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HX.OQ - Q2 2018 Hexindai Inc Earnings Call

EVENT DATE/TIME: DECEMBER 05, 2017 / 1:00PM GMT



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## CORPORATE PARTICIPANTS

**Wendy Xuan** *Hexindai, Inc. - IR Manager*

**Xinming Zhou** *Hexindai, Inc. - CEO*

**Johnson Zhang** *Hexindai, Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Alvin Huang** *Pinnacle Associates - Analyst*

**Pu Han** *CICC - Analyst*

**Zheming Yan** *Guotai Junan - Analyst*

## PRESENTATION

### Operator

Hello, ladies and gentlemen, and thank you for standing by for Hexindai Second Quarter Financial -- I'm sorry -- Fiscal Year 2018 Earnings Conference Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the meeting over to your host for today's call, Ms. Wendy Xuan, Investor Relations manager. Please proceed, Wendy.

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### Wendy Xuan - *Hexindai, Inc. - IR Manager*

Thank you, operator. Hello, everyone, and thank you for joining us today. Our earnings release was distributed earlier today and is available on our IR website at [ir.hexindai.com](http://ir.hexindai.com) as well as on PR Newswire services.

On the call today from Hexindai are Mr. Xinming Zhou, Chief Executive Officer; and Mr. Johnson Zhang, Chief Financial Officer. Mr. Zhou will review business operations and company highlights followed by Mr. Zhang who will discuss financials and guidance. They will be available to answer your questions during the Q&A session that follows.

Before we begin, I would like to remind you that this conference call may contain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 as amended. These forward-looking statements are made under the safe harbor provision of the U.S. Private Securities and Litigation Reform Act of 1995. These statements can be identified by terminologies such as will, expect, anticipate, future, intends, plan, believes, estimates, potential, continue, ongoing, targets, guidance, and similar statement.

The Company may also make written or oral forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission, the SEC, in its annual reports to shareholders in press releases and other written materials and in oral statements made by its officers, directors, or employees to third parties.

Any statements that are not historical facts, including statements about the Company's beliefs and expectations, are forward-looking statements that involve factors, risks, and uncertainties that could cause actual results to differ materially from those in the forward-looking statements.

Such factors and risks include, but not limited to the following, the Company's goals and strategies; its future business developments, financial condition and the results of operations, the expected growth of the credit industry and marketplace lending in particular, in China; the demand for and market acceptance of its marketplace's products and services; its ability to attract and retain borrowers and investors on its marketplace; its relationship with strategic cooperation partners; competition in the industry; and the relevant government policies and regulations relating to the corporate structure, business and the industry.



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Further information regarding this and other risks, uncertainties or factors is included in the Company's filings with the SEC. All information provided in this call is current as of the date of the call, and the Company does not undertake any obligation to update such information, except as required and applicable law.

It is now my pleasure to introduce our Chief Executive Officer, Mr. Xinming Zhou. Mr. Zhou, please go ahead.

### **Xinming Zhou** - *Hexindai, Inc. - CEO*

Thank you, Wendy, and thank you, everyone for joining our first earnings call today. We're very pleased to report a solid financial and the operational growth. Loan volumes continued to gain strong growth momentum, increasing 127% for \$274 million, driven by referrals from our offline partners, Hexin Group, and their expansion across China as well as our cooperative agreements with other third party channels. This grows total loan principal since our inception to \$1.8 billion. During the quarter, we facilitated loans to 21,000 qualified borrowers and increase of 210% from the same period of last year. As of September 30, 2017, we have cumulatively served 77,000 qualified borrowers, almost a tenth of our total loan volume during the quarter was acquired from -- through our online channels, a historical high for us since we began online user acquisition in March this year. Our average loan size was about RMB88,000 with roughly 90% of them carrying terms of 36 months. During the quarter, robust investor demand allowed us to facilitate \$337 million in investments from 43,000 investors, an increase of 90% from the same period last fiscal year. As of September 30, 2017, the total cumulative number of investors was 130,000. Average investment size was RMB53,000.

Our brand incurring the name recognition continues to grow and is being driven by our platform's reputation for security and the convenience. We continue to develop and invest in our platform and the mobile apps to increase the percentage of our borrowers acquired through our online channels, strengthen its security and expand the products on offer.

During the quarter, we entered into an agreement with GBGDecTech, a leading provider for anti-fraud, anti-money laundering and decision management facilities to implement the Instinct Application Fraud Detection Solution. Instinct launched in September across our entire network and we have further strengthened our fraud detection system and reduce the risk of syndicate, small time, third party and internal application fraud and first payment defaults.

