commitment to enhancing their overall quality of life, which in turn improves user engagement and stickiness, creating a reinforcing cycle within our ecosystem.

Looking forward, there will be more attractive lifestyle and entertainment products and services driven by AI and high tech coming onto our shelves. Last but not least, I would like to emphasize our AI strategy atop our long term strategic direction. Through our AI lab initiative, we have been training and fine-tuning our large language models and developing our own large language model operations, or the so-called LLM ops platform. This endeavor will firstly deepen AI integration across our operational spectrum, boosting efficiency and enhancing customer experience.

Secondly, we aim to expand our AI expertise beyond the fintech verticals to more select sectors, empowering both B2B and B2C clients and partners with advanced technological capabilities. Moreover, we have recently encountered high quality AI companies and plan to expand our AI ecosystem through strategic partnerships and investments. The horizon is brimming with exciting prospects. Originally, our CFO was scheduled to participate in this meeting. Due to unexpected travel commitment, she is currently on the road and unable to join us online.

In her absence, I will be taking the lead to share the prepared remarks with everyone. For this part, I will only focus on the key financial highlights. Please refer to our earnings release and IR deck for further details.

First of all, we are glad to report a solid full year of 2023 with both our top line and bottom line realizing double-digit annual growth, beating our previous guidance. Specifically in the fourth quarter of 2023, our total revenue reached RMB 1.3 billion, representing a 17% increase year-over-year. For the year of 2023, total volume reached RMB 4.9 billion, up 43% year-over-year.

Now on financial services, we saw a continued healthy growth with total loans facilitated this quarter reaching RMB 11.6 billion, representing a 72% growth over prior

year. Revenue from this segment reached RMB 781.3 million for the fourth quarter, representing an increase of 22% year-over-year.

On insurance, gross written premiums reached RMB 1.2 billion, representing a 9% decrease year-over-year and a 15% decrease from the prior quarter. This decrease was mainly due to the new regulations capping life insurance returns at 3%, down from previous 3.5%. With sales peaking for legacy products in the second and third quarters of 2023, the market responded to the newly priced products with low interest.

Consequently, we saw a substantial decline in the first year premiums of life insurance products, therefore revenue from insurance brokerage services in the fourth quarter decreased by 51% year-over-year to RMB 98.2 million. Given that first year premiums overall have a higher commission rate as compared to renewal premiums, the decline in revenue was greater than that of the premiums.

As mentioned earlier, we expect a gradual recovery in the second or third quarter of 2024, meanwhile our property insurance remained solid with the fourth quarter premium increasing by 26% year-over-year. On consumption and lifestyle services, total GMV for the quarter reached RMB 692.7 million, increasing 23% from prior quarter.

The customers for this segment come from our existing users across all business lines. The growth rate of GMV is aligned with the increase in the number of our combined customers across diverse business segments.

On the expense side, sales and marketing expense increased 99% year-over-year to RMB 205.7 million, mainly due to the intensified promotional activities as we see a continued growth in our financial services business volume.

Research and development expenses increased 44% year-over-year to RMB 47.6 million as we persist in ramping up our investments in AI and technological innovation throughout the company.

Originations and servicing costs decreased to 13% year-over-year to RMB 184.7 million, mainly driven by a decrease in originations and servicing costs related to our insurance brokerage sector amid the currently regulatory headwinds.

G&A remained stable year-over-year at RMB 50.5 million. Allowance for contract assets and receivables was RMB 98.7 million for the quarter, translating into 0.8% of loan facilitated, 10 basis points lower than prior quarter.

Onto our bottom line, we continued to deliver a strong profit of RMB 571.3 million this quarter, increasing 18% from prior year. We generated approximately RMB 417.2 million non-cash from operations in the fourth quarter, a decrease of 12% from prior year.

On the balance sheet side, our balance sheet remained strong with total cash and cash equivalents of RMB 5.8 billion by the end of this quarter, providing a sufficient

buffer for us to respond to any business opportunities in institutional operations, international expansion, and the strategic AI deployment.

This quarter, we deployed US \$1.9 million to buy back shares in the public market. As of fourth quarter end, the company has cumulatively deployed close to US \$7.4 million for its share repurchase program. We remain optimistic about the core strength and the future growth opportunities of our company.

