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Corporate Participant

Daisy Wang Hexindai Inc.-IR Director

Xinming Zhou Hexindai Inc.-CEO

Johnson Zhang Hexindai Inc.-CFO

Conference Call Participants

Brian Hollenden Sidoti & Company LLC-Analyst

Patrick Fisher Creation Investments Capital Management LLC-Analyst

Alvin Huang Pinnacle Associates Ltd.-Analyst

Xing Wang Essence Securities-Analyst

Presentation

Operator

Hello, ladies and gentlemen, and thank you for standing by for Hexindai Third Quarter Fiscal Year 2018 Earnings conference call. (Operator Instructions) As a reminder, today's conference call is being recorded.

I would like to turn the meeting over to your host for today's call to Ms. [Daisy Wang], Investor Relations Director. Please proceed, Daisy.

Daisy Wang - Hexindai Inc. - IR Director

Thank you, Operator. Hello everyone and thank you for joining us today. Our earnings release was distributed earlier today and is available on our I.R. website at ir.hexindai.com.

On the call today from Hexindai are Mr. Xinming Zhou, our 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 provisions 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 statements.

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 relevant government policies and regulations relating to the corporate structure, business and industry.

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 this call, and the Company does not undertake any obligation to update such information, except as required under law.

It is now my pleasure to introduce our CEO, Mr. Xinming Zhou. Please go ahead, Mr. Zhou.

Xinming Zhou - Hexindai Inc. - CEO

Thank you, Daisy, and thank you everyone for joining us today. We delivered another solid quarter of our financial and operational growth with loan volumes continuing to gain strong growth momentum, increasing 187% to \$389 million. This brings total loan principal since our inception to \$2.2 billion. We facilitated loans to more than 32,000 borrowers during the quarter, an increase of 285% from the same period last year. Our growth continued to be driven by our deepening cooperative agreements with other third party acquisition channels and from our platforms reputation for security, trust, convenience, especially since our IPO in last November.

Over 24% of our total loan volumes facilitated during the quarter were acquired through our online channels, more than doubled the 10% from last quarter and another historical high for us. The faster growth of our online acquisition largely benefit from the success of our mobile app and expanded online acquisition channels.

Average loans size was about RMB79,000, with roughly 91% carrying terms of 36 months. Having only begun online user acquisition in March 2017, we have made significant progress. We will continue to invest in our mobile platforms as well as developing more online third party user acquisition channels.

During the quarter, we launched a new loan product to capture a new borrower segment of our online shoppers. To strengthen our credit rating system for this select product, we are incorporating a borrower' online shopping behavior and the purchase records into our algorithm as an additional credit reference. This new product is acquired 100% through

online, which demonstrate the significant progress we are making in expanding our online acquisition channels.

Now, turning to our industry outlook. According to notice issued by regulator in December 2017, all P2P companies are expected to complete a ratification and the preliminary filing by end of June this year. We are on track and with confidence to complete our self inspection and will file with regulators before the end of June to remain in full compliance.

The self-inspection campaign and the upcoming completeness of filing of the entire industry this year demonstrates the importance of P2P platforms and how they have become an essential part into the financial system in China, as we offer access to credit to large segments of the population that are underserved by traditional Chinese financial institutions.

Full compliance and increased regulation help create a healthier market environment in the long-terms, and I think it will raise the barriers to entry. As a fully compliant company, we believe this will bring us greater benefits and put us in an advantage position to gain market shares, supported by our strong cash position, operational efficiency, solid risk management and marketing facilities.

Generally, I'm very pleased with our performance this quarter. We will continue to further strengthen our user acquisition relationships and invest further in enhancing our I.T. infrastructure and increasing our operational efficiency to reinforce our competitive advantage in China's rapidly growing consumer lending marketplace.

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

Johnson Zhang - Hexindai Inc. - CFO

Thank you, Mr. Zhou. Hello everyone. As Mr. Zhou mentioned, we delivered another solid quarter of operational and the financial goals. We are particularly pleased with this quarter's revenue growth 576% and the net income growth of 1,589% year-over-year. As a result of our increasing operational efficiency, and as I go through our financial highlights for the third quarter of fiscal year 2018, all percentage changes will be on a year-over-year basis as we believe this is the best way to judge our performance.

Total volume of loan facilitated on our online platform increased to RMB2.6 billion or \$389 million, a significant increase of 187% from RMB895 million during the same period of fiscal year 2017 and exceeded the upper end of our guidance by \$59 million or 17.5%.