We also partnered with China UnionPay during the quarter to launch their "Quick Pass" app from our mobile platform. The app allows our investors to use surplus funds that have not been lent out to pay for goods and the services provided by stores partnered with China UnionPay by scanning a QR code created by the app.

And we're proud to say that we were the first company in the industry to provide the investors with mobile payment solution that allows them to take advantage of events that have not yet been loaned to borrowers on the platform.

These recent developments demonstrate our commitment to further strengthening our relationships with third party acquisition channels and investing further in our online borrower acquisition infrastructure tools and the security. We believe as a US listed company, our brand recognition will be greatly improved and will facilitate attracting more borrowers and investors to our platform.

We will continue to invest in our business and the marketing activities as we work to diligently improve our competitive advantage in China's rapidly growing consumer lending marketplace and develop our business in a sustainable and long-term manner.

Our business focus on facilitating medium-sized loans, which range from RMB20,000 to RMB140,000 with terms of about 36 months. I want to make it clear that we are not payday loan facilitator, which generally offer loans of less than RMB3,000 and terms of less than one month according to Oliver Wyman's industry report. Recent regulations focusing on payday loan don't apply to our business.

With that, I will now turn the call over to Johnson who will review the financials. Johnson, please.



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**Johnson Zhang** - Hexindai, Inc. - CFO

Thank you, Mr. Zhou. Hello, everyone. Before I review our financial results, I would like to reiterate some of what Mr. Zhou just said with regard to the market we serve. We facilitate medium-sized loans with term of up to 36 months, ranging from RMB20,000 to RMB140,000 to borrowers on our online product marketplace. The unsecured medium-sized customer loan segment is currently the fastest growing and like I said, consumer finance segment in China with enormous market opportunities.

I will go through our financial highlights in the second quarter of fiscal year 2018. All percentage changes I am going to give will be on a year-over-year basis as we believe this is the best way to judge our performance.

We delivered a solid quarter of growth with both strong volumes and topline growing at triple digit pace.

As Xinming mentioned earlier, loan volumes during the quarter increase of 127% to \$274 million or RMB1.8 billion. Total net revenue increased by [312%] (corrected by company after the call) to \$21.2 million. In this quarter, revenue growth was mainly driven by significant increase in the volume of credit loans facilitated through our marketplace and an increase in gross billing ratio.

Gross billing ratio for credit loans during this quarter increased to 9% from 7.3% during the same period for last fiscal year. The increase was driven by a decrease in the annual average investment yield on our platform as we benefit from increased confidence from investors in the high quality asset on our platform.

Our risk return liability decreased from \$1.2 million to nil as our risk return liability policy was discontinued and replaced by a third-party insurance arrangement starting February 1, 2017.

Operating expenses during the quarter was \$6.5 million, an increase from 120% driven primarily by an increase in sales and marketing expenses and service and development expenses.

Sales and marketing expenses was \$3.7 million, an increase of 344%. The increase was primarily due to a marketing campaign for new products launched in July and a series of brand promotion activities to enhance our brand recognition and acquire more customers.

Service and development expenses during the quarter was \$1.9 million, an increase of 30% primarily attributable an increase in employee expenses, platform maintenance fees and the custodian bank account management fees which were in line with growth in loan volumes facilitated through our platform.

G&A expenses was \$0.9 million, an increase of 40%, due primarily to an increase in employee expenses and the professional service fees.

Net income was \$12.7 million, an increase of 785% from net income \$1.4 million during the same period of last fiscal year.

We generated a strong operating cash flow and cash position. Net cash provided by operating activities was \$25.6 million during the six months ended September 30, 2017 comparing with \$1.6 million in the same period last year.

As of September 30, 2017, our cash flow was \$54.3 million compared with \$19.2 million as of March 31, 2017. The increase in the total balance of cash was mainly due to increase of operating cash as a result of our accelerated business growth.

As we have continually emphasized, we are investing in qualified borrower acquisition by developing deep partnership and innovating new technologies, security tools and products. We believe that the acquisition of qualified borrowers and our ability to rapidly generate recurring revenue will directly impact our ability to grow sustainability over the long term.

Turning to revenue guidance. For the third quarter of fiscal year 2018, we expect loan volumes to be in the range of \$310 million to \$330 million. Total net revenue to be in the range of \$26 million to \$28 million. For full fiscal year 2018, we expect loan volumes to be in the range of \$1 billion to \$1.1 billion. Total net revenue to be in the range of \$88 million to \$92 million.



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This conclude our prepared remarks and now, I'd like to turn the call back over to the operator to begin the Q&A session. Operator?

### QUESTIONS AND ANSWERS

#### Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question and answer session. (Operator Instructions)

We have the first question from the line of [Alvin Wang]. Please ask your question.