Given our evaluation of the current state of our business and market trends, we expect our 2024 full year revenue to stand between RMB 5.8 billion and RMB 6.8 billion, with a healthy net profit margin. This reflects our current and preliminary view, which is subject to change and uncertainty.

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

QUESTIONS AND ANSWERS

Operator

Thank you. [Operator instructions] Your first question comes from Marco Zhang with Water Tower Research. Please go ahead.

Marco Zhang

Hi, congrats on your strong Q4 and 2023 results. My first question is your AI strategy. What are your specific AI strategies for each business line, and regarding the development of an AI ecosystem, as mentioned in your remarks earlier, could you elaborate on the latest progress, and are there any specific investments or collaborations with other technology companies that you can disclose? Thanks.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Thank you. First of all, we are utilizing AI in our fintech businesses, including credit tech and insurance tech and lifestyle consumption services. For example, in our risk management, we use AI to do collections and we use AI for our international businesses' quality control, like in the Philippines and in Mexico. We can monitor from remote how teams in those markets conduct business according to local regulations through AI translation and intelligence.

For our insurance tech business, for example, we are helping clients analyzing their insurance policies from us and from other insurance companies and agents, and for example we are developing AI content for our lifestyle and consumption services. To be exact, we are developing models for each of our fintech business lines through open source base large language models, plus each business lines' our proprietary data and business know-how.

Through this process, we've developed strong capabilities, in our view, to tweak and fine-tune the model, and this capability is very--in high demand in the market, so we are now working closely with strategic partners on building a product for this model, large language model training capability.

So this LLM ops platform will go live soon. On that platform, we can continue to train our models while others can come train theirs, so we welcome customers from all sectors to come train their models. We will offer open source functions to them, but for those who are interested in further developing their models and if they need our help, we can provide additional help on a paid basis, so this will be our new business in AI, part of our new AI business. At the same time, we are leveraging this AI capability to try and work with industry leaders in legal, in psychology, social companion, such sectors who have great data and great business know-how for their respective verticals, but don't have great AI capabilities.

So we will try and work with them strategically, bringing AI capability to their businesses. We are in the process of closing a number of strategic investments and partnerships in AI and when the time is right, when we close each of those initiatives, we will make additional announcements.

Marco Zhang

Got it, that's good to hear. My second question is a little bit broader, regarding your international business. What are your expansion plans for 2024 regarding your international business, and what is the expected growth rate for loan facilitations overseas?

Ning Tang *Yiren Digital Ltd. - Founder, Chairman and CEO*

Let me first offer my more strategic--more macro view, and then colleagues may--and colleagues, please add to it. Our international expansion strategy is key to our future growth, and we've made very solid progress so far but a long way to go, because the base is still quite small.

And so any new business on top of that will likely represent very high growth rate, but we will continue to grow our international business. We are doing work in Southeast Asia, first in the Philippines but more countries to go in Southeast Asia. We've got started in Latin America with Mexico to be the first, so we are very hopeful about that market. Subsequently, I hope--and we do have a plan to explore Africa, but start with that. Can Mei please provide more details?

Mei Zhao *Yiren Digital Ltd. - SVP*

Yes, just like Ning mentioned, our overseas geography is very key. In the last year, our objective was to understand the overseas market and to build up our teams, and I think we have successfully met the targets in last year. For 2024, I think we're going to target our international business to double in the 2024. I think we have great confidence on this year because we have very solid foundation on the international

business, just like Ning said, when we leverage the AI capabilities and we already built up our international team, and they're very localized, so I think we have very confidence on this year on international business. Thank you.

Marco Zhang

Okay, thanks. My third question is regarding your loan facilitation business, not just overseas but also domestic in the total. For 2024, what's your expected growth drivers for this business in 2024, and can you offer any guidance on the growth rate for new loan volumes for the year of 2024? Thanks.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Can Mei please take that question?

Mei Zhao Yiren Digital Ltd. - SVP

Sure, yes. Okay. For 2024, I think overall it's [indiscernible] landscape. I think although we have very optimism, but it's cautious for this year, so we have to balance our business function and our asset quality. Our target for this year is the growth is about 13%, I think that's for the 2024 year is our target growth rate. Meanwhile, I think we have to keep optimized our risk capabilities, and this is to refine our customer acquisition strategy and also our credit score modeling, so on and so forth, and also enhance our AI capabilities as well. Although I think we have some very confidence on this year, but we are still very cautious on assets and business helping asset quality. Thank you.