Total net revenue exceeds the upper end of our guidance by increasing 54.6% to \$43.3 million during the 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 increased to 12.1% from 7.4% during the same quarter of the last fiscal year and 9% the last quarter. The sequential and year-over-year

growth in gross billing ratio for credit loans was primarily driven by a decrease in the average investment yield on pushing that platform, which we believe is a result of high-quality assets on our platform.

The annual average investment yield decreased to 11% during the first quarter of fiscal year 2018 from 14% during the same quarter of last fiscal year and 12% during the second quarter of fiscal year 2018. We believe there is still opportunities to decrease in investment yield to investor since we will acquire more risk adverse investors in the future. We believe that most of the decrease of the investment yield would be transferred to our revenue.

Our risk return liability during the quarter decreased from \$1.6 million to nil as our risk return liability policy was discontinued and replaced by a third party insurance arrangement starting February 1, 2017, which also contribute to the increase in the net revenue.

Operating expenses during the third quarter was \$11.7 million, an increase of 210% driven primarily by an increase in sales and marketing expenses, service and development expenses, and general and administrative expenses.

Sales and marketing expenses during the quarter was \$5.5 million, an increase of 288%. The increase was primarily due to an increase in employee expenses and a series of promotional and brand image campaigns to enhance the Company's brand recognition and acquire more customers.

We continue to invest in our marketplace app and expanding our user acquisition channels, through searching engines and different industry corporation projects, which we expect will continue to refer more customers to our platform and generate higher conversion rate.

Service and development expenses during the quarter was \$3.2 million, an increase of 115%. The increase was primarily attributable to an increase in employee expenses, platform attendance fee and the custodian bank account management fee, which were in line with the growth in volume of both facilitated through the company's platform.

G&A expenses during the quarter was \$3 million, an increase of 246%, due primarily to an increase in employee expenses, professional service fees and share-based compensation expenses.

Net income increased a significant 1589% to \$26.9 million from \$1.6 million during the third quarter of fiscal year 2017. Adjusted net income attributable to the company's shareholders, which excluded share-based compensation expenses increased by 1633% to \$27.6 million from \$1.6 million in the same period of last fiscal year.

We generated a strong operating cash flow and cash position. Net cash provided by operating activities was \$65 million during the nine months ended at December 31, 2017 compared to \$3.9 million in the same period of fiscal year 2017.

As of December 31, 2017, our cash position stood at \$139.3 million compared with \$19.2 million as of March 31, 2017. The increase in the total balance of cash was mainly due to increased operating cash as a result of our accelerated business growth and the net proceeds from our IPO.

As we have continually emphasized, we are investing in qualified borrower acquisition by developing deep partnerships 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 the revenue guidance. For the fourth quarter of fiscal year 2018, we expect the loan volume to be in the range of \$370 million to \$390 million. The net revenue to be in the range of \$27 million to \$29 million, so adjusted net income to be in the range of \$13 million to \$15 million.

The full fiscal year 2018, we expect the loan volume to be in the range of \$1.22 billion to \$1.24 billion, total revenue to be in the range of \$107 million to \$109 million and adjusted net income to be in the range of \$62 million to \$64 million.

This concludes 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

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator instructions)

Our first question comes from the line of Brian Hollenden of Sidoti. Please ask your question.

Brian Hollenden - Sidoti & Company LLC - Analyst

Is there seasonality in the gross billing ratio? In the fourth quarter, should we expect a 12% rate? And I guess, the follow-on is how much more room is there to increase the gross billing ratio without negatively impacting volume growth?

Johnson Zhang - Hexindai Inc. - CFO

Yes, I think the period of our gross billing ratio increase is from the decrease of the yield to the investor. And we believe for the future, well, two years we still have at least 2% to 5% of the decrease of yield to the investor, so most of the decrease yielded to the investor will transfer to our revenue. But I have to mention that this continued opportunity of increase of gross billing ratio would be during one year or two year time -- in time.

And also we believe that the 12% of the gross billing ratio for third quarter is a kind of exceptional quarter because of -- there is lots of positive event. Our IPO occurred in this quarter and there is a lot of marketing campaigns this quarter and we believe that 12% for this fiscal year is exceptional quarter, and we believe 8% is our normal level. So we believe that for the next quarter our gross billing ratio will go back to the normal level. Thank you.

Brian Hollenden - Sidoti & Company LLC - Analyst

Thank you. Then maybe a follow-up. Can you talk more about what drove online loan volume growth to 24% of sales? What other third party acquisition channels are you using?