#### Alvin Huang - Pinnacle Associates - Analyst

So my question is actually what are your competitive advantage, especially on the operation side, especially when you compared to the larger peers like YRD, if you can give some examples that will be very helpful. Thank you. (Spoken in Foreign Language).

#### Johnson Zhang - Hexindai, Inc. - CFO

Hello, Alvin, thanks for your question. The biggest difference between us and our peers is that we have insurance coverage and we only facilitate all through our platform. We don't carry any loans on our balance sheet and bearing no default risk.

We pride ourselves with our safe, reliable and unique business model. Changan Insurance did a half year due diligence before signing an arrangement with us, They even go through everything from details of our risk management system to our financial data, default rate and everything else. There are more than over 2,000 P2P players in China right now, but only 1% are incorporated with the insurance company. We see it as significant competitive advantage for our business. And furthermore, comparing with other listed peer companies, we're seeing they have both keep risk reserve liability on their balance sheet. So, they basically sell self-insure and bear default risk by themselves, it is kind of a balance sheet business.

Our company is also currently one of the few domestic online lending intermediary platform that have set up a custodian account at commercial bank in China, only about 10% of online customer lending marketplace have incorporated bank custodian systems. In addition, we also secured the RMB100 million bank credit facility for our operating expense.

And we also signed an arrangement with China UnionPay to launch their Quick Pass as Mr. Zhou have already mentioned that this mobile payment function on our app. In fact, we were the first P2P players in China that China UnionPay was willing to cooperate with and we think all of these factors help provide a significant advantages and improve our competitiveness. I hope this could answer your question.

#### Operator

We have the next question from the line of Han Pu. Please ask your question.

#### Pu Han - CICC - Analyst

We all know that new regulation is issued on cash lending recently which have a huge impact on the whole industry. So my question is, what are the differences between you and the cash lending?



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**Johnson Zhang** - *Hexindai, Inc. - CFO*

Yes, first of all, I think the cash lending in Chinese I think is equal to the words in English is payday loan. First of all, we didn't do any payday loan business and the recent policy changes in regulation for micro-lenders in China will have no impact to our business and we are not payday loan or micro-lending facilitator. Our business is focusing on the consumer installment loan.

And we are a pure information service platform, matching investors with individual borrowers, which is also not held by our balance sheet. Again, we have already mentioned before and we bear no default risk. payday loan and micro-lenders on the other hand directly lend out -- lend out their own capital. It is quite different than this model with us.

And we believe for our industry, the P2P industry, the regulation that regarding P2P platform such as that was issued in August of 2016. Our business is in fully compliance with current industry guidelines and the regulations issued in August of last year. We have already communicated with regulators on a very regular basis to ensure that we remain fully compliance with online lending industry guidelines. And we believe that the Chinese government wants to support healthy and a sustainable development of medium-sized consumer loan, consumer installment loan. That's my answer.

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**Operator**

We have the next question from the line of Yan Zheming. Please ask your question.

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**Zheming Yan** - *Guotai Junan - Analyst*

(Spoken in Foreign Language).

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**Johnson Zhang** - *Hexindai, Inc. - CFO*

Hello, Mr. Yan, will you please translate your question in English in that way everybody else could understand what we are discussing about?

I know your question is asking what the -- what's our big risk in the future of our business operating? And we believe our biggest challenge next year will be increasing the borrower and the investor acquisition. One of the key points of this industry is who can get in touch with -- and find borrowers first. As people in China trust public companies, in contrast, borrowers fear small players in this industry for a number of reasons.

Everything from -- everything from fearing that they are -- they are fraudulent companies or that -- they could go out of business on any given day or more simply that they will be charged extra hidden fees. We are confident that we can attract some more borrowers than our peers as a public company. Furthermore, we are now actively marketing through various channels to acquire borrowers and extend our market.

Of course, we are talking to include the travel agencies and continuous education institutions, cosmetic surgery hospitals, home decoration companies and others. We will continue to cooperate with this and other such groups in the future. And furthermore, I want to mention that everyone in the market is concerning about the regulation risk, we have mentioned that our company communicated with regulator very frequently and we are confident that we are in fully compliance with all of our current regulation. That's my answer.

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**Operator**

(Operator Instructions) As there are no further questions at this time, I'd like to hand the call back to Wendy for any closing remarks.



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**Wendy Xuan** - Hexindai, Inc. - IR Manager

Thank you, operator. In closing, on behalf of the entire Hexindai management team, I would like to thank you for your interest and participation in today's call. If you require any further information or have any interest in visiting us in China, please let us know. Thank you for joining us today. This concludes the call.

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**Operator**

Thank you, ma'am. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may all disconnect.

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