Marco Zhang

Got it. Congrats again on your strong results. Operator, I don't have any more questions.

Operator

Thank you. Your next question comes from Bruce Oren [ph] with Black Lab Fund [ph]. Please go ahead.

Bruce Oren

Yes, hello. Congratulations on another successful year, especially the increase in overseas loans and their great future potential. I have two questions. The first is concerning the life insurance segment. Can you further address the 17.1% drop and how you plan to adjust to the new regulations; and secondly, if you further plan to have share repurchases. Thank you.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Thank you. Regarding the first question, because the first half of the year or first part of the year saw quite great business volume due to the fact that people were expecting the regulation change, so put it another way, most of the work of the year was done

actually in the first part of it, so the second part, including fourth quarter, wasn't great. But we expect that around middle of this year, things will stabilize and show new promise, and the market sentiment will be back. Mei can please provide more details regarding insurance?

Mei Zhao Yiren Digital Ltd. - SVP

Yes, yes. The fourth quarter, I think the whole market is under pressure on the regulatory impact, but I think although the impact, the players in the market have some sort of pause, but I think we are very confident because the need is there, just the market just needs some time to consume the impact. I think, just like Ning mentioned, for the new year, we can expect some new products, and also I think our customer, their needs, just because the whole market, the customer still has this kind of insurance demand, so I'm pretty much confident we have a rebound and we're going to have some growth as well. Life insurance is a majority of our business, but still we can see a lot of demand from property insurance as well, such as employee or [indiscernible] insurance, so and so forth. We can see the building demand.

So I think for 2024, our insurance products, we're going to have more property insurance as well, so I think that's going to help us to more balance our insurance brokerage business as well. Thank you.

Keyao He Yiren Digital Ltd. - IR Officer

[Indiscernible] we have deployed US \$1.9 million to buy back our shares in the public market, and then for the fourth quarter, the annual fourth quarter, the company has cumulatively deployed close to US \$7.4 million for our repurchase program, and we will still do some buying back and we are very confident on our core strengths and future growth. Hope that answers your question.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Yes, also we'll do more share repurchase.

Bruce Oren

Thank you very much. Have a good evening.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Thank you.

Operator

Your next question comes from Matthew Larson from Fincadia Capital. Please go ahead.

Matthew Larson

Thanks for taking my call, and congratulations on another really great year. I've been following your company since you went public through Morgan Stanley (NYSE:MS)

back in 2015, where I participated in your IPO. It's nice to see the recovery in your business and the expansion. You know, the valuation is just really astounding. I mean, your company's cash position is almost twice what your market capitalization is, and your earnings establish yourselves trading at just 1.5 times earnings, roughly.

So if one just put a five multiple on that, you're looking at a stock that could be \$16 or \$18. Some of your competitors do trade at that multiple. They also pay dividends, and that's usually received well by investors here in the United States. In fact, one competitor, Lufax, just announced today a \$2.40 special dividend, and the stock is up dramatically.

With all your cash, you've been buying back some shares, not a lot of them, though. The volumes picked up in the first quarter, which would allow you from volume restrictions to probably buy some more, and you're trading well below book value, so I would recommend you perhaps institute a dividend but accelerate your buyback, because it's totally accretive to you all.

In addition, I like your guidance - it's looking to be 20% to 40% greater for 2024 from 2023, and I think you should highlight that. You're in a very strong growth pattern. Now, AI has been discussed a number of times on this call and in your news release, and I'm not sure the market really understands that you are a pioneering artificial intelligence investment opportunity, because you don't put out many news releases, and in fact today's just announced the earnings.

In my judgment, so that the investment buy side would understand your story better and give your company a higher valuation, would be to put out earnings--put out news releases that highlight your artificial intelligence capabilities. If for example you had put out that earnings for \$3.29 helped by our artificial intelligence capabilities, that would highlight that you are an AI firm, and investors, certainly here in the United States, are hungry for exposure to the AI sector.

