

**Event Name: Q4 FY2019 Hexindai Inc. Earnings Call (NASDAQ: HX)**

**Event Date: June 18, 2019**

**Corporate Participants**

**Daisy Wang** Hexindai Inc.-IR Director

**Lili Hua** Hexindai Inc.-COO & Director

**Johnson Zhang** Hexindai Inc.-CFO

**Other Participants**

**Joshua David Vogel** Sidoti & Company, LLC-Analyst

**Presentation**

**Operator**

Hello, ladies and gentlemen, and thank you for standing by for Hexindai's Fourth Quarter and Fiscal Year 2019 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, Ms. Daisy Wang, Investor Relations Director. Please proceed, Daisy.

**Daisy Wang** - Hexindai Inc. - IR Director

Thank you, operator. Hello, investors, analysts and colleagues. 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). On the call today from Hexindai are Mr. Xiaobo An, Chairman and CEO; Ms. Lili Hua, our Chief Operating Officer; and Mr. Johnson Qisen Zhang, Chief Financial Officer. Ms. Hua will review business operations and company highlights followed by Mr. Zhang who will discuss financials. They will be available to answer questions during the Q&A session that follows.

Before we begin, I'd 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 Litigation Reform Act of 1995. These statements can be identified by terminology such as well, expect, anticipates, future, intends, plans, 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 report to shareholders, press releases and other written materials and oral statements made by its officers, directors or employees to third parties.

Any statements that are not based on 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 are not limited to the following: the company's goals and strategies; its future business development; financial condition and 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 relationships with its strategic cooperation partners; competition in the industry; and relevant government policies and regulations relating to the corporate structure, business and industry. Further information regarding these 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.

With that, I will now turn the call over to our COO, Ms. Lili Hua. Ms. Hua will read through her prepared remarks in Chinese. I will translate for her in English. Ms. Hua, please go ahead.

**Lili Hua** - Hexindai Inc. - COO & Director

Thank you, Daisy.

Lili Hua^ (foreign language)

Daisy Wang^ [Interpreted] The market environment continues to gradually improve as investor confidence returns. While the entire sector continues to face a liquidity crunch as smaller and weaker platforms drop out of the market, we believe the worst is behind us. Our outlook has markedly improved this quarter from the lows of the past three quarters, especially on a sequential basis.

Lili Hua^ (foreign language)

Daisy Wang^ [Interpreted] Total loans facilitated doubled sequentially to US\$61.7 million during the quarter as did net revenue which increased to US\$4.1 million. While our top line continued to be impacted by market turbulence, it is improving as is our cost structure and bottom line as we return our focus to new loan products as the market rebuilds. Gross billing amount, net of VAT, more than tripled sequentially to US\$9.0 million with net income coming in at US\$2.8 million. The number of investors who invested for the first time on our marketplace during the quarter increased by 39% compared to last quarter.

Lili Hua^ (foreign language)

Daisy Wang^ [Interpreted] More importantly, our M3+ Net Charge off rate remained low and steady at 6%. With most of the loans facilitated through our platform carrying a 3-year term, we hit our first anniversary of sorts with all the loans facilitated during the first vintage expiring this quarter. Our low default rate, which was below the industry average, reflects just how effective our cutting-edge risk management systems are.

Lili Hua^ (foreign language)

Daisy Wang^ [Interpreted] We continued to strengthen our individual investor base while diversifying our funding sources with the addition of financial institutions and trust partners such as Bohai International Trust, Kunming Aotou and Phoenix Intelligent Credit Group, a wholly owned subsidiary of Phoenix Financial Group. This will help us develop additional growth drivers going forward. Our partnership with Phoenix Finance's P2P platform has progressed well following our strategic investment last quarter. We expect total loan volumes for borrowers referred by us over the three-year partnership to be about RMB10 billion. Our partnership with Bohai International Trust and Kunming Aotou is also beginning to bear fruit. Bohai International will extend loans in the aggregate principal amount of RMB300 million to borrowers referred by Hexindai in the initial term of five years, and it has already extended RMB430,000 during this quarter. Kunming Aotou has extended loans in the aggregate principal amount of RMB30 million through a trust fund to borrowers assessed and referred by Hexindai during this quarter. Our partnership with Kunming Aotou is successfully fulfilled. We will continue to develop partnerships with other financial institutions, which will help greatly expand and diversify our funding sources.

Lili Hua^ (foreign language)

Daisy Wang^ [Interpreted] In addition to our core medium-sized credit loan business, we launched our online microfinancing loan business in January 2019 to further diversify our revenue streams. Microfinancing loans are small and short-term credit loans that typically mature in 2-12 months with amounts that range from RMB1,500 to RMB20,000. We leverage a modified version of the automated cutting-edge credit assessment system we deployed for our medium-sized credit loans to assess borrowers for microfinancing loans.