Johnson Zhang - Hexindai Inc. – CFO

I'll turn our call to our CEO, Mr. Zhou.

Xinming Zhou - Hexindai Inc. – CEO

Okay. I will answer in Chinese and we will have translator for you. (Spoken in Mandarin).

Unidentified Company Representative

There were several reasons for the increased online penetration. Most of it was from our online Android app store, the new app store as well as our new third party channel partners.

Xinming Zhou - Hexindai Inc. – CEO

Yes. (Spoken in Mandarin).

Brian Hollenden - Sidoti & Company LLC - Analyst

Can I ask one more question? Loans facilitated and net revenue in the quarter significantly exceeded your guidance from the last quarter. Why such the big difference?

Johnson Zhang - Hexindai Inc. – CFO

And for our original guidance is based on our business and our natural growth but without our IPO event and without our marketing campaign event and there is lots of event occurred on the third quarter, so the transaction of our platform is out of our original expectation.

Operator

Your next question comes from the line of Patrick Fisher of Creation Investments. Please ask your question.

Patrick Fisher - Creation Investments Capital Management LLC – Analyst

First of all, our hearty congratulations to you and the team for an exceptional quarter. It looks just like a phenomenal achievement in Q3. I actually have two questions. One is regarding the insurance policy and the renewal that just occurred and interested for more color on any terms and conditions in the third party insurance that that may have changed from last year. What is the fee, the percentage due and any other terms that may be

important to disclose?

Johnson Zhang - Hexindai Inc. – CFO

Okay. Thank you, Patrick. And our insurance agreement is renewable automatically every year. And the insurance company maintains the write-off objective insurance fee rate every year once. And so far from the major terms are same as the year before. If there is any significant change including the fee rate change, we will publish to the capital markets as soon as possible.

Patrick Fisher - Creation Investments Capital Management LLC – Analyst

Okay, so it's still 2% or 2.5%?

Johnson Zhang - Hexindai Inc. – CFO

Yes.

Unidentified Company Representative

2.4.

Johnson Zhang - Hexindai Inc. – CFO

It's still 2% so far.

Patrick Fisher - Creation Investments Capital Management LLC – Analyst

Okay, excellent, excellent. And then my second question is I'm having trouble understanding your outlook for the next three months given that you're targeting three months ending March 31, 2018. A similar amount of loans facilitated as you did in this last quarter, but significantly lower net revenue on those loans and about half of the adjusted net income on those loans. Maybe you could describe why the same volume of business would result in such different net revenue and adjusted net income for the forward-looking quarter?

Johnson Zhang - Hexindai Inc. – CFO

Right, right. The key reason of -- we have already mentioned that the truth that the third quarter is kind of an exceptional quarter with the gross billing ratio is higher than the normal ratio because of lots of risk averse investor in our platform and furthermore, our conceptual volume on our platform, the investor increased higher than the borrower, so the yield to the investor decreased in the third quarter. And we believe that for the fourth quarter, the yield to the investor will go back to the normal level, so the gross billing ratio would as kind of a normal level. We assume that that 7.5% to 8% of gross billing ratio is our normal level. So according to our guidance, so loan volume as same as third quarter, but the net revenue is significant lower than the third quarter.

Patrick Fisher - Creation Investments Capital Management LLC – Analyst

Okay. And I guess, one last follow-up if I may is I saw that the company obtained a bank facility for facilitating further growth and congratulations on that. But would you look to more institutional funding partners that might have a lower cost than the investor yield

today? And how will you use that bank line?

Johnson Zhang - Hexindai Inc. – CFO

First of all, we have to clarify that. The parties facilitated from the bank is only used for our operating expenses. It's not that they allowed it for lending. It's not allowed for facilitating the loans directly. And --

Patrick Fisher - Creation Investments Capital Management LLC – Analyst

I see.

Johnson Zhang - Hexindai Inc. – CFO

Secondly, we are our peer-to-peer company just matching investors to borrower. We didn't use our own balance sheet to lending. And we could gather support from the traditional bank, also kind of advantage to us in that we have more source to invest and expand to our brand building and marketing activities.

And for your further question, our funding sources and we believe that the individual investor is still our major funding sources. We have nearly 2 million registered investor and one-third of them are reported activity investors. And this is our basis for funding our own. We are not reliant on any institutional investors.

Operator

(Operator Instructions) Your next question comes from the line of Brian Hollenden of Sidoti. Please ask your question.