If that is a possibility, I would recommend it because your company is not widely known because no analysts follow you, and you don't do road shows and what have you, and it's a smaller price stock. But now that you're above \$5, it puts you in a different arena, where investors that might have a minimum stock price to be able to employ their capital into your firm can do so. I look forward to another great year. Thank you for the last one. Just if you could take some of my advice and consider it, I think it could be very helpful. Thanks for taking my call.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Thank you. Thank you very much. Let me share my thoughts, then Mei can add to it. First of all, thank you very much for your long time trust. As we previously mentioned, we will continue to do share buybacks, but regarding dividends, it has been discussed and we've put some serious thought into it. As a matter of fact, we've done that before, so it's not new to us, the concept and the practice, and we have also studied best practices around the world and in our peer group.

The idea is that we believe we have great growth opportunities where we can deploy our capital rather than issuing a dividend. For example, our AI work has been done on a very low cost basis, because we want to be prudent, we want to be very careful. But as we develop our capability further, we may be able to deploy larger amounts of capital, so that's our strategic thinking. Please give us a bit more time, we will show that our strategy regarding paying or not paying a dividend is better.

Regarding AI strategy, definitely we will communicate with the market more. At this time, basically we just gave our strategic thinking work in progress because it's--so in my view, there are two types of AI work, one is the so-called plus AI, meaning existing business, like plus-AI, so this is great. This is something we must do, right, as a fintech leader, pioneer. We need to utilize the most cutting edge technology, which is AI right now.

So AI has been going into our fintech businesses and our company management, big time. But at the same time, we are thinking about really doing AI native kind of work, meaning developing this model training platform, starting to serve customers from other sectors like open sourcing much of the platform and so on, and also strategically building a vertical model for psychology, social companion and so on.

This is more AI native, like AI-first opportunities, so as they come along, we will definitely communicate with the public more and more, and frankly it's my vision that three, five years down the road, we are not just a fintech player, we are a fintech player and an AI leader. The fintech business, utilizing AI big time is like, that's our showcase, right? We can utilize AI great, but our AI capability is also open to all, so not just our own fintech business. That's the strategic thinking, it's very, in my view, a great, great moment for us to do that, and I hope to make that happen. That's our thinking behind it.

Matthew Larson

Okay, great. Thanks for illuminating that, and I look forward to, again, hopefully seeing some more communication with the investment community here in the United States about your AI initiatives, your pioneering embrace of AI, and frankly you've been employing AI or algorithms to a certain degree for years to make your credit decisions, so this is nothing new for you, and if investors understood that, there's no question in my mind that your company stock would be given a significantly higher valuation. Thanks again, and have a good evening.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Well, thank you, but I'd like to add, Matt, that previous big data work was great, but current AI is a whole new ballgame. We are mastering that capability so we have this confidence. Thank you.

Matthew Larson

Okay, great. Thank you.

Operator

The next question comes from Peter Ruh with BlueBird Advisory. Please go ahead.

Peter Ruh

Thank you, good morning. The elephant in the room is your capital structure. If you gave a \$50 million dividend, that would be about 5%. You still have over US \$700 million to buy an AI company. In America, we say show us the money and quit talking about AI every other sentence, because you're a Cayman-based Chinese company. You don't have a lot of credibility. Mr. Tang did not have enough respect for his shareholders to be on this call today.

I have great respect for the big company he's built, but he evidently doesn't want--or maybe this is my question, do you need to ask the Chinese government to distribute a cash dividend or to buy back shares? Is there some legal Chinese reason where you cannot distribute the money, because an American shareholder who's looking at your balance sheet, it makes no sense why you do not have a dividend.

Last quarter, Ms. Mei said you wanted to be considered a growth company, which is why you didn't want to do a dividend, but you're not even considered a value company right now, and paying a dividend would restore some credibility in the American economy amongst shareholders, because right now Chinese companies don't have a lot of credibility among American investors. You did list on the American exchange, so you did access American capital and you need to respect that, and I'm wondering, is there a legal reason why you cannot distribute a dividend or do a bigger buyback than a few million dollars?

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Thank you for your question and for you joining the call. I respectfully disagree with some of your points. Let me say the following. First of all, there's no such restriction whatsoever, and it's our decision to put our funding, money into higher value generating activities. As a matter of fact, we did a dividend before.

So as I mentioned, it's not new to us. We've been doing cash, like a share buyback and we will do more, but we are also aware that our float is not that great, so if we buy more and more, there will be limited float for larger institutional investors.

I'm not buying this kind of--yes, I respect American investors, global investors, and actually I felt no good when our share price declined due to many factors out of our control. But we've been trying so hard in the past years to produce great results quarter over quarter, and I believe with our new strategy, with our ongoing dedication, the company will do great.