Lili Hua^ (foreign language)

Daisy Wang^ [Interpreted] Microfinancing business forms a critical part of our strategy to diversify revenue streams and drive future growth by expanding our offerings vertically. This strategy allows us to offer borrowers and investors a more comprehensive portfolio of products that will cover more segments and demographics.

Lili Hua^ (foreign language)

Daisy Wang^ [Interpreted] As we believe the impact of the challenging market environment begins to fade, we're very confident in our capabilities and are optimistic about the future of the industry. Having made more progress in the regulatory compliance review process as the Beijing Local Financial Supervision and Administration (formerly the Beijing Municipal Bureau of Financial Work) concluded its field inspection work of the company, we are now awaiting further notice, and eagerly looking forward to beginning the registration process, which we are confident will strengthen investor confidence in the sector and our platform once again. While there is still some uncertainty over the timetable of the registration, we have a solid plan in place to focus on growing our business and strengthen our diverse revenue streams, regardless of how long we must wait before notice is given. Once the registration process is complete, we will finally be closing in on a clear and definitive regulatory environment that will benefit everyone and support renewed investor confidence.

Lili Hua^ (foreign language)

Daisy Wang^ [Interpreted] With a comprehensive strategy in place and market sentiment gradually getting better, we expect to see both our loan volume and revenue improve throughout the rest of this year. I am confident that we are well positioned to take advantage of market opportunities as the industry consolidates leveraging our strong financial resources and operational capabilities, as well as experienced management team.

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

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

Thank you, Ms. Hua. Hello, everyone, and thank you for joining our earnings conference call today. I will now review our financial performance during the quarter. Further details can be found in the earnings release and company presentation.

During the fourth quarter of fiscal year 2019, net revenue was USD 4.1 million, a decrease of 85% from the same period last year. The decrease was primarily due to the significant decrease in the volume of credit loans facilitated through our marketplace, which decreased to USD 61.7 million or RMB 416.3 million from USD 418.4 million or RMB 2.7 billion during the same period last year. On a sequential basis, our performance is steadily improving as the market recovers and investor interest returns with net revenue increasing by 117%.

Operating costs and expenses were USD 6.5 million, a decrease of 21.6% from the same period last year. The decrease was primarily due to decrease in sales and marketing expenses and service and development expenses. Operating costs and expenses decreased 49.8% sequentially.

Sales and marketing expenses were USD 1.7 million, a decrease of 50.5% from the same period last year due primarily to a decrease in advertising expenses associated with acquiring more customers.

Service and development expenses were USD 1.6 million, a decrease of 21.7% from the same period last year primarily due to a decrease in custodian bank account management fees.

Net income was USD 2.8 million compared to net income of USD 17 million during the same period last year. Net income attributable to company's shareholders was USD 2.8 million compared to net income attributable to company's shareholders of USD 17 million in the same period of fiscal year 2018. Accordingly, basic EPS was USD 0.06 compared to basic EPS of USD 0.36 in the same period of fiscal year 2018. Diluted EPS was USD 0.05 compared to diluted EPS of USD 0.32 in the same period of fiscal year 2018.

Adjusted net income attributable to company's shareholders, which excludes share-based compensation expenses, was USD 3.9 million compared to adjusted net income of USD 18.2 million during the same period last year.

I will now go over our full fiscal year 2019 results. During the fiscal year ended March 31, 2019, net revenue was USD 61.3 million, a decrease of 42.8% from USD 107.3 million in last fiscal year. The decrease was mainly driven by the decrease in the volume of credit loans, which decreased from RMB 8.3 billion or USD 1.2 billion in the fiscal year 2018 to RMB 3.8 billion or USD 564.9 million in fiscal year 2019.

Net income decreased by 91.6% to USD 5.5 million from USD 65.5 million last fiscal year. The basic EPS decreased to USD 0.11 in fiscal year 2019 from USD 1.46 in last fiscal year. And diluted EPS decreased to USD 0.10 in fiscal year 2019 from USD 1.37 in fiscal year 2018.

We maintained a strong cash position. As of March 31, 2019, our cash position stood at USD 57.4 million during the fiscal year ended March 31, 2019. Net cash used in operating activities was USD 1.7 million. Net cash used in investing activities was USD 68.1 million and net cash used in financing activities was USD 0.03 million.

We announced USD 25 million share repurchase program on December 10, 2018. This repurchase program highlights our commitment to maximizing shareholders' value and demonstrates our confidence and optimism in our future business prospects.