Brian Hollenden - Sidoti & Company LLC – Analyst

Yes, hi, just one last follow-up. Can you talk more about your conversion rate from those potential investors that come to your platform to those who have signed up?

Johnson Zhang - Hexindai Inc. – CFO

Thank you, Brian, again. And you mean, how to define the conversion rate, you mean from the register to the investor who invested in three months or six months that means conversion rate?

Brian Hollenden - Sidoti & Company LLC – Analyst

Yes. Can you just provide more color around that? That would be helpful.

Xinming Zhou - Hexindai Inc. - CEO

(Spoken in Mandarin).

Operator

(Operator Instructions) There are no further questions at this time. I would like to hand the conference back to Ms. Daisy Wang. Please continue.

Xinming Zhou - Hexindai Inc. – CEO

Okay. (interpreted) Yes, so as an example, Brian, looking just at Shanghai region. So in the beginning of 2017, the number of investors was 700. So by October we had 1,200 investors. But because of the IPO in November, the number of investors almost doubled to 2,200, and this is just Shanghai.

And as with Shanghai, across the country after the IPO, we saw a big jump in our investments. Then we'll go on to talk about registered investors versus actual investors.

So earlier last year we were running about 20% conversion from registered investors to actual investors. By the end of last year, we had 39%. So that's a basic overview and giving you more color on the conversion ratio on investors, we can provide more detail if you'd like.

Operator

(Operator instructions) Your next question comes from the line of Alvin Huang of Pinnacle Associates. Please ask your question.

Alvin Huang - Pinnacle Associates Ltd. – Analyst

First, congratulations to a very solid result. My first question is referring to your Q4 outlook, so when I look at your loans facility scale in Q4, is that going to be around \$370 million to \$390 million? Just compared to the Q3, that number looks no growth, so that maybe a bit concerned about that. Is that because of seasonal impact or any other reason because from my perspective, I think, maybe the -- like the Lunar New Year season should be very emergency season for shopping or any credit loan business? Correct me if I'm wrong. (Spoken in Mandarin).

Johnson Zhang - Hexindai Inc. - CFO

(Interpreted) You're right that it is their seasonality and particularly in the run-up to the New Year holiday, we did see strong volume in January but that was no greater volume than in the previous months following the IPO. In the beginning of February, we are seeing a fall-off and we expect volume is light through March. So that's why we're not forecasting much growth for the -- from coming quarter in volume.

Alvin Huang - Pinnacle Associates Ltd. – Analyst

Okay, thank you. So, I have another question. It's about regulation and policy change. As we are stepping into 2018, do you think there's any changes from the regulation side that we should be aware about? And going forward, you are going to be licensed by the regulators. So how would that license help your business? (Spoken in Mandarin).

Johnson Zhang - Hexindai Inc. - CFO

Okay. (Interpreted) The regulations were already promulgated earlier, and there haven't been changes for our segment of the market. We think the license that we expect will help us. Because we think it will reduce competition since many of the competing platforms will

not be able to satisfy the regulations and will not be lessened.

So at least half of the competing platforms that will exit the market, other customers will flow to us.

Operator

Your next question comes from the line of Xing Wang of Essence Securities. Please ask your question.

Xing Wang - Essence Securities – Analyst

Okay. Hi, management. This is Nikki on behalf of Xing. Thanks for taking the questions. I have two questions. The first question is that the percentage of borrowers acquired through online channels increased to a historical high of 24% during this quarter. What are you doing to increase this percentage and acquire customer online more efficiently? And what do you think are the company's advantages?

And the second question will be as we increase online acquisition of borrowers, should we expect the selling and marketing expenses to increase going forward?

Johnson Zhang - Hexindai Inc. – CFO

So, thank you. Our increase of our online channel as our CEO mentioned is that is mainly because of we have been doing more promotional on the Android market and on the iOS app market. And furthermore, we have already incorporated with third party channels. And another reason is that after we become a popular company, our brand awareness is helping us to increase our online conversional rate in that way, our marketing activities become more and more efficiency.

And for the forward looking, both our borrower from the offline channel and from the online channel, we'll increase in the same time, but online channel will increase more faster in that way the person or a borrower from the online channel will increase more. They'll be increased more. Thank you.

Operator

(Operator instructions) There are no further questions at this time. I would like to hand the conference back to Ms. Daisy Wang. Please continue.

Daisy Wang - Hexindai Inc. - IR Director

Thank you, Operator. In closing, on behalf of the entire Hexindai Management Team, we'd like to thank you for your interest and participation in today's call and wish everyone a happy Chinese New Year. 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.