As a matter of fact, last year the value of the company grew over 100%. Of course, it's from a very humble base we were not happy about, but we've also been happy about

its recent development. That's my feedback to you, sir, so I think we will just have to work harder to build a solid company for our shareholders and partners. Thank you.

Peter Ruh

Well last quarter, Ms. Mei said that you would do a more proactive approach to speaking to retail investors since you really have very few institutional investors, and I don't think in the past three months that you've had any event where you've reached out to the retail American investment community. Instituting a small percentage dividend, whether it's \$20 million, \$30 million a year, would instill some confidence in the investing public, and even the institutions, that you respect your shareholders, that it's not just a company for Mr. Tang, that you respect the shareholders and want to share some of the revenue as a display of strength.

You've bounced from lending to insurance, now your insurance is down 50% from last quarter, so evidently you're not really going to be a big insurance player. Now you're trying to pivot and you're looking to buy another company to try a different direction, so there's a lot of lack of confidence in the strategic direction of this company, and instituting a dividend, as a prior person said, like some of your competitors have would instill some good confidence and probably would get the stock price up significantly and on the radar screen. You need to learn to walk before you can run, and having a dividend would instill some confidence among American investors. Thank you.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Thank you. Let me elaborate a bit more regarding the point you just made. First of all, let me report that we've done quite a bit of work regarding communications with retail investors. For example, we rebuilt our website investor communications content, and I was part of it. I personally wrote our AI strategy and there are three pages that I'm very excited about, so if you can go please take a look at them, I'd love to have your comments.

Also, we've taken some remarks from KOLs in the U.S. We are incorporating their suggestions in our communications, so the retail investor communication work is being done in a thoughtful way. Secondly, let me say the insurance business is our core business, and as a whole, it grew nicely last year, 2023, and we expect the insurance business will grow nicely this year and in future years.

Lastly, I'm not sure where the concept of us buying a company to do AI came from, probably due to my not doing great communication or making clear. No, we are not going to buy any company, we are going to develop our own AI capability, and also we are going to make some strategic investments and strategic partnerships in a small way, so this is how we're going to build our AI capability, because there are just so few great AI-native guys out there. Microsoft (NASDAQ:MSFT) had to invest in open AI to develop its capability, it didn't really just do AI in-house. I think Microsoft did the right thing, and we are doing the right thing doing it in-house, at the same time doing strategic partnerships and investments. That's really serving the--going to serve the

shareholders and the company well, in my view. But of course, as I mentioned earlier, we're going to report our progress in a thoughtful way. Hopefully when there's more visibility, you will feel more comfort. Thank you.

Keyao He *Yiren Digital Ltd. - IR Officer*

I'll just add one point on retail investor communication. In fact, we have been increasing our retail investor communication for recent months. If you look at our website, we have been publishing more news regarding [indiscernible] business update to the public, so we are statistically being more active in helping or exposing the public, especially in the U.S. market.

Apart from the news that we released [indiscernible], if you look at our website you can see it, and if you can search Google (NASDAQ:GOOGL) it, you can see the latest business update from us. Apart from that, we also built out our own social media platforms. We have an official account on LinkedIn and also X - Twitter, and welcome to follow us on that. We will publish the latest business news on that as well. If you have any questions, please follow us and you can ask us questions on that as well.

Apart from that, in the future we will release more news and enhance our communications with retail investors, but not only retail investors but institutional investors as well, and we will attend more international conferences, some of them in domestic China and some in Hong Kong, and also hopefully in the U.S. as well. There's a lot of things happening around, so stay tuned. Thank you.

Peter Ruh

Thank you.

Operator

The next question comes from Boyd Haynes [ph] with ACI. Please go ahead.

Boyd Haynes

Hi, thanks for squeezing me in here. I had a question, some questions about your ecommerce segment. That appears to be the fastest growing segment within the company right now, and I was wondering if you could give us a little bit more detail about what are the things that are driving that growth and what are your expectations for the growth in 2024, and if you could also talk about its margins and how they compare with the margins in your other divisions, that would be great. Thanks.

Ning Tang *Yiren Digital Ltd. - Founder, Chairman and CEO*

Thank you. I'll first offer some big picture strategic thoughts, and Mei can please add to it. Basically this is our strategy to enhance, strengthen our customer relationships, and also basically cross-selling to an ever-growing and happy customer base, and also by selling them more and more things they really need, they really like, we know them better. This is the strategic rationale.