As of March 31, 2019, the company repurchased an aggregate of approximately 421,000 ADS at an average price of approximately USD 3.1 per ADS for a total amount of approximately USD 1.3 million.

As of today, the company has repurchased an aggregate of 1.2 million ADS at an average of approximately USD 3.4 per ADS for a total amount of USD 4.0 million.

While the market sentiment is improving, we continued to experience volatility in our business operations as a result of the ongoing regulatory campaign. As Ms. Hua mentioned, we believe the worst is behind us as the market environment continues to gradually improve and investor confidence returns. To build a sustainable platform for future growth, we are putting our efforts on expanding our funding sources from institutional investors and funding partners and diversifying our revenue streams with the addition of our microfinancing business. Our strong business fundamentals, experienced management team and compliant operations leave us confident that we are on the right track.

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

### **Questions and Answers**

#### **Operator**

(Operator Instructions) Your first question comes from the line of Josh Vogel from Sidoti & Company.

#### **Joshua David Vogel** -Sidoti & Company, LLC -Analyst

I have four questions, please. The first one is, you have done a very good job managing costs in the past 2 quarters, especially throughout an unstable market environment. I am curious that when business begins to build back to historical levels, is it fair to assume we should expect to see sales and marketing expense climb first as you begin to advertise and likely have promotional campaigns? And on the other side of that, is there additional leverage to mitigate costs in other areas?

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

Thank you, Josh. As I mentioned that our expenses and costs have already decreased and our business volume had been decreased simultaneously. And with our business recovery, we have confidence that our costs will be increased lower than our business or volume's increased spending, we still have some space to leveraging through our operating.

#### **Joshua David Vogel** -Sidoti & Company, LLC -Analyst

Looking at the microfinancing business today, can you discuss, please, what the average client profile looks like versus the traditional lending operations? And I know we're only a few months into you providing this service, but I am curious when you look at the delinquency in charge-off rates, are they typically higher for this type of loan or lower or the same?

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

The technical demographic of microfinancing is younger generation comparing with our traditional medium size loans. And we are leveraging our strong risk management system and our good relationship with the credit data providers in the market. We have confidence to maintain the delinquency rate at a considerable level because that we have just started

this kind of business, we still don't have much adequate statistics data. We will disclose more regarding to the new business delinquency rate and charge off rate in the future.

**Joshua David Vogel** -Sidoti & Company, LLC -Analyst

You've done a very impressive job increasing the gross billing ratio in the quarter. Can you please discuss the economics behind this improvement when we look at channel fees, premiums to the finance guarantee companies, facilitation service fees? And I'm curious whether this is a new level that you think you can maintain?

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

Our gross billing ratio increased sequentially comparing to the last quarter. In the quarter before last quarter, we have done a lot of cash incentive to promote our lenders. But for the last quarter, more and more lenders have recovered their confidence to invest in our platform. In that way, the yield rates to the lender go back to the normal level. Our gross billing ratio go back to the normal level. And we believe that this kind of gross billing ratio will be continued in the new fiscal year.

**Joshua David Vogel** -Sidoti & Company, LLC -Analyst

And last one, please. I understand you're not providing any detailed guidance, but if you could share any directional comments for the first quarter and fiscal 2020 with regard to total loans facilitated and net revenue, that would be helpful.

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

Well, the market sentiment is improving and we believe that the business still may have some volatility during the ongoing regulatory campaign. With this in mind, we will temporarily suspend issuing guidance starting this quarter. I mean currently we have our own quota of target. Generally speaking, we have a good performance in the fiscal year 2018. I mean by the end of March 31, 2018. Our internal target is for full volume and revenue is recovering to the same level to the fiscal year 2018. But it is our internal target. It's not a kind of guidance to the capital market. Thank you for your understanding.

**Operator**

(Operator Instructions) We have a follow-up question from the line of Josh Vogel from Sidoti & Company.

**Joshua David Vogel** -Sidoti & Company, LLC -Analyst

One more question, if I may. As the U.S. and China continue to go back and forth in tariff negotiations, do you think that this ultimately becomes a tailwind or a headwind for lending activity?

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

We have no comments to the macro economics. And we have our commitment to the shareholders is to do good in our own business and operating well to both our business and the regulatory in our segment.

**Operator**

(Operator Instructions) There are no further questions at this time. I would like to hand the conference back to today's presenters. Please continue.

**Daisy Wang** - Hexindai Inc. - IR Director

Well, 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. 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.

**Operator**

Ladies and gentlemen, that does conclude the conference for today. Thank you for participating. You may all disconnect.