Since this business had a low base, of course the growth rate has been quite stellar. I am not sure it can grow as fast going forward, but since our products are cross-sold through--to our customers, are quite well received, so--but I hope also with AI content, we will be able to please them more. Can Mei please provide further details? Hello, Mei?

Mei Zhao Yiren Digital Ltd. - SVP

Yes, for our lifestyle business line, I think we have a very good growth in the last year. I think the key driver is our customers, they just have more and more MAU, they're going to have more attachment on our app, and I think as we have launched some of their interesting services, like some soft development because we have some programs our customers can learn from courses they're interested, even including financial planning and AI even, and also I think in the future as our growth with customer acquisition, I think this part of the business has very healthy growth as well, especially for AI empowered [indiscernible] of the business, but service as well, I think, so we have very confidence on this new year, and that's going to help.

Customers will just spend more time on our app, and I think that will be even better understand our customer behavior and to have a better judgment of their payment habits as well. I think that's going to be very key to our products and services. Thank you.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Yes, it's a great--I'd like to add a channel to sell digital goods, like video content, like memberships, IT membership and so on, so with some good discount or--yes.

Boyd Haynes

Can you speak to my question about the margins? I know that your overall margin for the year in all divisions, your pre-tax margins are approximately 54%, which is a stunning number in terms of its profitability. You also sort of referenced in your guidance that you expect the healthy net margins to continue, although you didn't really give us a numerical value, so I guess this is sort of a two-part question.

One is asking about what are the margins you're getting in your ecommerce division, and how is that going to contribute to fiscal year '24, then in general, as part of your guidance for the healthy margins to continue, does that mean that you expect margins to exceed what you achieved in fiscal year '23?

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Do we have such details, and can you please--?

Mei Zhao Yiren Digital Ltd. - SVP

Yes, like Mr. Ning just mentioned, we have some kind of membership, like IT or some sort of--. I think with the margins, like Mr. Ning just mentioned, like 40 or something, I think that's--yes, mm-hmm. That's a range. Thank you.

Boyd Haynes

Okay, thanks. I have nothing further.

Operator

Your next question comes from David Tufts [ph], a private investor. Please go ahead.

David Tufts

Yes, good morning from Santa Barbara. My question really is very similar to two other callers before, and just to put a fine point on it. You've got a roughly \$800 million in cash, you're selling at less than two times earnings.

I'll repeat what both of these callers said - if you instigated a dividend, the last caller said \$0.50, something like that, what effect would that have? It would diminish your capital by 5%, by nothing, but it would telegraph to the world that you were a real company, that you did not have - and I was happy to hear this from the last caller - you were not constrained by your government to not pay out that money, so that's good. I mean, I hope that's true.

But it would do--what it would do would be to attract a great deal number more of investors, which would enable you to buy back more stock, which would dramatically accelerate the price of your stock. Now, you say, well, you want to attract institutional investors. Well, institutional investors would get interested if that happened, but right now they're less than 5% of your shareholders, less than 5%. Focus on the 95% of your shareholders, and everything else will follow. All the good stuff you're saying-- you're doing a great job with the AI and all that stuff. All of that will become known if you do this simple thing. It's beyond me why you're not doing that. Other than that, keep on doing what you're doing, but please consider this other change, okay?

Ning Tang *Yiren Digital Ltd. - Founder, Chairman and CEO*

Thank you, we took your point.

Operator

Thank you. Your next question comes from Andre Julian Hudu [ph] with Julian [ph]. Please go ahead.

Andre Julian Hudu

Hello, so [indiscernible] and also congratulations. I have been a shareholder for some time also. I wanted to clarify for other investors and also ask you some questions. Looking at the other earnings calls [indiscernible], which I have been present also too, you have two speakers mostly, two questions, so clearly there are newer investors

which have found your company, as you already, I think understand for the [indiscernible] asking a question, and usually you had one person or two people asking questions.

Also, the fact that Mr. Ning Tang is not here, and I want to congratulate him also, is not a problem in my opinion because maybe he has personal life issues or other stuff, but again the last quarter, I'm looking, and all earnings calls [indiscernible], you can check it online, Mr. Ning Tang, the CEO was present for all of them, so now maybe he's seeing the stock price has increased a bit so he's free to, I don't know, go on vacation or something, which is his right.

For newer investors, because they are on this call, I would like to say that that Mr. Ning Tang was in every earnings call and he had quite insightful questions and answers with the one analyst which was talking, a guy from Morgan Stanley, which I really appreciate also.

Now on the question part, I want to also, before asking your staff, I want to state that this is a Cayman-based company but also Tencent (HK:0700), Alibaba (NYSE:BABA) which Charlie Munger owns, Warren Buffet's partner, they're all Cayman-based companies, so this is a trait of Chinese companies, so it's not a problem that YRD, Yiren Digital is a Cayman-based company, because all the major companies are Cayman-based companies.

Furthermore, I would like to congratulate the fact that you're still growing at 30% even to--20%, actually, growth in the new range in the guidance, and 39% is the growth in the revenue for 2024 at the upper bound, so that's great growth after growing 50%, 100% per year in the last two years, or something like that.

I would like to ask you--the last thing, sorry, I'm stating facts, 2,100 employees or something like that, 2,500 employees you have, I would like the investors also to search in Chinese or on the Chinese side, there are posts of the employees having team building and other activities, so this company is legit and has tons of employees, 2,500 or something, if you can satisfy. I found it on the Chinese side of your investor relations, and it's quite hard to find but you can search LinkedIn and all that and you will see that this company is very nice.

Okay, my last question--and my question, actually, is the dividend, of course everybody is thinking about a dividend. I appreciate how--your performance financially and I understand that you want to invest into growth opportunities and also into AI, you're an AI company, and you're already using AI before it was popular.

Now, my only thing is could you talk with Mr. Ning Tang for a 5% dividend? The last caller said that it would decrease your cash not even by 4% or 5% for a 10% dividend, but a 5% dividend would decrease it by 2%. It's just a confidence thing. Do a symbolic dividend. I understand you want to continue growing 40% and it's better for you to reinvest in the business - I clearly agree, but you could consider, if you want--and my

question is, would you consider a smaller dividend just for the sake of pleasing or becoming into the eyes of investors?

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Thank you, and this is Ning Tang speaking. Yes, frankly I didn't quite catch the first part of your remarks due to line quality, but it sounded like you expressed comfort about the business - thank you.

The second part of I got, and again about a dividend, a point to take in, and we will surely consider all remarks, suggestions, ideas from shareholders and also interested parties. Please believe we--

Andre Julian Hudu

I'm a long-term shareholder, by the way, I think not as long as the person from Morgan Stanley, but some [indiscernible] of the company. Anyways, my question--actually my statement, I want to say I think there are many new investors here, or actually if you would look at competitive or similar companies in the fintech area, [indiscernible] so giantech [ph], a fintech company, it increased three times, so 200% growth in the stock price after in March 29 of last year it issued a dividend, which is 16% dividend for the year for 2023, so it increased 15% for the current stock price, by the way--for the old stock price, sorry, currently it's more--no, for the current stock price, 15%.

So the idea is that they issued a dividend in 29 March last year, so same period as today, let's say, and stock price increased two times--sorry, three times, so 200%, three times from \$2 to \$7 after they issued the dividend, the news of the dividend, so that's the impact that a dividend can do. Today in the pre-market Lufax, LX on NASDAQ, I think, it increased 45% in the free pre-market because they issued a dividend, and these are companies which have less cash and they are generating less cash than you are generating, and you could do just a symbolic one. They are bringing less cash but they have quite high dividends, not sustainable for some but whatever, but--not my comment to say. But your company is the best financially and it has \$800 million in cash, which increased \$240 million in cash from last year in December 2022.

So in Q4--from Q4 to Q4, year-on-year you increased \$240 million your cash, and also your book value increased \$210 million, if you take total assets minus total liabilities, so your company is trading below cash and it's growing at 40%, and yes, a dividend would bring confidence. Again, your company does--they increased wildly after dividends, three times.

Ning Tang Yiren Digital Ltd. - Founder, Chairman and CEO

Clear, we got the point. Thank you.

Andre Julian Hudu

Thank you very much also, and have a wonderful day.

Operator

Thank you. There are no further questions at this time. If you do have further questions after the call, please direct them to our Investor Relations team. That does conclude our conference for today. Thank you for participating. You may now disconnect.